



10 MARKET CONSIDERATIONS

CHAPTER SUMMARY AND CONCLUSIONS:

- Market sounding for the TEARC Project (referred to as TEARC) was undertaken in July and August 2017.
- The market considered TEARC could be delivered as a single package, or split into early works and a primary package.
- The market considered TEARC could be delivered either through a traditional design and construct, or construct-only delivery model.
- The market and other interested parties considered TEARC would not provide Value for Money (VfM) if delivered through a Public Private Partnership (PPP) model due to a lack of scale and limited scope for innovation. A Public Private Partnership would normally allow some risk transfer to the contractor.

In line with Building Queensland's Business Case Development Framework (BCDF) and the Queensland Government's Project Assessment Framework (PAF), a market sounding process was undertaken to inform TEARC's procurement strategy through the packaging and delivery model analyses.

Market sounding is the process of engaging with industry to improve delivery outcomes of a proposed project. It is an opportunity to seek the market's feedback to facilitate development of a procurement strategy that addresses market interest and participation, delivers VfM and appropriately allocates and manages risk.

The purpose of this chapter is to document the objectives, approach and outcomes of the Detailed Business Case market sounding process, including the results from the market sounding interviews and questionnaire responses.

10.1 Market Sounding Objectives

The key objective of the market sounding process will be to seek market feedback on TEARC to enable a procurement strategy to be developed that will generate market interest, deliver value for money and appropriately allocate and manage risk.

This includes obtaining feedback from participants on:

- package structure (single versus multiple packages, potential early works)
- market interest (given the downturn in the mining sector)
- delivery models
- freight demand (raw tonnage)
- project interfaces with North Coast Line at Cluden, Townsville State Development Area and Port of Townsville
- interaction of the policy and regulatory and regulatory environment with port and rail operations procurement timetable.



10.2 Market Sounding Approach

A market sounding methodology was developed during July 2017 to outline the market engagement approach that was implemented. The methodology recommended a two-stage process:

1. one-on-one interviews, whereby a meeting was arranged (approximately one hour in length) to discuss a set of questions with the participants, with notes taken during the meetings
2. optional written questionnaire involving the same questions used in the one-on-one interviews, which was sent out (prior to the interviews) to the participants and requested to be completed by 4 August 2017.

The substance of the market sounding differed depending on the type of stakeholder. Contractors received a different questionnaire to other interested parties, reflecting their differing roles and interests in TEARC.

10.2.1 Documentation

Prior to the one-on-one interviews, the participants were provided with a briefing pack that outlined:

- objectives of the market sounding process
- background to the TEARC Project
- project scope
- questionnaire.

The questionnaire covered the following topics:

- contract packages and delivery models
- bidding process
- programme and process
- interface and risks
- pricing and regulatory policy
- other considerations.

10.2.2 Participants

The methodology identified a total of 21 potential industry participants for the market sounding process based on the following criteria:

- appetite for civil and rail projects with a substantial size, scale and complexity
- activity within the Australian civil and rail construction or operations and maintenance market
- market knowledge
- other interest in TEARC.

A shortlist of twelve potential industry participants were selected for one-on-one interviews based on the following criteria:

- balance of domestic, international and tier two contractors
- balance of operations experience in the existing regulatory and pricing policy environment
- interest in shortlisting or success in recent Queensland projects



- interest in TEARC
- recent relevant project won.

Eleven of the twelve shortlisted industry participants responded to the invitation to participate in the market sounding process.

10.3 Market Feedback

Outlined below is a summary of key themes arising from the market sounding interviews and written responses received from the industry participants. The themes are summarised into the primary market sounding topics. Market sounding topics were contract packages and delivery models, bidding process, programme and process, interface and risks and other for contractors while the topics for other market sounding participants were contract packages and delivery models, bidding process, interface and risks, pricing and regulatory policy and other.

10.3.1 Contract Packages and Delivery Models – Contractors and Others

The lack of scope for innovation and conservative risk profile of TEARC were key characteristics that shaped the themes of the discussion for contract packages and delivery models.

Table 10.1 summarises the themes related to contract packages and delivery models.

Table 10.1 Contract packages and delivery models

THEME	DESCRIPTION
Packaging	Most participants noted the potential for early works to be packaged separately to the civil and track laying works. Many participants were of the view that QR may have an appetite to undertake some part of TEARC and track laying and signalling would be the appropriate components to be packaged for QR to perform. It was noted that the importance of including civil works and track laying in the same package as this would remove interface risk regarding unnecessary lags in possession and allow the line to be progressively built, ensuring more timely delivery. Other possible packaging options contemplated, such as a split between the road and rail components, or a geographical split, were not considered to be able to deliver value for money.
Early works	It was noted that an early works package consisting of activities such as pre-loading of the site and reconfiguration of public utilities and plant (PUP) for subsequent construction of the rail line could be split from the primary works package of rail line construction. Most participants noted this early works package could be led by a local contractor that could form a joint venture with a proponent. Tier 1 contractors noted they could undertake the early works package and sub-contract to a local contractor to enable a single package and reduce interface risk.
PPP consideration	Participants noted the defined corridor for alignment and relatively short length of the track as key factors that suggested a PPP was not appropriate to drive VfM. In addition to bid costs relative to Project size, these factors were referenced to discredit further consideration of a PPP delivery model.
Operations and maintenance	All participants noted operating the rail line was not economically feasible given the scale of TEARC and the likely duplication of QR systems. Some participants noted they would consider maintenance if the maintenance of the Mount Isa Rail Line was included in the scope of TEARC and one noted they would consider operations and maintenance but did not identify any value they could offer the State in doing so.



THEME	DESCRIPTION
Design and/or construction	The two components of TEARC identified by some participants as having some degree of complexity were the soil composition and the bridge across the Ross River. Some participants noted these two components justified the delivery of TEARC as a design and construct contract while others noted that regulatory specifications and requirements negated any potential for design innovation in these two components and a construct-only construct would be optimal. Broadly, participants noted difficulty in differentiating between the value a construct-only delivery model would offer compared to a design and construct delivery model. The most commonly preferred delivery model was design and construct. Some participants noted that from a non-project specific perspective, construct-only would result in poor quality and an over-emphasis on the least costly bid in tender evaluation.
Other delivery models	Participants expressed the need for a collaborative approach. Most participants were of the view that collaboration could best be facilitated through the use of early contractor, or tenderer involvement procurement methods.
QR involvement	Many participants expressed the view that QR may wish to undertake the entire scope of TEARC and all requested clarification of QR's position.

10.3.2 Bidding Process – Contractors and Others

There was limited variance in views regarding the optimal bidding process.

Table 10.2 summarises the themes related to the bidding process.

Table 10.2 Bidding process

THEME	DESCRIPTION
Lead procurement agency	While participants expressed confidence in TMR's ability to lead TEARC's procurement, some participants noted this would create an additional interface with QR.
Collaborative procurement	All participants strongly supported the use of a collaborative procurement method with most preferring competitive early tender involvement with bid reimbursement for the unsuccessful tenderer if a design and construct delivery model was used.
Appetite to bid	All contractors expressed a strong appetite to bid for TEARC.

10.3.3 Programme and Process - Contractors

A variety of views on future market conditions and their impact on TEARC and the proposed programme were expressed.



Table 10.3 summarises the themes related to programme and process.

Table 10.3 Programme and process

THEME	DESCRIPTION
Delivery timeframe	Notwithstanding possible delays in procurement and delivery such as weather events, many participants noted there was scope for TEARC to be delivered prior to the completion date in 2022, given commencement in late 2018.
Market capacity	The local and national market's capacity during delivery produced varying views. Most Tier 2 contractors and some Tier 1 contractors noted somewhat similar potential projects including Inland Rail, Galilee Rail, Melbourne Metro and Cross River Rail may monopolise resources in a national context while somewhat similar projects that could be categorised as local such as the Townsville Stadium and Haughton River and Pink Lily Lagoon Upgrade projects may do so in a local content. Of the participants that were of the view that these projects would affect market capacity, all noted that capacity constraints would affect price rather than appetite to bid. Some contractors noted that from a local perspective, the Townsville Stadium and Haughton River and Pink Lily Lagoon Upgrade projects would require labour with a different skill set to that of TEARC while other participants were of the view that there would competition for local labour to some extent. While views on the market's capacity during delivery varied, all participants noted that uncertainty regarding future projects, market and economic conditions required continued market engagement.

10.3.4 Interface and Risks – Contractors and Other

Integration with the existing rail network and surrounding infrastructure shaped the key themes of the discussion of interface and risks.

Table 10.4 summarises the key themes related to interface and risks.

Table 10.4 Interface and risks

THEME	DESCRIPTION
Key risks	Participants were generally of the view that risks in design were mitigated by existing rail regulation and could be further reduced through a collaborative procurement process. Risks in delivery and operation were also viewed as negligible due to the relative simplicity of TEARC, lack of existing or future passenger services, relatively low freight traffic volumes and the contractor market, TMR and QR's sophisticated understanding of TEARC and experience with similar projects.
Interface with the existing rail network	Some participants identified rail signalling and interface with the existing network as a possible area of complexity however QR was strongly of the view that it would undertake these works.

10.3.5 Pricing and Regulatory Policy – Others

Participants provided key insights into competition between road and rail for freight and the implications of the broader policy environment for road and rail regulation and pricing for TEARC.

Table 10.5 summarises the key themes related to pricing and regulatory policy.



Table 10.5 Pricing and regulatory policy

THEME	DESCRIPTION
Road and rail regulation	Participants noted the disparity in cost-recovery mechanisms for road and rail routes that compete for freight cargo. Discussion centred on the collective cost recovery for road use, while rail use costs were individually recovered through a far more prescriptive regulatory regime.
Road and rail pricing	<p>The use of long-term take or pay contracts that required not only user profitability but balance sheet strength for rail was identified as a key factor that reduced rail’s competitiveness compared to relevant road routes. In the context of a changing resources sector in the North-West Minerals Province that has an increasing number of relatively small mining entities that often required ad hoc services, these commercial arrangements acted as a key barrier to the use of rail.</p> <p>Some participants noted that an appropriate access charge framework was needed, as they would be concerned if a separate set of rail access charges for the Port of Townsville was established. It was suggested that pricing and access terms and conditions be determined in a manner consistent with the regime for the Mt Isa Line and the North Coast Line.</p>
Whole of supply chain infrastructure	While road and rail regulation and pricing was noted as an area that could be further investigated for reform to increase the efficiency of freight movements and provide societal benefits, whole of supply chain infrastructure planning was also noted as key to facilitating a modal shift from road to rail for freight cargo. Better planning and prioritisation of infrastructure such as intermodal hubs to alleviate last mile constraints associated with rail would be part of this solution.

10.3.6 Other – Contractors and Others

Participants expressed consistent views on the long-term economic contribution of TEARC and TEARC’s role in addressing Queensland’s current and future economic challenges.

Table 10.6 summarises the key themes related to other matters.

Table 10.6 Other

THEME	DESCRIPTION
Local content	Local content was a focus of the packaging, delivery model and project delivery discussions. Participants noted the cost-effectiveness of using local sub-contractors in the Townsville region that had a high degree of capability for projects such as TEARC. If an early works package of pre-loading and PUP reconfiguration were used, participants noted it was highly likely a local contractor would bid for this role and contractors would joint venture with them.
Economic enablement	While participants noted TEARC might currently have limited demand, its role in enabling the economic development of the region was a consistent theme. Participants viewed the relatively small piece of rail infrastructure as playing a key role in improving logistics to the port and providing an ongoing opportunity for economic growth in a northern region that is a strategic priority for the federal and State governments.



10.4 Summary and Conclusions

All construction sector market sounding participants indicated a strong interest to participate in TEARC. Some participants noted the timing relative to comparable projects may marginally affect market capacity and bid prices, but would not affect appetite to bid. Some participants contemplated an early works packaging consisting of activities such as reconfiguration of PUP and pre-loading of the site. There was no consensus on this packaging split with Tier 1 contractors generally viewing TEARC as best procured as a single package.

Participants noted the lack of scope for innovation in design and lack of scale or network synergies that could deliver value for money by tendering operations and maintenance. While the majority of contractors preferred a design and construct delivery model, other participants including QR, TMR the Port of Townsville and some Tier 2 contractors noted the lack of differentiation between a construct-only and design and construct delivery model in the context of TEARC. All participants identified the need for a collaborative procurement process with dual competitive early contractor involvement with bid reimbursement being the preferred method. All participants noted QR's proposed involvement as a key matter for resolution as the packaging and delivery model assessment progresses.

Participants were of the view TEARC could be delivered within the timeframe allocated regardless of ambiguity with regard to commencement. Views on market capacity within this timeframe varied with some participants noting possible constrained capacity, some noting a perception of constrained capacity with varying skill sets required negating any constraints and some noting the high utilisation of the market could produce synergies. Outside of generic risk categories (i.e. force majeure), no project specific risks were identified as having a need for management through the procurement strategy taken to market.

Structural issues relating to road and rail pricing and regulation were noted, as the primary reason TEARC would not be the catalyst for a modal shift from road to rail for freight cargo.