



11 MARKET CONSIDERATIONS

CHAPTER SUMMARY AND CONCLUSIONS:

- This chapter outlines the market sounding approach and summarises the key responses received regarding the NDMIP.
- Market sounding was conducted in late 2018.
- Participants were selected based on their experience and ability to be involved in the NDMIP, including:
 - Tier 1 and Tier 2 contracting companies (including one specialist quarry and materials crushing company)
 - two industry financiers
 - one industry body (Queensland Major Contractors Association (QMCA)) representing civil infrastructure contractors in Queensland.
- Feedback of participants indicates strong level of interest in both Reference Projects.
- Nullinga Dam:
 - is attractive to Tier-1 and Tier-2 contractors.
 - the QMCA expects several consortia to express interest in a fully funded Nullinga Dam. However, they note that participants consider it too early in the process (given the lack of certainty) to commit resources to planning for the opportunity.
 - all participants prefer a single construction package.
 - participants prefer collaborative delivery models given risks involved with clear support for Alliance, ECI/ETI or Collaborative D&C.
- QMCA noted the southern States are adopting more collaborative forms of contract and large infrastructure projects procured using traditional delivery models may not be looked on favourably by industry.
- Financiers advised that there is PPP financing capacity for Australian infrastructure projects including water projects, however there is little market appetite for demand risk.

11.1 Purpose

The purpose of this chapter is to outline the market sounding approach and describe the key market considerations and assumptions relating to NDMIP, in particular the key works associated with each of the identified Reference Projects.

This chapter sets out:

- the objectives of the market sounding process
- the market sounding approach
- a summary of the key responses received from the market via questionnaires and face-to-face discussions.

11.2 Market Sounding Objectives

The objectives of this market sounding were to:



- obtain information on the market's level on interest in the Reference Projects, including market bid depth, market risk appetite and the availability of potential bidders
- acquire views on the scope and scale of the Reference Projects and any areas for innovation
- acquire views on market concerns and key risks associated with the Reference Projects including the appetite for risk transfer and potential delivery models
- obtain information on the capability, capacity and availability to service the Reference Projects.
- obtain information on the current competitiveness and availability of financing for water infrastructure projects including views on payment mechanisms (for Nullinga Dam only, Reference Project 1 and 2)
- provide information to the market and provide the market with confidence that the State is committed to consulting with the private sector.

11.3 Market Sounding Approach

Market sounding was undertaken in November and December 2018 to gain feedback from contractors and financiers that were considered to have the required experience and ability to participate in projects of this nature. Participants were provided project briefing material and questionnaires to provide their feedback. Two contracting industry participants attended an individual, face-to-face or telephone discussion, which allowed the participants to elaborate on their questionnaire responses.

11.4 Conclusions

The conclusions on packaging and contract model taken from the market sounding activities include:

- The market has a clear preference for a single (combined) construction package
- Collaborative delivery models are advised given the risks involved in the project with preference for Alliance, ECI/ETI or Collaborative D&C delivery models
- The QMCA advised that southern States are adopting more collaborative forms of contract and large infrastructure projects procured using traditional delivery models may not be looked on favourably by industry.

For Nullinga Dam, consulted financiers advised that there is PPP financing capacity for Australian infrastructure projects including water projects, however there is a preference to not take on demand risk. Preference is for an Availability PPP (or Take-or-Pay model) model due to the demand risks, noting:

- demand factors are better understood and managed by the State/Sunwater than by the private sector, and therefore should be retained by the Principal with a payment to the private sector based on the availability of the asset rather than the water demand
- if there is a strong desire from the State for the private sector to take volume/demand risk, an option is to allocate a portion of the volume risk to the private party
- further due diligence activities would need to be undertaken given current available information and uncertainties.

Despite the apparent capability and willingness to finance water projects the market sounding did not identify any precedent projects where the private sector accepted demand risk.