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## **Public Excluded**

**Report No. PE-02.633**

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Report to the Utility Services Committee  
from John Morrison, Engineering Consultancy Manager

## **Contract No. 1210 - OK Main Refurbishment, Randwick to Rahui**

### **1. Purpose**

To advise the Committee of the current status of this project and to obtain approval for additional expenditure on the Contact.

### **2. Exclusion of the Public**

Grounds for exclusion of the public under section 48(1) of the *Local Government Official Information and Meetings Act 1987* are:

*That the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist, i.e.; commercial negotiations.*

### **3. Background**

The Orongorongo to Karori pipeline was constructed in 1925 and decommissioned in 1993, following the construction of the Wainuiomata Water Treatment Plant.

As part of the project for the decommissioning of the Buick Street Pumping Station in Petone, the Council resolved to continue to supply unfluoridated, unchlorinated water to Petone. In order to achieve this, arrangements were made to bring the part of the Orongorongo to Karori pipeline from Randwick to Korokoro back into service. At the same time major changes were made to the fluoridation and chlorination systems at Waterloo and Gear Island. These changes were partly funded directly by Hutt City Council.

After the pipeline had been in use for some time for supply to Petone, the iron content in the water was determined to be at an unacceptable level, although still within the Drinking-Water guidelines. This iron content was caused in part by water passing along the unlined steel pipe on The Esplanade, Petone.

The decision was made to line the pipeline from Randwick to Korokoro to remove the problem. This project had been envisaged at the time of the commencement of supply to Petone and had been budgeted for.

Contract No. 1210 was awarded to Construction Techniques Ltd and a copy of the tender acceptance report (Report No. PE-01.701) is attached.

#### 4. **Construction Progress**

The Contractor made slow progress, partly because the work was much more difficult than had been anticipated, and partly because of the Contractor's lack of experience. The Contract required fairly specialist techniques, as the lining involved the insertion of a thin walled polyethylene (PE) pipe inside the existing pipe and then filling the space between the two pipes with foam concrete. The welding of the PE pipe and the grouting were more difficult than the Contractor had anticipated.

The Contract has now been completed and the pipe recommissioned, so that unfluoridated, unchlorinated water is once again being supplied to the Rahui Reservoir and the Petone community. The Contract completion was about 20 weeks late.

#### 5. **Contractor's Claims**

The Contractor has advanced a significant number of claims for the cost of extra work arising during the Contract Period.

Two in particular relate to the welding of the large diameter thin walled PE pipe and the placing of the foam concrete grout. For both of these claims, the Wellington Regional Council response has been that, as the Contract is performance based, the Contractor has to produce the required outcome, with no liability on the Principal for the difficulty of achieving that outcome. However, the Contractor has not accepted this response.

Other claims relate to significantly changed details, which became apparent when the existing pipe was excavated. Parts of the pipeline had been replaced when the 1,050 mm steel pipeline was laid in the late 1970s but the details of the connections made at that time were not clear and these caused significantly greater work. Also, in some locations changes to the design were made to increase functionality. The additional work authorised attracted costs for extensions of time, to cover the Contractor's on-site and off-site overheads. These costs are partly offset by our claim for Liquidated Damages, which cover our increased supervision costs.

#### 6. **Contract Finance**

The total sum approved for Contract No. 1210 was \$974,174, plus an additional 10 percent to allow for unforeseen circumstances. This total is \$1,071,591.

As many of the Contractor's claims are not yet resolved and some have been signalled but not received, an assessment has been made of the range in which final settlement may be reached.

The optimistic assessment is that no additional financial approval will be required.

For the worst case, an additional \$210,000 may be required.

The final outcome may not be known for some time, because the Contractor has the option of disputing the assessments made and referring the matter to arbitration. This point has not yet been reached and progress is still being made on negotiating and agreeing additional claims.

In order to be able to make additional payments, approval is required for more finance for this Contract.

As an interim measure, additional authority of \$75,000 is requested. This increases the total sum approved for Contract No. 1210 to \$1,146,591. This will allow negotiating to continue and payments to be made. The total project expenditure would be \$1,391,500 if Contract No. 1210 payments amount to \$1,146,591.

If settlements are not reached and arbitration requested, the project will be reported back to the Committee and additional financial authority requested if required.

## 7. Budget Provisions

The 2000/1 and 2001/2 Annual Plans included budget sums of \$60,000 and \$1,250,000 for this project, which included the Contract costs, as well as materials supplied and internal costs. There was no budget provision for 2002/3, as the work was programmed to be complete before the commencement of the financial year.

Year	Actual \$000	Budget \$000
2000/1	14,300	60,000
2001/2	1,130,200	1,250,000
2002/3	247,000*	-
Total	1,391,500	1,310,000

\* In the high case, this could be \$380,000, that is \$133,000 greater.

For this financial year, the Contract costs could range between \$80,000 (low case) and \$320,000 (high case), with the internal costs being about \$60,000. Hence the unbudgeted expenditure for 2002/3 could be between \$140,000 and \$380,000. It is expected that this unbudgeted expenditure can be met from within existing budgets. However, if the settlement is at the higher end of the range, approval for some adjustments to Capex budgets may have to be made at the half year review.

## 8. Communication

Because this report relates to the Contract negotiations that are under way or will occur, it is not appropriate that any communications be made following this report.

## 9. Recommendations

- (1) *That the Committee recommend to Council that additional expenditure of up to \$75,000 be authorised for Contract No. 1210, to increase the approval to \$1,146,591.*
- (2) *That the Committee note that the total project expenditure for 2001/2 and 2002/3 could reach \$1,377,354.*
- (3) *That the Committee note that the effect of the Contract settlement on the Capex expenditure for 2002/3 will be reported to Council in the half year review.*
- (4) *That a further report to the Committee be prepared if settlement is not achieved within the approved Contract Sum of \$1,146,591.*

Report prepared by:

Approved for submission:

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**Attachment**

- 1 Report PE-01.701, *Contract No. 1210 : OK Main Refurbishment - Randwick to Rahui : Tender Acceptance*