

Hereford and Worcestershire Waste PFI: Mercia Waste Management EFW Procurement Review.

1. Introduction

1.1 Hereford and Worcestershire Waste PFI

Hereford Council and Worcestershire County Council jointly entered into a long term waste management services contract with Mercia Waste Management (MWM) for the treatment and disposal of municipal and household waste arising within the two counties. In order to deliver the required waste management services the contract anticipated that new waste management infrastructure would be developed within the counties, including the provision of an energy from waste incineration facility at a site within Kidderminster.

With the failure of the proposed development at Kidderminster to gain planning approval alternative treatment options and sites have been investigated. These have resulted in the proposals for an energy from waste incineration facility at Hartlebury. The existing contract between the councils and MWM is for a period of twenty five years, with the facility reverting to the councils on termination. The contract has been active for a period of the order of ten years and therefore has approximately fifteen years remaining before expiry.

Under the terms of the PFI contract, MWM are procuring the EFW directly. The Councils wish to confirm that the procurement is evaluated on an appropriate value for money basis, and have asked AMEC to review the evaluation process undertaken by MWM.

MWM have provided AMEC with a copy of the BAFO technical evaluation report (issue 5) prepared by their technical consultant, Fichtner Consulting Engineers Ltd. Fichtner presented and discussed the findings of their evaluation at a meeting at AMEC's Northwich office on the afternoon of the 6th September 2012. The meeting was attended by a representative from the councils, AMEC, Mercia Waste Management and Fichtner Consulting Engineers.

This technical note is intended to record the discussions and conclusions from the above meeting.

2. Technical Evaluation

2.1 Procurement Competition

Fichtner prepared a detailed technical specification for a new 200,000 tonnes per annum single stream Energy from Waste (EFW) plant at Hartlebury.

MWM engaged Fichtner to run the procurement process as a fair and transparent process. The Fichtner process has been a staged procurement with the following stages:

- (1) Pre-selection and Identification of potential bidders;
- (2) Prequalification;
- (3) Preparation of the tender specification and contract conditions;
- (4) Issue of the tender enquiries;
- (5) Tender clarifications;
- (6) Tender assessment;
- (7) Tender submission clarifications;
- (8) Short listing of the preferred bidders;
- (9) Call for best and final offers (BAFO);
- (10) Tender assessment of BAFO;
- (11) Tender clarifications as appropriate;
- (12) Short listing of the preferred bidders; and,
- (13) Final contract negotiation.

The process is now at stage (11) in the above list, tender clarifications of the BAFO submissions, with three bidders remaining in contention.

Fichtner have apparently only been instructed, by MWM, to undertake a technical assessment of the tender returns. Commercial and legal assessment of the bids is being undertaken separately by MWM.

AMEC has not reviewed the earlier steps of the procurement process, however the overall approach, the companies pre-selected and prequalified, and the detailed technical specification used to obtain quotations, has been, from the evidence presented, an open process and represents a robust methodology from which to select a BAFO shortlist of three organisations suitably qualified to deliver the project's objectives.

2.2 BAFO Technical Review

Fichtner presented their technical evaluation report (Mercia Waste Management Envirecover – BAFO Technical Tender Assessment Report, Issue 5, dated 3 September 2012) , which described their analysis of the three bids received at BAFO from the following bidders:

- (1) Fisia Babcock and Volker Fitzpatrick;
- (2) Keppel Seghers; and,
- (3) Von Roll (now Hitachi Zosen Inova AG).

Their detailed evaluation and analysis process considered the overall operation of each proposal, which included an assessment of the operating costs, the maintenance and lifecycle guarantees

offered by each bidder, and compliance with the agreed BAFO technical specification issued by MWM in April 2012.

2.2.1 Capital Cost Assessments

For each key area in the technical specification, Fichtner considered whether there were any deficiencies the bid, including noise, areas for maintenance provision, flue gas parameters, inconel lining of the boiler and island mode operation periods. They then assessed the likely changes required to meet the MWM specification as issued and sought clarification and specification compliance from the bidders.

In the event that, in Fichtner's opinion, the bidder's offer remained deficient, Fichtner then prepared their own cost assessment of those additional cost items required, for full compliance with the technical specification.

These cost assessments were presented as recommended real cost adjustments to the BAFO price from each bidder, and were presented with a view to their inclusion within the commercial assessment of the bids being undertaken separately by MWM.

2.2.2 Operational Cost Assessment

Fichtner examined the performance parameters of each bid, and compared them to the required technical specification guarantees, and on a comparative basis across each bid. This allowed a quantitative comparison of the operational costs between the bids.

The operational elements considered included the guaranteed lifecycle frequency for plant and equipment, the reagent and utility usage in the process, power production (gross and net), and the maintenance costs associated with each bidder's particular facility.

Fichtner then prepared a recommended NPV cost adjustments to the BAFO price from each bidder in order to allow MWM to equalise such costs between each of the bidders' technical offers when undertaking their commercial assessment.

2.2.3 Other Technical Factors

Fichtner confirmed that the process had considered and now fully addressed the following particular elements:

- Ground Conditions – all bidders had reviewed the ground conditions reports and accepted the limitations of the investigations undertaken to date and accepted full ground condition risk for the site; and
- Planning – the proposed solutions offered by all of the bidders were considered to have had some minor deviations from the granted planning permission.

The bidders were also being asked to respond to some additional technical clarifications from Fichtner on an ongoing basis.

2.3 Non-Technical Evaluation Issues

The report and presentation on the technical evaluation undertaken by Fichtner, demonstrated how the evaluation was inclusive of the derivation of an estimated cost-adjusted price supplement of each bid, in order to meet a minimum technical level of performance.

The MWM representative explained how MWM had then considered the level of the security package offered against the specified requirements. This was reported to have included a review of aspects of each bidder's submission such as the level of liquidated damages for delay, liquidated damages for plant performance, and the provision of bonds. It was reported that one of the bidders had yet to provide a satisfactory security package in support of their bid.

The proposed further short listing of bidders and the identification of the preferred bidder will occur following further clarification and will be on the condition that the proposed security packages were adequate. MWM propose to select two bidders for further fine tuning and bid clarification on the basis of the analysis of the commercial offers inclusive of the recommended cost-adjusted price supplements developed by Fichtner.

2.4 Next Stages of Procurement

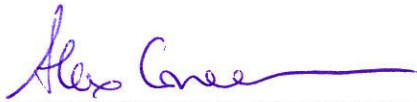
Fichtner intend to continue to engage with the three bidders, to raise additional technical clarifications and to discuss the levels of guarantees offered in the BAFO bid. It is expected that these discussions will result in further improvements to the guarantees offered, and also improve the compliance with the technical specification. MWM are to continue with the commercial assessment of the three bids with a view to progressing negotiations with two bidders whilst holding the third in reserve.

3. Conclusions

- The original Fichtner technical specification will procure a high quality advanced EfW facility with high performance characteristics;
- The staged approach to the procurement ensures that there is a wide number of appropriate participants, which are gradually de-selected on technical compliance with the specification;
- There are currently three technical submissions under consideration which are broadly compliant with the requirements of the technical specification;
- Assessing technical compliance and preparing cost adjustment recommendations ensures that the technical specification remains an absolute minimum quality threshold;
- The process followed in developing technical price cost adjustments appears to be sound, equitable and clearly defined;
- The security package as currently described by MWM should ensure that the MWM can let the EPC contract on a commercially viable basis, with appropriate remedies for poor performance under the EPC contract;
- There was no evidence presented to suggest that the current procurement approach will have an intrinsic bias against the councils interests;
- Information on the commercial offer has not, to date, been made available. AMEC has not been able to review any aspects of the commercial offers received by MWM, nor the application of the Fichtner derived price cost adjustments;

- Evidence was not presented on the impact of the EfW facility procurement on the existing PFI contract. AMEC has therefore been unable to consider how the capital and operational costs of the bids received, relates to an amended Unitary Charge payment as governed by the PFI contract.
- Continued scrutiny of the MWM EfW facility procurement is required as commercial aspects of the bids is brought into consideration leading to the short listing of bidders and eventual identification of a preferred bidder.

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