DEPARTMENT OF TRANSPORT

PPP TRANSACTION OFFICE

EXPEDITED PUBLIC PRIVATE PARTNERSHIP (PPP) PROCUREMENT
PROGRAM ALLIANCE WITH DEFERRED PAYMENT

Highlands Highway & Trans (Gulf-SHP) Highway

OUTLINE OF PPP ALLIANCE FRAMEWORK AND SELECTION PROCESS

This document is for information purposes only on PPP Program Alliance

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Acronyms used in this document

The following acronyms are used in this document

AGM	Alliance General Manager
AMS	Alliance Management System
BPS	Budget Performance Score
CV	Curriculum Vitae
DCP	Defects Correction Period
DTW	Department of Transport & Works
EFA	Establishment Financial Auditor
EOI	Expression of Interest
FA	Financial Auditor
GLB	Governance & Leadership Board
IE	Independent Estimator
KPI	Key performance indicator
KRA	Key result area
LMT	Leadership & Management Team
LNG	Liquefied natural gas
NEC	National Executive Council
NOP	Non-owner Participant
NRA	National Roads Authority
PAA	Program Alliance Agreement
PCF	Proposed Compensation Framework
PDP	Project Definition Phase
PEP	Project Execution Phase
PNG	Papua New Guinea
PPP	Public Private Partnership
REOI	Request for Expression of Interest
RFP	Request for Proposals
SPV	Special Purpose Vehicle
VFM	Value for money

1 Introduction

1.1 General background

In recent years there has been a rapid increase in the development of Papua New Guinea's (PNG's) natural resources. This increased activity has put enormous strain on transport infrastructure (roads, airports, wharves), some of which are suffering significant damage as a result of being subjected to loads and usage that are well beyond design capacity.

The PNG Government owns a substantial share in Esso Highlands Limited, the company that is developing the PNG liquefied natural gas (LNG) project. It is expected that revenues will start to flow from the LNG project in 2015. The PNG Government is committed to directing part of its share of the revenue from the LNG project to development of critical infrastructure in order to improve the efficiency and effectiveness of social service delivery, stimulate economic growth and increase wealth and wellbeing across the nation.

The National Executive Council (NEC) has approved the establishment of a public private partnership (PPP) Transaction Team which will be responsible for piloting PPP delivery on nominated "National Interest Projects" in the transport infrastructure sector.

1.2 Highlands Highway and Trans (Gulf-SHP) Highway projects

The Highlands Highway and the Trans (Gulf-SHP) Highway were approved through NEC Decision NG47/2011 as the pilot road projects to be delivered under the Government's public private partnership (PPP) policy framework. The Highlands Highway constitutes the single largest asset owned by the Government in the road sub-sector. Sub-optimal development and management of this important asset has resulted in substantial losses to the national economy through:

a) road deterioration and massive reduction in asset value, and

b) increased vehicle operation costs and travel time delays for resource developers and other road users which is reducing the competitiveness of the country in an increasingly global economy.

It is anticipated that design/construction turnover will exceed 4 billion Kina for the Highlands Highway Alliance and 2 billion Kina for the Trans (Gulf-SHP) Highway Alliance. The rehabilitation upgrade and development of the Highlands Highway and the Trans (Gulf-SHP) Highway is a critical priority for the PNG Government. The PNG Government's high level objectives for this work can be summarised as follows:

- Early completion of urgent work to meet the transport requirements of the LNG project.
- Stimulate sustainable economic growth leading to increased wealth and wellbeing for the whole highlands region.
- Value for money across a minimum asset life of 40 years.

To meet these objectives the PNG Government will procure the required planning, design and construction services using an innovative PPP procurement model.

1.3 Purpose and scope of this document

The PNG Government wishes to engage organisations with the right experience, capabilities, capacity, ideas and attitude to join the PNG Government as participants in one or two program alliances to plan, design and construct the rehabilitation/upgrade of these highways. The PNG Government may also wish to include on-going maintenance work within the scope of the alliances. This document explains the proposed delivery framework and gives an overview of the selection process including:

a) the criteria that will be used to select the shortlist of proponents who will be invited to submit a formal proposal, and

b) the kind of information that organisations should provide in their Expressions of Interests.

2 PPP Alliance concept overview

2.1 Key entities

The intention is to establish two separate program alliances – one for the Highlands Highway and the other for the Trans (Gulf-SHP) Highway. However should it transpire at the end of the selection process that there are less than two suitably qualified proponents, the PNG Government may decide to:

a) defer the establishment of a program alliance for one or both highways until suitable proponents can be found;

b) not proceed with a program alliance for one or both highways, or

c) establish a program alliance with just one proponent, covering either one highway or both highways.

Figure 1 below gives an overview of the concept as it would apply to each program alliance.

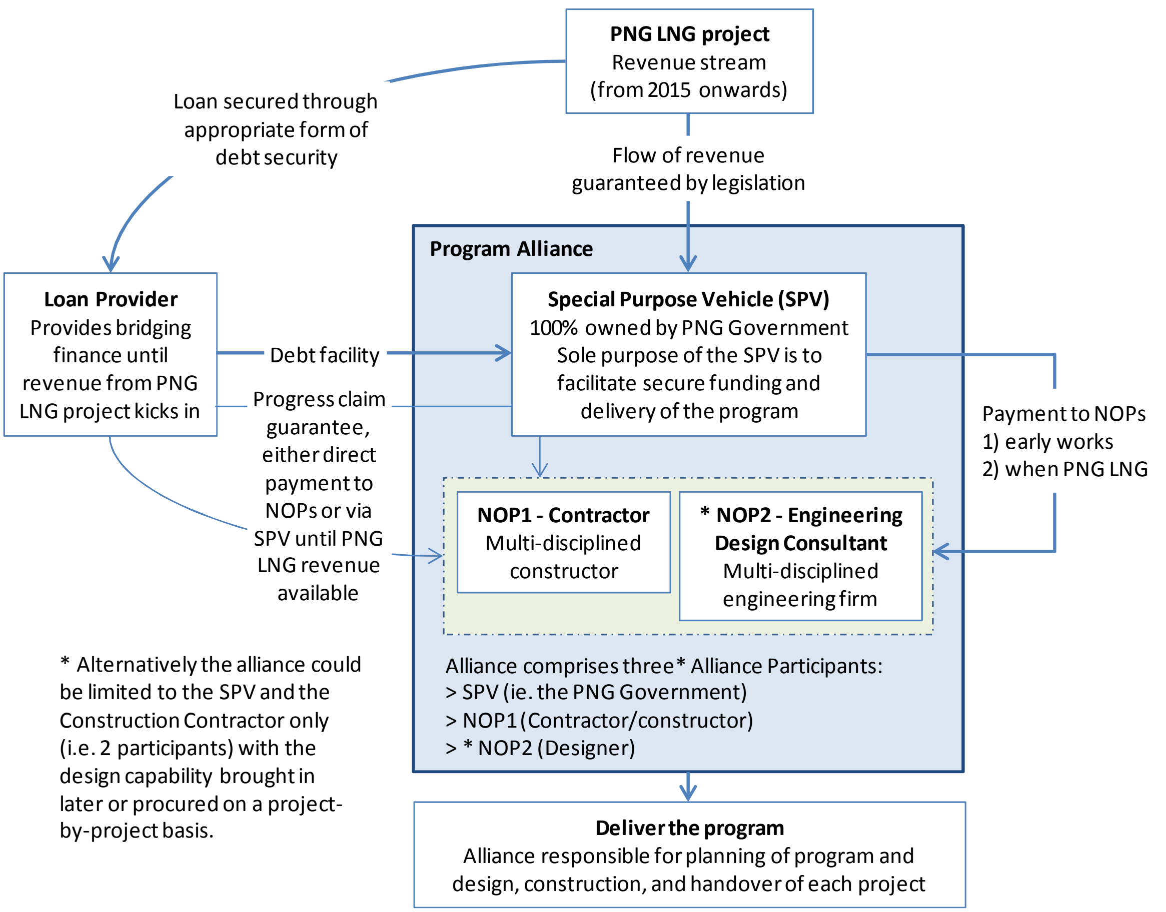

Figure 1 – Overview of deferred payment PPP alliance concept

2.2 Establishment and roll-out sequence

Figure 2 below gives an overview of how each program alliance will be rolled out – please note that this is a concept diagram and is not to scale:

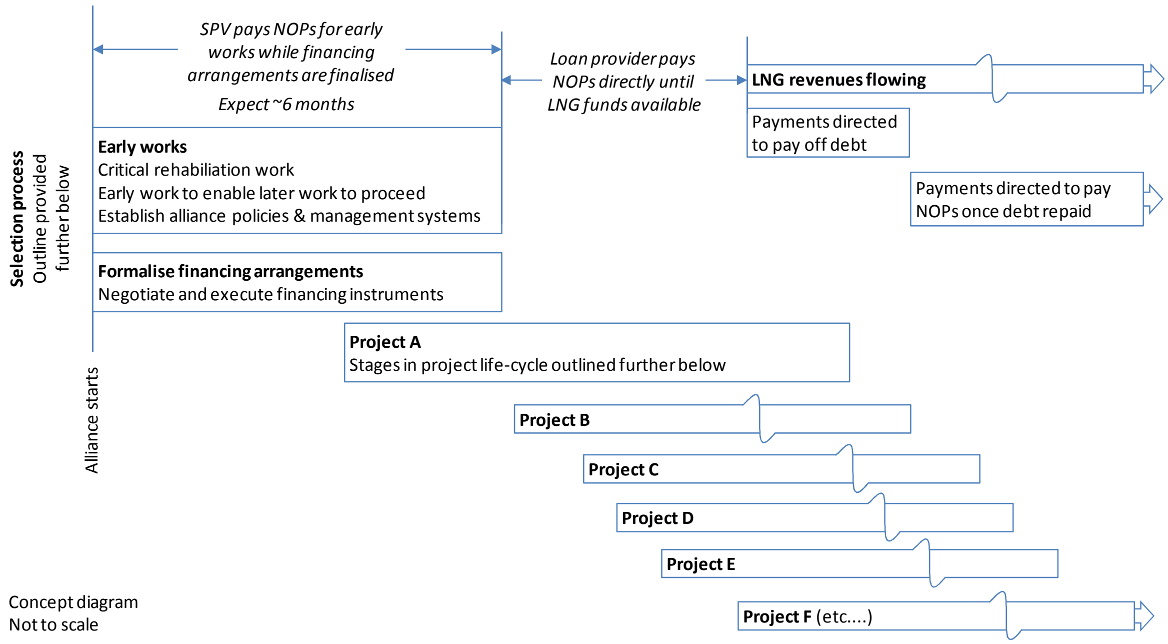

Figure 2 – Overview of program alliance roll-out sequence

Figure 3 below shows the phases within each project within the program:

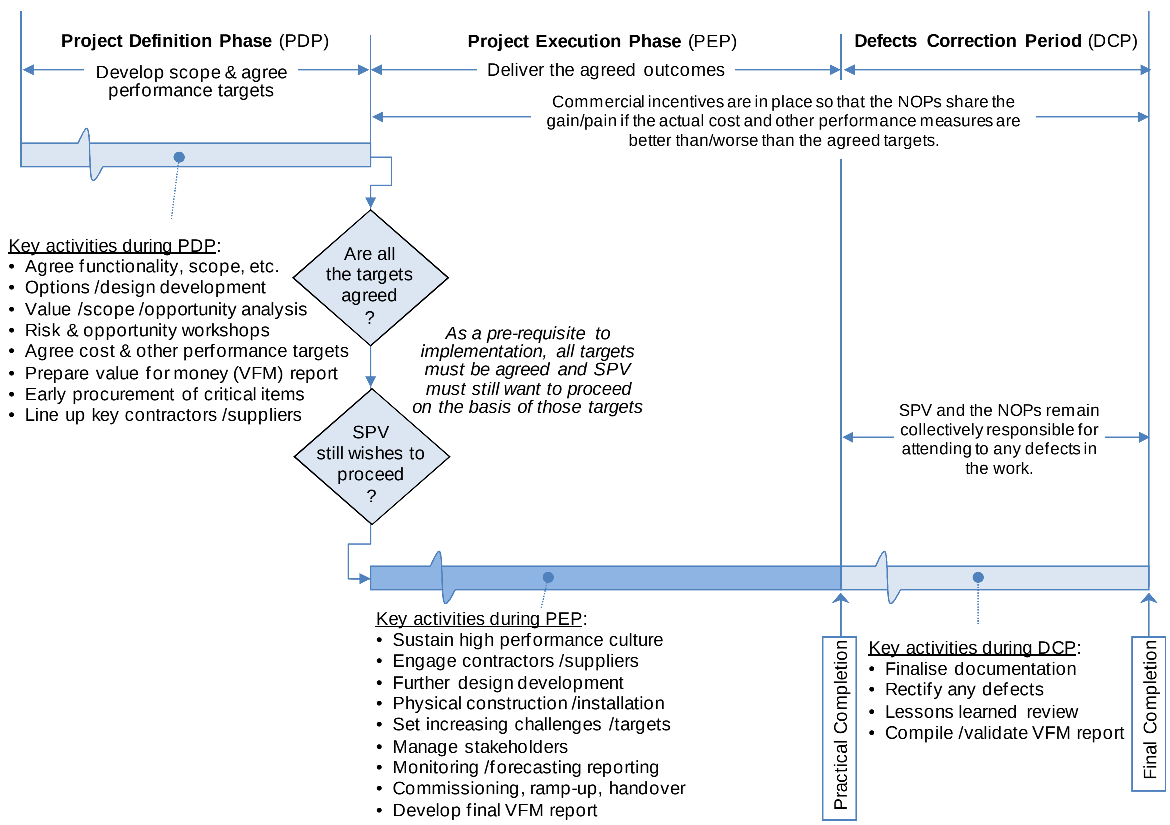

Figure 3 – Life-cycle of each project within the program

3 Overview of alliance framework

3.1 Concept and key principles

The alliance delivery model aims to bring together people with the right capabilities and attitudes into a fully collaborative working environment where their commercial interests are aligned. Under traditional forms of contract risk is allocated to different parties. Under the form of alliance being proposed here, the alliance participants, i.e. the SPV and the non-owner participants (NOPs), take collective ownership of all risks associated with delivery of the program, with equitable sharing (in pre-agreed ratios) of the "gain" or "pain" depending on how actual outcomes compare with pre-agreed targets.

The "gain/pain" arrangements are designed so that exceptional performance will deliver excellent returns for all participants whilst poor performance will result in poor outcomes for all participants. This underlying commercial alignment is consistent with a "*no blame, best for project*" alliance philosophy that focuses all participants on achieving common objectives, with the aim of achieving a "win-win" result for all. Each program alliance will be developed in line with the following generalised principles:

- All participants win, or all participants lose, depending on outcomes actually achieved;
- A peer relationship where all participants have an equal say;
- Collective responsibility for performance with an equitable sharing of risk and reward;
- Full access to and commitment of "best-in-class" resources from all participants;
- A focus on innovative thinking with a commitment to achieve outstanding results;
- Clear responsibilities and accountabilities within a no-blame culture;
- An integrated team selected on the basis of the best person for each position;
- Open, straight and honest communication between all participants;
- Commercial arrangements and all transactions are fully open-book.

Subject to ensuring that there is no conflict with the SPV's obligations and constraints as a 100% Government owned entity, important alliance decisions will be made on a "best for program" basis in accordance with these principles and not on the basis of organisational preferences or positions. The proposed organisation framework (section 3.2 below) and commercial framework (section 3.4 below) have been developed in line with these principles.

Under a traditional form of contract the different parties have specific individual obligations, with associated commercial/legal consequences should a party perform poorly or fail to properly fulfil its obligations (and risks are normally allocated to the party considered best able to manage them). Under the proposed program alliances, it is intended that program-wide target outcomes will be agreed at the start of the alliance and project-specific targets will be agreed at the start of each project within the program. The participants will assume collective ownership of all risks/opportunities associated with delivery of each project and the overall program, with equitable sharing (in pre-agreed ratios) of the "gain" or "pain" depending on how actual outcomes compare with the pre-agreed targets. Although risks (and opportunities) will be collectively "owned", the impact of these risks and benefits is still precisely allocated through the operation of the gain/pain arrangements (described in section 3.2 below).

The fundamental/critical difference is that the allocation/realisation of risk/benefit is based on the collective performance[1] of the participants and is not directly linked to the performance of individual participants, as illustrated in Figure 4 below:

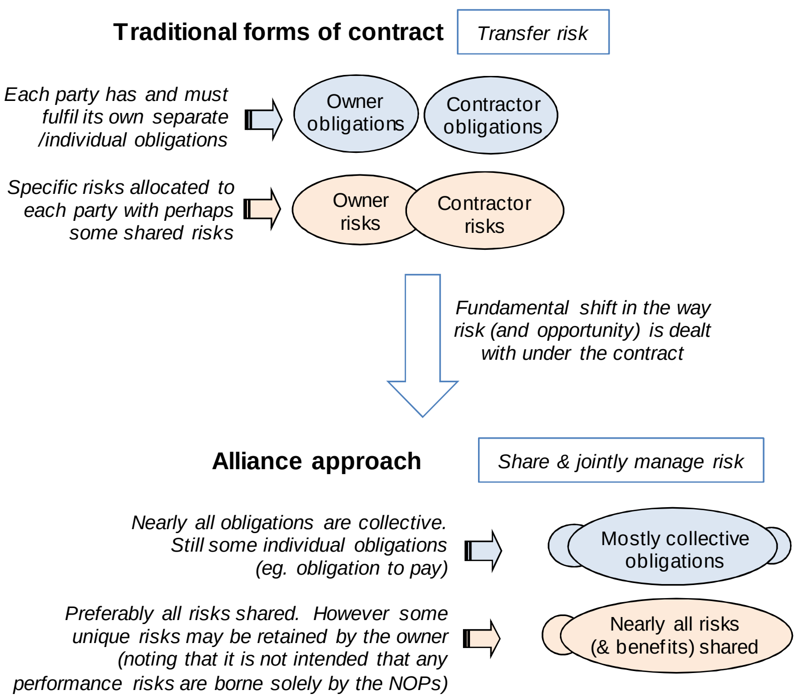

Figure 4 – Risk sharing under an alliance

3.2 Governance, leadership and management

Under traditional forms of contract, each party operates within its own leadership and management structure, with various processes and protocols to enable communication and decision-making across the contractual interfaces. Invariably this entails a significant amount of “person-marking” where owner representatives and corresponding contractor and designer personnel “mark” each other – to communicate their respective expectations and requirements and to ensure that the other party is fulfilling its obligations under the contract.

Under the proposed form of alliance, this type of “person-marking” will be unnecessary. Once fully formed, each alliance will be like a “virtual organisation” acting as an extension of the relevant PNG Government agencies, where the commercial interests of each participant are best served by meeting/exceeding the agreed objectives of the alliance. The aim is to create an agile and powerful alliance of high calibre resources working “like they own the company” where behaviours at all levels of the alliance (including subordinate consultants, contractors and suppliers - not just the main alliance participants themselves) are in line with the agreed values and working towards achievement of the alliance objectives.

[1] In the context of the form of alliance being proposed, where obligations are intended to be mostly collective, it is generally not relevant or appropriate to refer to the performance of individual participants. For this reason references to “performance” in this document, unless stated otherwise, mean the collective performance of the Alliance Participants combined.

The overall governance, leadership and management framework is illustrated in Figure 5 below:

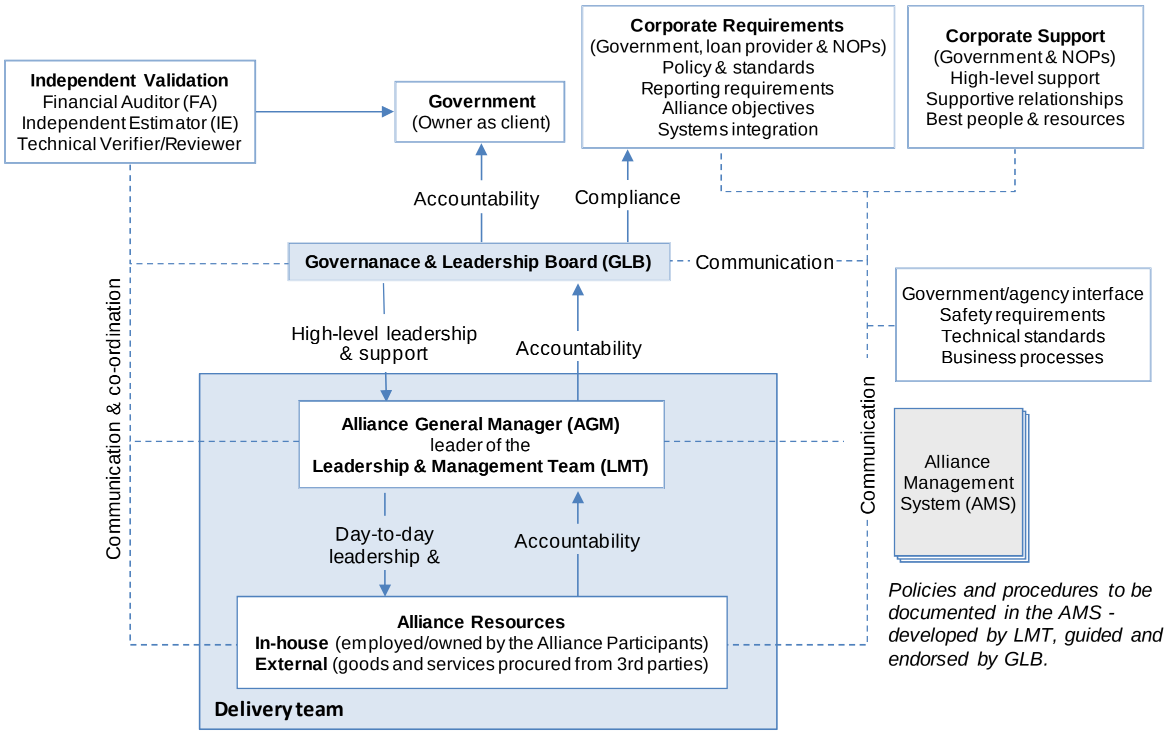

Figure 5 – Governance, leadership and management framework

3.3 Sourcing and management of resources

The resources of the alliance will be organised into project and functional teams as necessary to suit the needs of the program, as illustrated in Figure 6 below:

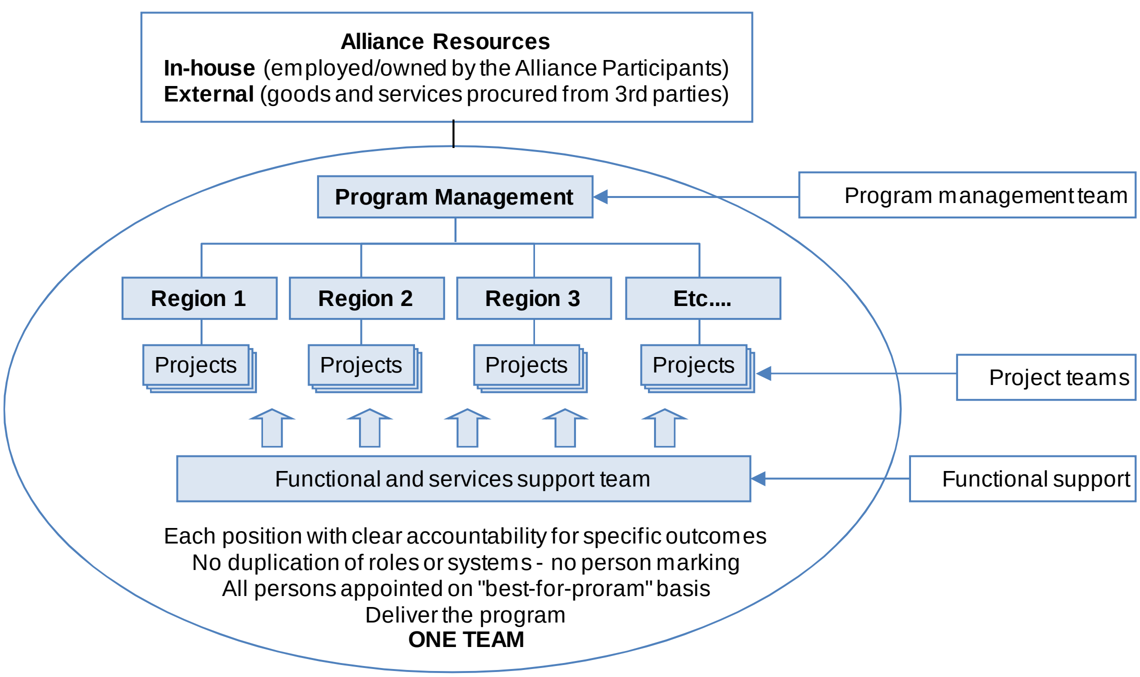

Figure 6 – Program organisation

The AGM/LMT will be responsible for procuring, managing and leading whatever resources are required to deliver the program, including:

- In-house resources (employed or owned by the participants), comprising people, equipment and materials to undertake the necessary program and project management, planning, design, procurement, construction, supervision, etc.
- External resources (goods, services and equipment) procured from 3rd parties.

It is expected that the alliance participants between them will be able to provide in-house the bulk of the people and equipment needed to deliver the program. In this respect:

a) Project teams will comprise staff from relevant PNG Government agencies and the NOPs. Subject to compliance with the requirements of the Alliance Management System (AMS), for each project the AGM/AMT will select the project team on a "best-for-program" basis from agency nominees, nominees from the NOPs, and if necessary candidates from outside the resources of the participants; and

b) Goods and/or services will be sourced externally where they are not available from within the in-house resources of the participants or where it is more efficient to procure them externally. In such cases the alliance will have to decide the most appropriate procurement strategy while operating within the guidelines, procedures and constraints set out in the AMS. While each case will need to be assessed on its own merits, the alliance could use a variety of procurement methods ranging from traditional supply and sub-contract arrangements to a full "sub-alliance", as illustrated in Figure 7 below:

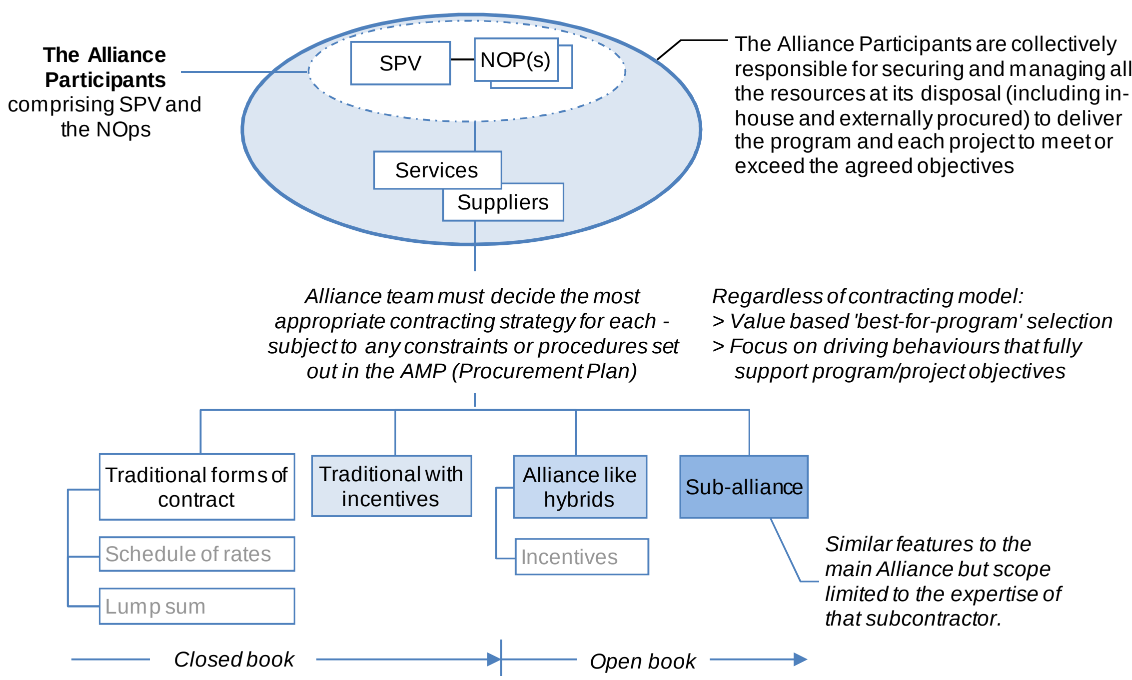

Figure 7 – Sub-procurement

3.4 Commercial framework

The respective expectations, rights and obligations of the alliance participants will be set out in a single legally binding Program Alliance Agreement (PAA), covering all projects and the overall program. The compensation arrangements will be set out precisely in one of the Schedules within the PAA. To ensure there is full understanding and alignment on the terms of the PAA, the PPP Transaction Team will provide the following documents to final shortlisted proponents for review/comment:

- a full draft of a proposed form of PAA, and
- a document entitled *Proposed Compensation Framework* (PCF) which will explain in detail the proposed compensation arrangements.

It is expected that the NOPs under each alliance will be compensated in accordance with the “3-limb” model illustrated in Figure 8 below:

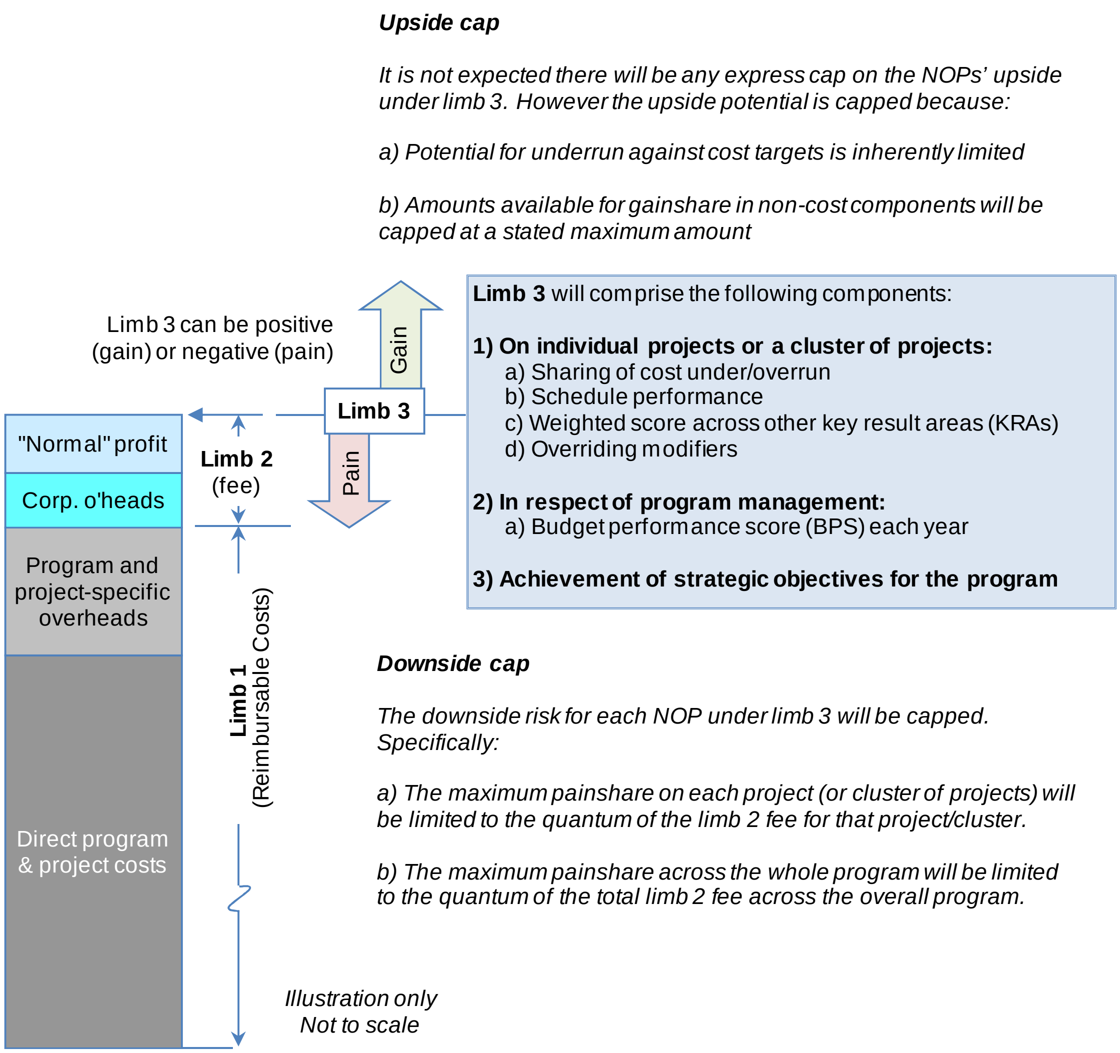

Figure 8 – 3-limb model of compensation to NOPs

Limb 1 (Reimbursable Costs)	Each NOP will be paid 100% of the direct costs and program-specific overheads it actually incurs in performing work under the alliance including rework and rectification of errors and mistakes.
Limb 2 (Fee)	The limb 2 fee (the “Fee”) is intended to provide each NOP with: • an appropriate contribution towards recovery of its corporate overheads, and • an equitable level of profit consistent with the alliance achieving, but not exceeding, the agreed outcomes in each key result areas (KRA).
Limb 3 (gainshare /painshare)	Payments of gainshare by the Government to the NOPs, or payments of painshare by the NOPs to the Government, to reflect an agreed sharing of the gain/pain (of the value to the Government the project and program outcomes) where the actual performance of the alliance is superior/inferior to agreed targets in cost and other KRAs.

Limb 1 and limb 2 will apply in respect of all work undertaken including program management and PDP activities leading up to the agreement of the cost and other targets on individual projects. Limb 3 in respect of projects will only apply once the cost and other targets have been agreed.

It is envisaged that following general principles will be used as a basis for guiding the development of the compensation framework:

a) We either all win or we all lose - win/lose outcomes are not acceptable.

b) Equitable sharing of risks and rewards, commensurate with actual performance and the value attributed by the Government to the alliance's outturn performance in each of the KRAs. [Note that equitable does not necessarily mean equal or symmetrical.]

c) Gainshare/painshare under limb 3 is linked to real risks and benefits in KRAs that the Government considers affect the value of the program.

d) Overall NOP painshare for each NOP is capped at the value of that NOP's Fee. No express cap on NOP gainshare.

e) The only way for an NOP to earn exceptional returns is for the alliance to deliver outstanding performance in areas that the Government considers adds value.

f) NOPs are genuinely incentivised to exceed the agreed targets through the limb 3 regime.

g) The Government is committed to the NOPs being able to earn 100% of their available gainshare entitlements through outstanding alliance performance.

h) In the event of a very poor outcome on a project, a cluster of projects or across the program, the NOPs should reach their respective painshare caps at the same time.

i) The compensation framework is clear, concise, robust and defendable.

j) The separate elements of the limb 3 regime are interdependent to ensure there is no incentive to sacrifice performance in one element to secure reward in another.

k) Complete transparency in all arrangements.

l) The compensation framework should enable the alliance to invest extra resources to drive outstanding performance without unfairly penalising the NOP that incurs the cost of that resource investment.

3.5 Why an PPP Program Alliance?

The PPP Transaction Team has adopted a program alliance model within the PPP framework because:

a) it is considered to be the delivery model that is most likely to achieve all of the Government's objectives – including the Government's wider strategic objectives;

b) it is considered to be the optimum model to achieve a "step change" in the planning, design and construction of these critical assets, and

c) the alliance model has proven to be very successful in delivering complex public sector transport infrastructure projects in Australia and New Zealand.

3.6 The Government's readiness for PPP Alliancing

The PNG Government has already taken the first steps in preparing its agencies and people to participate fully and effectively in the alliances including:

a) Engagement of an expert Alliance Advisor/Facilitator/Coach is underway. This expert will lead the development of the PPP/Alliance framework, educate/coach the PPP Transaction Team and other relevant Government personnel and design, and guide and facilitate the selection process.

b) Engagement of some of the other key PPP/Alliance experts is underway, including the PPP/Alliance Lawyer, the Probity Auditor, the Independent Estimator (IE) and the Establishment Financial Auditor (EFA).

c) Early identification of candidates from within the relevant Government agencies, including the National Roads Authority (NRA) and the Departments of Transport and Works (DTW).

4 The selection process

4.1 Key capabilities being sought

The purpose of the selection process is to select a proponent (comprising one or more companies) to join with the SPV to deliver each program alliance. The successful proponents must be financially sound and have a solid track record in the planning, design and construction of programs of large highway projects, establishing and maintaining harmonious relationships and effective business management systems including safety, health, project management, human resources, risk, environment, quality and financial. Experience in the maintenance of large highways would also be viewed favourably, as the PNG Government may decide to include on-going maintenance within the scope of the alliances.

The selection criteria are discussed in section 4.3 below.

4.2 Process, key steps and milestones

The selection process is shown in Figure 9 below. The dates indicated for the Request for Proposals (RFP) period are indicative only and probably represent the latest dates. The program might be compressed significantly compared to the timings shown below.

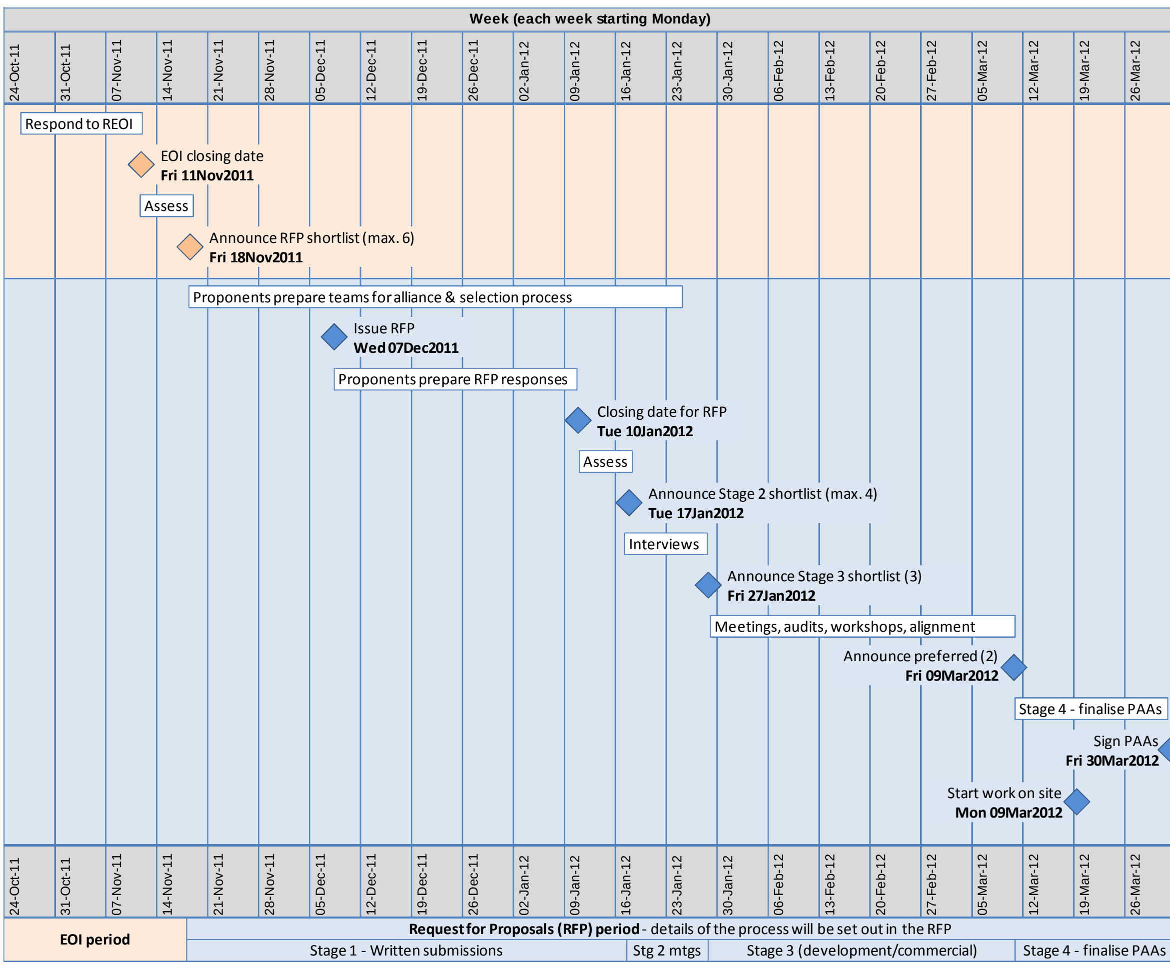

Figure 9 – Selection process timetable

The PPP Transaction Team will evaluate the EOI submissions against the criteria set out in section 4.3 below to identify a shortlist (maximum 6) who will be invited to the RFP stage.

4.3 Selection criteria

Respondents to the REOI will be assessed in the first instance against the mandatory hurdle criteria set out in Table 1 below:

A. Design & construction experience	One company within the consortium must have: a) an average annual turnover (through its own books) in heavy civil construction contracting activities over the last 3 completed financial years equivalent to at least 1 billion Kina, and b) over the last 3 years completed 3 major road contracts involving design & construction, each with a value equivalent to at least 250 million Kina.
	The respondent must either: a) have within the consortium a design firm that has: - an average annual turnover (through its own books) of engineering design activities over the last 3 completed financial years equivalent to at least 100 million Kina, and - completed the engineering design for at least 3 major road contracts involving design and construction, each with a total design & construction value equivalent to at least 250 million Kina, b) or if it does not have such capability/capacity within the consortium, then it must demonstrate how an equivalent design capability/capacity can/will be procured by the alliance.
B. Alliance contracting experience	The construction contractor member of the consortium must have previous experience in alliancing or a demonstrated track record of successful partnering with clients in a highly collaborative contracting environment.
C. PNG experience	The construction contractor member of the consortium must have recent experience (within the last 3 years) working on sizable construction contracts in PNG or other developing countries
D. PPP/financing experience	One company within consortium must have been active in procuring/establishing the financing arrangements for a major PPP project in the past 3 years.
E. Financial	Financial capacity to undertake a program of this nature/scale

Table 1 - Mandatory hurdle criteria

Respondents who meet all of the mandatory criteria will be assessed against the comparative criteria set out in Table 2 below:

1) Recent & relevant corporate track record	a)	Recent and relevant track record of each company within the consortium in design and construction of major highways
	b)	Recent and relevant track record of each company within the consortium in alliancing and/or other forms of collaborative contracting
	c)	Recent and relevant track record in procuring and establishing the financing arrangements for PPP projects
	d)	Quality and extent of experience within the consortium working in PNG or other developing countries
	e)	Recent and relevant track record in the maintenance of large highways
2) Capacity available for these programs	a)	Availability in PNG of the type and quantity resources (people, equipment and business systems) required for a program of this scale/nature.
	b)	Ability to mobilise the necessary resources to meet the early start requirements (refer Figure 9 above)
	c)	Strategy for including/procuring the necessary design capability/capacity
3) Experience of nominated personnel	a)	Qualifications, experience, performance, suitability and availability of the individuals nominated for the GLB, AGM and LMT
	b)	The range and depth of the qualifications, experience, performance and suitability of the pool of individuals said to be available for the alliance(s)
4) Financing	a)	Willingness to enter into an alliance on the basis of the deferred payment arrangement set out in Figure 1 above
	b)	Strategy for procuring, and formalising secure financing arrangements within the first 6 months of the alliance
5) Constructive feedback	Quality and value of constructive feedback on the PPP/alliance concepts set out in this REOI	

Table 2 - Comparative criteria

Scoring from the EOI submissions will not be carried over into the RFP process – i.e. the selection process following the issue of the RFP will be a “fresh start”, independent of the rankings arising from the EOI process. The information that proponents will be asked to provide in response to the RFP will include information that they have already provided in response to this REOI.

4.4 Structure and content of the EOI submission

EOI submissions should provide, in clear and precise English, the information described in this section. Respondents should only provide information that is relevant to enable the PPP Transaction Team to assess the consortium against the criteria set out in section 4.3 above.

Table 3 below shows the required structure and content of the EOI submission:

Cover Letter	Covering letter
Executive Summary	Optional (should be limited to 2 pages maximum).
Respondent's identity	Provide the full details of the legal identity (including country/jurisdiction) of the respondent. If a respondent comprises a number of separate companies – explain the nature of the arrangements and provide full details of the legal identity of each member company. Indicate if any form of joint venture is being contemplated. Provide details of the identities of any parent companies and a corporate organisation chart (for each member company) noting holders of key leadership/management positions and their contact details. The companies must be the same entity or entities that would enter into the eventual Program Alliance Agreement (PAA).
Mandatory Criteria	Provide information that demonstrates that you fulfil the mandatory hurdle criteria described in Table 1 (section 4.3 above) 4.3 above.
Comparative Criteria	Provide information that will enable the PPP Transaction Team to make an assessment against the comparative criteria set out in Table 2 (section 4.3 above). Proponents must include as an attachment audited financial statements and other reports that demonstrate the financial capacity of the companies comprising the respondent to undertake a program of this scale and to fulfil the NOPs' obligations under the eventual alliance. As a minimum, provide audited financial statements/reports for the past 3 years along with any credit rating reports should be provided.
Curriculum Vitae (CVs)	Respondents should provide summary CVs (no more than 3 pages each) for the personnel they are nominating for the GLB, AGM role and LMT. CVs may also be provided for other resources that are available to the alliance once formed.

Table 3 – Structure and content of the EOI submission