
DATE: May 26, 2009

REPORT TITLE: **NEW TEN-YEAR AGREEMENT WITH THE ONTARIO CLEAN WATER AGENCY (OCWA) FOR THE MANAGEMENT, OPERATIONS, AND MAINTENANCE OF THE SOUTH PEEL WATER AND WASTEWATER SYSTEM**

FROM: Dan Labrecque, Commissioner of Environment, Transportation and Planning Services

RECOMMENDATION

That the contract (Document 2009-410N) for the Management, Operations and Maintenance of the South Peel Water and Wastewater Facilities be awarded to the Ontario Clean Water Agency (OCWA) for a period of ten years, subject to the Region's right to extend for a further five-year period, in the estimated annual amount of \$35,510,616 for the first year (excluding applicable taxes) in accordance with the Purchasing By-Law 63-2008;

And further, that the Director of Purchasing be delegated authority to authorize adjustments for increases in costs and amendments to account for inflation, capital expansions, and additional services on an as required basis in accordance with the agreement;

And further, that the Commissioner of Environment, Transportation, and Planning Services report back to Council in 2018 with a recommendation on exercising the option to extend the agreement for an additional five-year period in accordance with the terms of the agreement, if deemed appropriate by the Commissioner;

And further, that the new 10 year contract with OCWA commence on January 1, 2010;

And further, that staff report back to Council on the performance of the agreement on an annual basis.

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REPORT HIGHLIGHTS

- Negotiations with OCWA have been completed.
- The increase in the OCWA base fee is 0.6 per cent from the final year of the current agreement to the first year of the new agreement which represents \$135,930.
- The average annual increase to the operations and maintenance base fee is 2.8 per cent with an additional 1.9 per cent per annum due to the facility and infrastructure expansions. The overall annual average increase is 4.4 per cent which includes the estimated costs for chemicals and insurance.
- \$1,500,000,000 worth of facility and infrastructure expansions are planned for the South Peel Water and Wastewater System over the next ten years.
- The new agreement will have the proper balance of risk allocation.
- Better protection of assets through enhanced maintenance and asset management.
- The new agreement ensures the continued protection of public health through the supply of clean safe drinking water while protecting the environment.
- Enhanced contract administration and performance monitoring including annual performance reporting.
- Meets Peel's objectives in providing best value to customers.

DISCUSSION

1. Background

As previously reported to Council the initial ten-year term of the South Peel Water and Wastewater Management, Operations, and Maintenance Agreement with the Ontario Clean Water Agency was scheduled to end June 30, 2009. As a result Council, through Resolution 2007-787, provided for the establishment of a committee to evaluate the options for the future management of the South Peel Water and Wastewater System. Subsequently through Council Resolution 2008-145 and Council Resolution 2008-394 the South Peel Water and Wastewater Agreement Steering Committee (SPWWASC) and the Water and Wastewater Technical Advisory Panel (WWTAP) were established to undertake the evaluation. The SPWWASC provided their recommendations and advice to Council in the report "South Peel Water and Wastewater Agreement Steering Committee Recommendation, Document 97P-075" on July 3, 2008 and Council Resolution 2008-830 was adopted as a result. The resolution called for the following a) a one-year extension of the current contract with OCWA based on the same terms and conditions with a price escalation satisfactory to the Chief Administrative Officer, b) the commencement of negotiations with OCWA for a new long-term contract upon successful execution of the extension, and c) the development of a alternative plan to bring South Peel water and wastewater operations in-house should negotiations with OCWA fail to produce the best value for Peel or if an agreement with OCWA could not be reached within the allotted time. The one-year extension was executed on October 23, 2008 as reported to General Committee on December 4, 2008. The in-house plan is complete as are the negotiations with OCWA.

2. Strategic Sharing of Risk

The operating environment in Ontario today has changed dramatically as compared to when the current agreement was signed over ten years ago. As such, the negotiations included extensive discussions on the proper and fair balance of risk for a new agreement. The parties agreed that specific risks should be borne by the party best able to manage and mitigate these risks.

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a) Base Operations and Maintenance Fixed Fee

As with the current agreement, OCWA will assume the risk for the day to day operations and maintenance which includes drinking water quality, wastewater effluent quality, compliance, asset protection, and security. Peel has assumed the responsibility for the network portion of the Supervisory Control and Data Acquisition (SCADA) system as this is part of the Region's overall networking fiber system. The threshold for major maintenance has been lowered to reflect levels seen in other large operating contracts. By establishing this new threshold OCWA can better estimate routine maintenance requirements and costs without building in a large contingency to the fee for major works. OCWA will plan for and implement the major maintenance program which is approved annually by Council through the budget process.

b) Energy

There is extreme volatility in the energy markets and it is not possible to accurately predict long term energy and consumption rates. Therefore the Region will continue to pay for electricity and natural gas directly. Peel Energy Management has the expertise to procure energy in the most efficient manner to reach the Region's energy management goals. In the new agreement, Peel Energy Management will assist in ensuring the efficient use of energy by OCWA through the enforcement of an Energy Management Code of Practice which is a new article in the agreement.

c) Commodities (Chemicals)

Currently chemicals form part of the fixed fee. Other chemical costs are cost plus items to the Region through the additional services added over the past ten years. As with energy, long term forecasting of the cost for major process chemicals is extremely difficult. Under current economic conditions, vendors will only provide estimates for one to two year periods. Therefore the Region and OCWA agreed to utilize the purchasing power of OCWA to obtain the process chemicals as a pass through cost to the Region with no markup. Should market conditions rebound the Region may indirectly enjoy cost savings compared to the cost estimates OCWA would have to build as a contingency in their proposal.

d) Insurance

Property and boiler insurance were not included in OCWA's fixed fee for the current contract. OCWA has been procuring this insurance on behalf of Peel for the South Peel Facilities on an annual basis and will continue to do so in the new agreement. As OCWA is a large operator in the province they are able to obtain very competitive rates for insurance. OCWA's General Commercial Liability and Professional Liability insurance are included in the fixed fee portion of the current agreement. Due to the volatility and unpredictability of the insurance market OCWA has not been able to obtain firm costs from their brokers after year one of the new agreement. Therefore the parties have agreed to treat this insurance in the same manner as property and boiler insurance. In order to protect the Region from any increase in cost due to OCWA's performance outside the agreement OCWA will report to the Region on an annual basis with their claims history. All insurance premiums will be reviewed on an annual basis to ensure the Region is obtaining the proper types and amounts in the most cost effective manner. Adjustments will be made based on market conditions.

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Summary of Risk Allocation in New Agreement

OCWA	Peel
Base Operation & Maintenance Fixed Fee	Energy – Cost and Consumption
Water and Wastewater Compliance	Chemicals – Costs and Consumption
Maintenance and Asset Protection	Insurance
Security	Major Maintenance Costs
Environmental Management	Owner Responsibilities – Regulations
Operator Responsibilities – Regulations	
Purchasing	

3. Value Added Improvements to the New Agreement

Throughout the evaluation process and negotiations several key benefits to Peel were identified in going forward with a new and improved agreement with OCWA.

- Established relationship with OCWA will continue to build on history of sound operational performance.
- New agreement will align with current and future expansions enabling more effective management by the Region.
- Long-term contract provides good value to the Region by ensuring excellent performance at a reasonable cost.
- Risk is strategically shared by the organization that is in the best position to take on that risk.
- Enhanced maintenance for asset protection will ensure our facilities are in a good state of repair.
- More attention paid to the appearance of the facilities which will be more pleasing to the public and a general sign that the facilities are well maintained and operated.
- OCWA is the only operator in the Province that is considered an essential service. In the event of a strike OCWA can provide continuous operation of Peel's facilities with approximately 95% of their regular work force.
- During periods of high Capital construction Peel can utilize OCWA's engineering staff versus adding to Peel's compliment.
- OCWA intends to relocate their Corporate office from Toronto to the Region of Peel when their current lease expires in two years.
- OCWA is able to purchase commodities much cheaper than Peel as they buy in bulk for the Province and are exempt from paying GST.
- OCWA will provide oversight of Peel's ground water systems through the Lakeview Control room 24 hours a day by a licensed operator. OCWA will evaluate alarms received and dispatch Peel operators or security staff depending on issues that require a response.

4. Contract Administration

The new agreement will provide enhanced performance reporting, increasing frequency from quarterly to monthly reporting and adding on-line reporting to Peel. New monthly meeting requirements will include operations and compliance, maintenance, and energy management meetings. An annual performance review of the agreement will be undertaken along with an annual report to Council. Peel's Energy services team will also assist contract administration staff through a service level agreement.

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5. Start Date

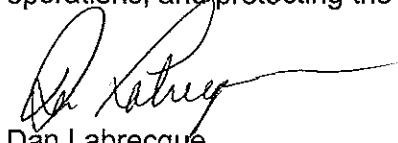
The Region has the option of utilizing the full one-year extension of the current agreement until June 30, 2010 or terminating the extension sooner and starting the new agreement on January 1, 2010 which would align the contract year with Peel's and OCWA's operating budgets.

FINANCIAL IMPLICATIONS

The cost increase to the OCWA base fee from year eleven of the current agreement to year one of the new agreement is 0.6 per cent or \$135,930. The average annual increase to the base fee over ten years is 2.8 per cent plus an additional 1.9 per cent per annum for the operations and maintenance of the planned \$1,500,000,000 of capital expansions over the next ten years. Chemicals and insurance are estimates and are not included in the base fee. The total estimated cost for the first year of the new agreement (base fee plus chemicals and insurance) is \$35,510,616. The overall average annual increase over the ten-year term is 4.4 per cent. The estimated price for the ten-year agreement is \$447,263,856. Costs for electricity and natural gas are not included as the Region will continue to pay these costs directly.

CONCLUSION

OCWA has provided Peel with excellent operation and maintenance services for the South Peel facilities over the past ten years. Peel has negotiated a fair agreement with OCWA which allocates risk in a strategic manner and meets the original criteria of the South Peel Water and Wastewater Agreement Steering Committee in a manner that will provide best value to the Region. Through a new agreement the Region will continue to meet the goals of our Strategic Plan by providing a safe and secure water supply system to ensure public health, enhancing our operations, and protecting the environment.



Dan Labrecque
Commissioner of Environment, Transportation

Approved for Submission:



D. Szwarc, Chief Administrative Officer

*For further information regarding this report, please contact
Mark Schiller at extension 4394 or via email at mark.schiller@peelregion.ca*

Authored By: Greg Aickele

c. Legislative Services
Manager, Financial Support Unit (FSU)
J. Macintyre, Director, Purchasing