

For Information

DATE: May 11, 2011

REPORT TITLE: **ANNUAL PERFORMANCE REVIEW OF THE SOUTH PEEL WATER AND WASTEWATER MANAGEMENT, OPERATIONS AND MAINTENANCE AGREEMENT WITH THE ONTARIO CLEAN WATER AGENCY (OCWA)**

FROM: Dan Labrecque, Commissioner of Public Works

OBJECTIVE

To report on the performance of the Management, Operations, and Maintenance Agreement between the Ontario Clean Water Agency (OCWA) and the Region of Peel as per Council Resolution 2009-706.

REPORT HIGHLIGHTS

- The new ten-year agreement with OCWA commenced on January 1, 2010.
- Shared risk is a key factor to the agreement strategy and is being managed well in the South Peel facilities.
- OCWA's Annual Business Plan includes continuous improvement initiatives.
- Peel continues to receive best value.
- Staff will continue to report to Regional Council on the performance of the agreement on an annual basis.

DISCUSSION

1. Background

The Ontario Clean Water Agency (OCWA) was awarded a new ten-year contract for the Management, Operations, and Maintenance of the South Peel Water and Wastewater Facilities through Resolution 2009-706 as adopted by Regional Council on June 25, 2009. The contract with OCWA was executed on September 3, 2009 and commenced on January 1, 2010. Council Resolution 2009-706 requires that staff report back to Regional Council on the performance of the agreement on an annual basis.

The new agreement with OCWA features several improvements and includes the strategic sharing of risk. Peel and OCWA agreed that specific risks should be borne by the party best able to manage and mitigate risks. Specific information was included in the report of the Commissioner of Public Works, dated May 26, 2009 and titled "New Ten-Year Agreement with the Ontario Clean Water Agency (OCWA) for the Management, Operations, and Maintenance of the South Peel Water and Wastewater Facilities" (attached as Appendix I).

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Summary of Risk Allocation in New Agreement

OCWA	Peel
<ul style="list-style-type: none"> • Base Operation and Maintenance Fixed Fee • Water and Wastewater Compliance • Maintenance and Asset Protection • Security • Environmental Management • Operator Responsibilities – Regulations • Purchasing 	<ul style="list-style-type: none"> • Energy – Cost and Consumption • Chemicals – Costs and Consumption • Insurance • Major Maintenance Costs • Owner Responsibilities – Regulations

Joint performance management and contract administration teams were established early in 2010 to provide governance and service delivery management. These teams review and measure performance and discuss contract deliverables and service delivery. Peel and OCWA staff work very closely on a daily basis and meet monthly to discuss operations, maintenance, compliance, energy management, and continuous improvement. Monthly, quarterly, and annual performance reports are provided to Peel. These activities help to provide proper control over the South Peel Facilities and foster a good working relationship with OCWA.

2. Findings

During the first three months of 2011 Water and Wastewater staff in consultation with Energy Management, Internal Audit, Public Works Finance Support Unit, and Purchasing undertook a thorough review of the performance of the agreement with OCWA for year one. The review focused on the objectives and criteria most important to Peel, was risk based, and included the important considerations of control and value for money.

a) Quality and Continuity of Service

Wastewater effluent quality and drinking water quality met Peel's expectations which exceeded minimum regulatory standards. Further detailed information on water quality was identified in the Council Report "Water Treatment and Quality 2010 Annual Summary Report: Municipal Water Supplies" dated February 9, 2011 presented to Regional Council at its meeting held on March 24, 2011 (Resolution 2011-261). Continuity of services was achieved with a smooth transition from the previous agreement which included the provision of essential services for operations. Peel continues to perform well during extensive capital improvements; in 2010, 12 of the 19 OCWA operated facilities were under construction. The South Peel Facilities are now some of the most modern and technologically advanced in the world.

b) Cost of Service

The approved estimated cost for the first year of the agreement was \$35,510,616, which consists of the operations and maintenance fixed base fee, chemicals, commodities and insurance with the base fee being 70 per cent of the total. The total cost of electricity was \$30,000,000 and natural gas \$1,200,000 for a total energy cost of \$31,200,000.

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A cost validation exercise was performed to determine final actual costs. This analysis identified a cost reduction of approximately \$3,700,000. This included a \$900,000 reduction in the operations and maintenance base fee driven by the primary factor of 2010 compensation enhancement credits plus diesel fuel reduction, Harmonized Sales Tax (HST) adjustments, and a decrease of \$2,800,000 in chemicals attributed to lower than expected treated volumes and process and chemical optimization efforts.

c) Asset Protection and Capital Improvements

As part of the new agreement Peel and OCWA completed a comprehensive asset inspection, inventory and condition rating exercise. South Peel consists of more than 25,000 assets with an insured replacement value of \$2.24 billion. Another \$1.5 billion in capital works is expected over the next 10 years. This initial inventory will serve as a baseline and will be updated periodically and used to ensure that the condition of the South Peel Facilities will be maintained and improved over the duration of the agreement. New advanced maintenance methodologies are being implemented to ensure and measure reliability and the condition of assets.

d) Energy Management and Environmental Impact

Annual electricity consumption was 261,500,000 kWh, which was 67 per cent of the total annual electricity consumed by Peel owned and operated facilities.

Identified as a key energy program area in the Region of Peel Energy Management Plan, Peel and OCWA established a joint South Peel OCWA water and wastewater energy management team in 2010 to cooperatively achieve the energy related initiatives and objectives outlined within the Energy Management Code of Practice under the new agreement. This team is supporting energy efficiency improvements in the capital works program including pumping optimization, treatment process optimization and power generation projects and is participating in forecasting annual energy consumption. Energy metering initiatives are underway to support process optimization while positioning the team to track, monitor and report energy use.

Protection of the health of the environment is an integral aspect to wastewater treatment. In 2010, a considerable decrease in the amount of phosphorus and ammonia discharged to Lake Ontario was achieved compared to 2009; mass loadings were reduced by 39 per cent and 36 per cent, respectively. Effluent water quality was further improved with increased removal of biochemical oxygen demand (BOD) by 17 per cent and total suspended solids (TSS) by 3 per cent. In addition to enhanced effluent water quality, air emissions have also been improved with the installation of mercury scrubbers in 2010 at the G.E. Booth Wastewater Treatment Plant which reduce mercury emissions from the incinerator stacks.

e) Insurance Review

A review of property, boiler and machinery insurance as requested of the Commissioner of Public Works at the June 18, 2009 Council session is included. The review concluded that Peel is receiving property and boiler insurance at competitive rates approximately seven per cent lower than the alternate insurer's estimated premium. Please refer to Appendix II, Insurance Review, for further information.

f) Risk Management

Staff identified some areas such as energy and chemical use optimization, maintenance performance reporting, data management, and workforce optimization where continuous

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improvements can be made at the South Peel Facilities to enhance the mitigation of risk to Peel and OCWA and to ensure the Region's objectives will continue to be met. These initiatives will form part of OCWA's Three Year Business Plan which is updated annually by OCWA and approved by Peel as seen below in Opportunities and Challenges.

3. Opportunities and Challenges

- i) Enhance the optimization of chemical and energy use in the South Peel Water and Wastewater System. Challenges associated with optimization include the dynamics of the system, evolving technologies, and growth which requires fine tuning of operations and can impact flexibility in operations.
- ii) Improve information management with a new automated data management system.
- iii) Enhance maintenance performance measurement and reporting.
- iv) Challenges identified were related to workforce issues and new technologies. Workforce issues not uncommon to the water and wastewater industry in North America such as staff recruitment/retention, succession planning, demographics and retiring Baby Boomers, compensation, workforce development, and changing skill set requirements will require that workforce strategies currently in place continue to develop and adapt. Keeping pace with changing a business environment and management requirements for new technologies and optimization initiatives will be a challenge requiring that planning for such areas remains an important objective in South Peel.

CONCLUSION

Staff found that the Region's objectives for the first year of the new agreement were met and that risk is being managed appropriately. Staff identified some areas that can be improved on to further reduce risk and to ensure required control over the South Peel Facilities. Throughout the review process continuous feedback was provided to OCWA to ensure accuracy and transparency. Continuous improvement initiatives identified throughout this review will form part of OCWA's Three Year Rolling Business Plan which will ensure that best value operations meeting Peel's high standards will continue throughout the duration of the agreement. Staff will continue to report to Council on the performance of the agreement on an annual basis each May.

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MANAGEMENT, OPERATIONS AND MAINTENANCE AGREEMENT WITH THE ONTARIO
CLEAN WATER AGENCY (OCWA)**



Dan Labrecque
Commissioner of Public Works

Approved for Submission:



D. Szwarc, Chief Administrative Officer

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RW-B1-6

ANNUAL PERFORMANCE REVIEW OF THE SOUTH
PEEL WATER AND WASTEWATER MANAGEMENT,
OPERATIONS AND MAINTENANCE AGREEMENT
WITH THE ONTARIO CLEAN WATER AGENCY (OCWA)

APPROVED AT REGIONAL COUNCIL
June 25, 2009

ITEMS RELATED TO PUBLIC WORKS

ETP-B. ENVIRONMENT

ETP-B3. 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

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 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 Regional 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 ten year contract with OCWA commence on January 1, 2010;

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

Approved

2009-706

PW-B-1-7

Annual Performance Review of the South Peel Water and Wastewater Management, Operations and Maintenance Agreement with the Ontario Clean Water Agency (OCWA)



REPORT
General Committee

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.

Annual Performance Review of the South Peel Water and Wastewater Management, Operations and Maintenance Agreement with the Ontario Clean Water Agency (OCWA)

**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**

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.

Pw-B1-9

Annual Performance Review of the South Peel Water and Wastewater Management, Operations and Maintenance Agreement with the Ontario Clean Water Agency (OCWA)

**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**

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.

Annual Performance Review of the South Peel Water and Wastewater Management, Operations and Maintenance Agreement with the Ontario Clean Water Agency (OCWA)

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

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.

Annual Performance Review of the South Peel Water and Wastewater Management, Operations and Maintenance Agreement with the Ontario Clean Water Agency (OCWA)

**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**

5. Start Date

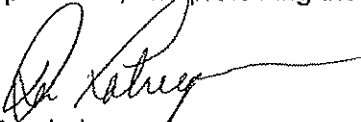
The Region has the option of utilizing the full one-year extension of the current agreement until June 30, 2010 or terminating the extension sooner and starting the new agreement on January 1, 2010 which would align the contract year with Peel's and OCWA's operating budgets.

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:



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ANNUAL PERFORMANCE REVIEW OF THE SOUTH PEEL WATER AND WASTEWATER MANAGEMENT, OPERATIONS AND MAINTENANCE AGREEMENT WITH THE ONTARIO CLEAN WATER AGENCY (OCWA)

APPENDIX II

INSURANCE REVIEW

Introduction

Historically the Ontario Clean Water Agency (OCWA) has purchased property and boiler insurance for the South Peel Facilities on the Region of Peel's behalf. The continuation of this arrangement was negotiated with OCWA for the new contract as pass-through cost for premiums to the Region. At the June 18, 2009 General Committee meeting Peel staff were asked to report back to Council on what the premiums would be if the Region were to procure this type of insurance directly. The exercise to determine what the premiums would be versus the premiums OCWA are able to procure was significantly more complex than first anticipated. Accordingly, it has taken longer than expected to provide an answer.

Public Works was assisted by the Region's Risk Management staff. Initially, our efforts to obtain a comparison insurance quotation commenced with our approaching the Region's current insurance provider. They declined our request to quote citing a lack of capacity for such a large, specialized risk. This illustrates the limited marketplace available for the size of the risk exposure that the South Peel Facilities present. Accordingly, staff involved the Region's insurance broker and consultant to assist with locating an available and interested insurance provider.

Review and Results

The review involved the consolidation of considerable information including:

- The ten-year loss history in South Peel
- An updated inventory of all facilities and assets
- A complete re-evaluation (baseline) of replacement costs which represents \$2,240,000,000
- Site plans
- Existing policies, terms and limits
- A solicitation of available insurance markets to identify possible alternate markets

Of its available market, the consultant ultimately identified one insurance company with the possible interest to providing the insurance. They provided an estimate of the premium but indicated a firm quote would not be provided unless the prospective Insurer's engineers and underwriters were permitted to inspect the premises. This prospective Insurer also indicated the lowest deductible level they were prepared to offer was \$100,000 per occurrence. The current program through OCWA provides a \$5,000 deductible per occurrence. OCWA was asked to supply an estimated insurance premium at the same \$100,000 deductible level to facilitate direct comparison.

In comparing the estimated premium by both OCWA and the alternate Insurer at the \$100,000 deductible level, OCWA's premium is observed to be 7 percent less than the alternate Insurer's estimated premium. Therefore, the OCWA program is competitive with the prospective alternate product.

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The extent of the coverage was also analyzed and determined to be similar in scope and breadth such that premium is the sole differentiating factor.

Summary

The insurance available through the OCWA program provides competitive coverage at a 7 percent better price for the available deductible level in the narrow insurance market with the capacity to underwrite this risk. Accordingly, there is little incentive to switch from the current insurance carrier. Pursuant to the new Agreement the Region and OCWA are to annually review insurance requirements and the previous contract year's loss history to ensure the Region is continuing to receive best value for property, boiler, and machinery insurance and to ensure risk is being managed appropriately in South Peel.