



# **Sewage Treatment Plant Upgrades and Expansion Program**

**City Council Briefing**

April 20, 2011

# Service Agreement With Veolia

- As directed by City Council on May 19, 2010 the City has today entered into a service Agreement with Veolia
- As per Council decision – the whole sewage treatment system is in the scope of the Agreement for the provision of advice
  - 3 Major capital projects mandated by provincial licensing
  - All sewage treatment facility operations
  - Annual capital maintenance
- Veolia will provide assistance only
- Veolia will not own, control, operate or finance any City facilities
- The Director of Water and Waste is leading a process to inform all department staff of the Agreement and will lead an implementation process

## Current Status of Work

- Pursuant to Letter of Notification mandated by City Council May 19, 2010 - Veolia has had 4 to 15 engineering and project management staff in Winnipeg doing background studies/assessments of requirements for our SE and NEWPCC projects in collaboration with City officials
- Site visits / meetings have occurred but no Veolia staff are “working” in the sewage plants
- SE technology and process selection work completed

# Background

- Emergence of algae on Lake Winnipeg as major public concern – Premier Doer hosts summit on health of the Lake in 2000
- 2002 mechanical failure - major spill of raw sewage into Red River receives national media attention
- Provincial CEC hearings into City sewage system:
  - All 3 City sewage treatment plants to be upgraded
  - Bio-solids remediation plant to be built
  - Combined sewer outflows
- *Environment Act* license with strict deadlines and \$751m\* in work at SE/NE treatment plants and new Bio-solids facility (\* this is a revised cost estimate from the Department of the previous \$661m with the escalation being for the Bio-Solids facility)

## Facts

- 100% City ownership
- Sewage treatment only
- Nothing to do with water
- No subsidiary corporation / partnership

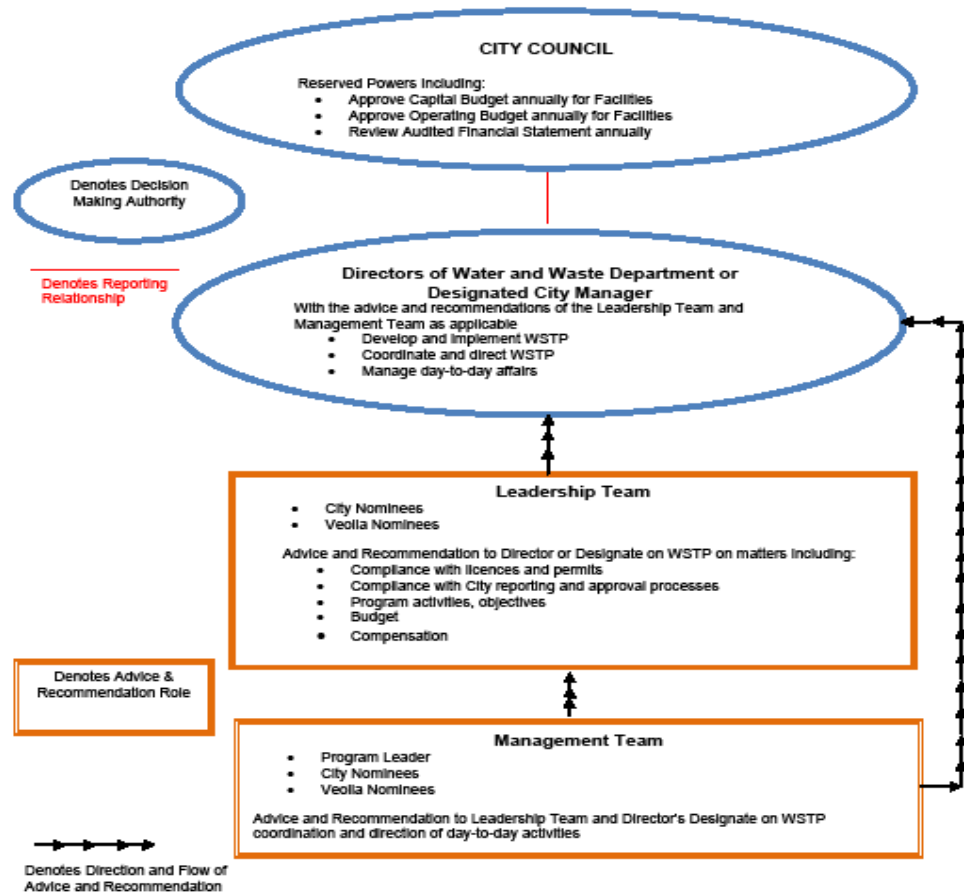
## Facts

- No contracting out of jobs
- City financed
- City remains accountable for regulatory compliance / licenses
- City Council votes each year to approve all capital and operating expenditures

## Agreement Details

- 30 years of advisory services and risk sharing:
  - SEWPCC / NEWPCC / Bio-solids construction
  - All Plant (South-North and West End) operations
  - Annual capital maintenance
- City has unlimited right to terminate without cause at any time with \$5m termination fee to Veolia
- Veolia has limited ability to terminate without cause and would pay City minimum \$10m fee plus up to \$1m in transition costs
- Flexible to allow future technological advances/new license terms/ future sewage treatment projects to be negotiated into contract if City wishes

## WINNIPEG SEWAGE TREATMENT PROGRAM (WSTP) Governance Structure, Advisory and Decision Flow Chart





# Agreement Details

- City Reserved Powers
  - City ownership / control / staff / budgeting / utility rates
- Alternative Dispute Resolution
  - CAO and Veolia President / Experts / Mediation
  - Binding Arbitration
  - No lawsuits in court
- Program Changes
  - City may change what work Veolia does
  - Any changes related to amended licenses/budget restraint is allowed without penalty

# Agreement Details

- Veolia Can Earn Compensation 3 Ways
  - Competitively bid margins applied to costs
  - Shares savings where construction or operations meet quality specs and are under target cost.
    - Savings are shared 50/50 but City keeps progressively greater share as savings grow.
  - Incentives on key performance areas that are not directly related to financial outcomes but are identified as City priorities (eg. Workplace health safety, GHG mitigation, waste reduction)
- All Veolia compensation is at risk of forfeiture to cover Veolia share of any cost overruns.

## Veolia Services Contract Example of Compensation Model in Year 1

### Overall Provisions

Veolia is always reimbursed its direct costs for self performed work

Veolia compensation earned from:

Pain/Gain share on capital program and operations target costs (TC)

Key Performance Indicators (KPI) for exemplary performance in areas where financials are not primary driver of success

Margins on all direct costs of the program

Earnings are deposited to Earnings at Risk Account (EARA) account and withdrawal of earnings dependent on risk remaining in program.

Earnings can only be withdrawn if EARA is greater than the program At Risk Amount (ARA), a proxy for future risk in the program.

Compensation Model Example in \$Millions Key Assumptions			COMPENSATION
	Operations	Capital	CREDITS TO EARA
Operations Target Cost	\$20.00		
Operations Actual	\$19.00		
Pain/Gain on TC	\$1.00		\$0.50
Capital Target Cost		\$100.00	
Capital Actual		\$90.00	
Pain/Gain on TC		\$10.00	\$5.00
KPI (in non target cost categories for capital and operations)	\$0.10	\$0.20	\$0.30
Margins on Direct Costs	\$0.20	\$0.30	\$0.50
<b>TOTAL COMPENSATION</b>			<b>\$5.80</b>

### Notes:

City gets a minimum of 50% of the gain

Assumes KPIs are met (e.g. effluent standards, construction site safety)

Competively bid margins, proprietary information

**ARA Balance** \$40.00

**Earnings Entitlement**  
[EARA - ARA] \$Nil

## Project Development Costs (\$000s) incurred to date

Project Costs	Services Contract	Utility Project	Total
Legal	\$ 1,496	\$ 323	\$ 1,819
Finance	\$ 669	\$ 154	\$ 823
Communications	\$ -	\$ 200	\$ 200
Fairness	\$ 22	\$ -	\$ 22
Change Management	\$ 50	\$ -	\$ 50
Miscellaneous	\$ 18	\$ 120	\$ 138
	\$ 2,255	\$ 797	\$ 3,052

Approved Budget of \$4.25 Million