

March 15, 2017

To: Members
Executive Committee

Re: Regina Wastewater Treatment Plant Upgrade Project – Hauled Wastewater Station
Consideration

RECOMMENDATION

**RECOMMENDATION OF THE EXECUTIVE COMMITTEE
- NOVEMBER 16, 2016**

1. That City Council authorize the City Manager or designate to negotiate and enter into an amendment to the Wastewater Treatment Plant (WWTP) Project Agreement and any ancillary documents, to transfer the operation, maintenance, and infrastructure renewal of the Hauled Wastewater Station (HWS) to EPCOR Water Prairies Inc. (EPCOR). The negotiation and amendment to the Project Agreement would consider the following items:
 - a. the placement and transfer of operating risks from the HWS;
 - b. that the cost of operation and maintenance for the HWS be reasonable when compared to the initial estimates that were developed in the HWS business model of the City's cost to operate and maintain the HWS;
 - c. the scope of work is only for the HWS and its associated infrastructure;
 - d. that the HWS operations, maintenance and infrastructure renewal be incorporated into the Wastewater Treatment Plant (WWTP) Project Agreement and includes the remainder of the 30-year term and handback conditions from the Project Agreement;
 - e. that the City retains ownership of the HWS; and
 - f. that the City continues to set rates and invoice HWS users.
2. That this report be forwarded to the March 27, 2017 meeting of City Council for approval.

EXECUTIVE COMMITTEE - NOVEMBER 16, 2016

The Committee adopted the following resolution:

That this report be forwarded to the public meeting of Executive Committee in Q1 of 2017 for consideration and then forwarded to a subsequent meeting of City Council for approval.

Mayor Michael Fougere, Councillors: Barbara Young (Chairperson), Lori Bresciani, John Findura, Jerry Flegel, Bob Hawkins, Jason Mancinelli, Joel Murray, Mike O'Donnell and Andrew Stevens were present during consideration of this report by the Executive Committee.

The Executive Committee, at the **PRIVATE** session of its meeting held on November 16, 2016, considered the following report from the Administration:

1. That City Council authorize the City Manager or designate to negotiate and enter into an amendment to the Wastewater Treatment Plant (WWTP) Project Agreement and any ancillary documents, to transfer the operation, maintenance, and infrastructure renewal of the Hauled Wastewater Station (HWS) to EPCOR Water Prairies Inc. (EPCOR). The negotiation and amendment to the Project Agreement would consider the following items:
 - a. the placement and transfer of operating risks from the HWS;
 - b. that the cost of operation and maintenance for the HWS be reasonable when compared to the initial estimates that were developed in the HWS business model of the City's cost to operate and maintain the HWS;
 - c. the scope of work is only for the HWS and its associated infrastructure;
 - d. that the HWS operations, maintenance and infrastructure renewal be incorporated into the Wastewater Treatment Plant (WWTP) Project Agreement and includes the remainder of the 30-year term and handback conditions from the Project Agreement;
 - e. that the City retains ownership of the HWS; and
 - f. that the City continues to set rates and invoice HWS users.
2. That this report be forwarded to the public December 14, 2016 meeting of Executive Committee for consideration and the December 19, 2016 meeting of City Council for approval.

CONCLUSION

The City would be better protected from HWS risks to the WWTP by having EPCOR operate the HWS facility in conjunction with the WWTP. If the City and EPCOR can reach agreement, EPCOR would perform the long-term operation, maintenance and infrastructure renewal of the HWS.

Following successful negotiation, EPCOR would become responsible for receiving hauled wastewater at the HWS. Through control of the HWS, EPCOR would have the ability to manage the HWS's impact on the WWTP. This improvement in risk transfer would be achieved through an amendment to the WWTP Project Agreement to include the HWS as part of EPCOR's responsibilities.

The cost of EPCOR operating, maintaining and providing infrastructure renewal at the HWS is expected to be cost neutral. EPCOR's business costs are expected to be offset by reduced costs due to efficiencies as a result of the WWTP location and coordinated operation between the two facilities. The HWS infrastructure renewal will be performed through contracted services and can be bundled with WWTP capital projects to provide additional cost offsets. The negotiated cost for the operation, maintenance and infrastructure renewal would be within the rates set for the HWS.

The City will continue to own the HWS and no ownership will be transferred through the amendment of the Project Agreement with EPCOR. The City will continue to set rates for users of the HWS, just like the City currently does for sewer rates. Invoicing and other accounts receivables functions would also remain with the City.

BACKGROUND

Septage can contain wastewater of very poor quality that would not normally flow through the collection system pipes to the WWTP. Hauled wastewater is septage/wastewater that is delivered to the HWS through a specialized transport truck. Extra caution is required to ensure septage is managed correctly, as it has the potential to damage the upgraded WWTP's biological process. This risk for damage is very important to how the HWS is operated and managed in relation to the WWTP.

The HWS will replace the current septage dumping site, which is into a lagoon at the WWTP. This site is unmanned and not being managed by City employees. The lagoon disposal site is not able to be supported with the upgraded WWTP.

Currently, the City is nearing the construction completion of the HWS and plan to have it begin operations early 2017. Through the construction of a new HWS the City is in the process of improving septage management that is located adjacent to the WWTP.

City Council Approvals

City Council approved the design, build, finance, operate and maintain (DBFOM) delivery model for the procurement of the WWTP Upgrade Project at the February 25, 2013 meeting (CR13-26). On October 15, 2013, City Council reassigned the authorities granted in City Council Report CR13-26 to the City Manager or designate (CM13-12). The City and EPCOR entered into the Project Agreement (contract) for the WWTP on July 3, 2014.

At the time of entering into the Project Agreement septage was excluded from the WWTP upgrade scope because there was uncertainty in delivering septage service and the impacts these unknowns would have on the WWTP project. On December 15, 2014, City Council decided to

proceed with the new HWS, CR14-148. On March 29, 2016, City Council approved a revised hauled wastewater program that included the rates for the HWS, CR16-31.

This report is requesting City Council extend the authority granted to Administration to allow for the negotiation of the operation, maintenance and infrastructure renewal of the HWS. The contemplated recommendations in this report augment the authority granted in CR13-26 and CM13-12

In the WWTP Project Agreement, the City is responsible for the quality and quantity of the wastewater entering the WWTP.

DISCUSSION

Risk Management

Currently the City has the responsibility for the risk of contractually compliant wastewater quality leaving the HWS and entering the WWTP. While a number of safeguards are in place at the HWS in terms of equipment and testing protocols, there is a risk that the HWS might receive high strength wastewater from a hauler that would not be contained at the HWS and would subsequently flow into the upgraded WWTP.

One of the larger risks from the Project Agreement is the potential for the wastewater coming into the WWTP to be of a quality that could damage or compromise the modern, biological treatment process. One of the most likely sources from such problematic wastewater would be the HWS. The City is not best positioned to manage this risk, as it is not coordinated with the operation of the WWTP. Best practices for risk management recommend that risk be allocated to the party best able to mitigate the risk.

Transferring the operation and renewal of the HWS to EPCOR would result in EPCOR having the ability to mitigate risks from its coordinated operation of the HWS and WWTP. The risks are addressed in two ways, through the management of wastewater quality and the timing of pumping to the WWTP.

Regardless of who operates the HWS, all those using the HWS are still required to comply with the new *Wastewater and Storm Water Bylaw, 2016*, No. 2016-24 (Bylaw). However, in the event wastewater that does not meet the Bylaw requirements still enters the HWS, having EPCOR able to manage the HWS provides increased protection to the WWTP relative to that provided if the City is responsible for HWS operations. EPCOR would have the ability to control the quality of wastewater that is received at the HWS through rejection of unacceptable hauled loads. EPCOR also has a laboratory and can immediately perform tests on the wastewater from the HWS. Since EPCOR has the knowledge and experience to operate the HWS, the test information would enable EPCOR to decide if it would accept certain loads, to potentially remove loads from the system, or how to manage the timing for pumping to the

WWTP. Coordination of pumping from the HWS to the WWTP allows the HWS flows to be blended into the WWTP at more ideal operating periods. This is likely to include higher flow periods that will dilute the incoming flow from the HWS reducing the process impact to the WWTP.

Having EPCOR, managing both the HWS and the WWTP allows for the option of using the existing septage receiving station in the lagoons located at the WWTP as a backup location in the event there are issues at the new HWS. This back up alternative would provide continued hauled wastewater receiving services to the facility users in the event of an operational disruption at the new HWS.

HWS Costs

When City Council contemplated CR14-148 on December 15, 2014, which provided authorization to proceed with the new HWS, the Administration estimated the annual operating costs of the HWS at \$258,000, which included the costs for permit management related to the facility. Since this is an estimate from 2014 and was prior to the completion of the HWS design, commissioning, and coming into operation there is the possibility that the operating costs may be slightly higher. The change order provisions from the Project Agreement would guide the negotiation for the cost of the transfer and contain some cost protection for the City. The infrastructure renewal would be included within the negotiation and managed through a capital budget item as part of the utility capital program.

On March 29, 2016, City Council approved a revised hauled wastewater program, CR16-31, which included permit and discharge, rates for the HWS. The City would maintain management of setting rates. The intention is that the HWS would be operated on a full cost recovery basis and this principle was used to develop a financial model for the HWS.

The operation and maintenance for the HWS is designed to be on a planned and as needed basis. The facility is highly automated and designed to be unmanned. HWS users have radio frequency identification tags for access. Operations will be monitored offsite through a control computer system. Physical work on site would include a regular facility check, preventative maintenance work, and repair work. This work would be part of a full time equivalent (FTE) staff position and be distributed across a number of different positions.

EPCOR workforce is adjacent to the work at the HWS facility. The minimized travel time for employees would have advantages over the City for delivering this work. EPCOR would also have efficiencies from combining the work at the HWS with work at the WWTP. Having this work performed by EPCOR would have similar costs to the City delivering the work and is expected to be cost neutral.

Project Agreement

The Project Agreement for the WWTP did not include provisions for the operation and maintenance of a HWS. This work would be considered outside the City Council approval granted in CR13-26, which provided the direction for the WWTP Upgrade Project. The Project Agreement provides a change order provision that would be used as a framework for the negotiation with EPCOR.

It would be best to align EPCOR's operation, maintenance and infrastructure renewal of the HWS to the term and asset management aspects of the Project Agreement. The Project Agreement has a 30-year term and is set to expire June 30, 2044. There are also specific handback conditions where assets must meet appropriate asset life criteria to ensure that the HWS would be returned in good condition.

The ability for the City Manager or designate to amend the Project Agreement will allow for Administration to make changes to the agreement for the purpose of transferring the HWS and other related business changes that require Project Agreement amendments from time to time. This will ensure that the full effect of the Project Agreement is in place.

Purchasing Aspects to the HWS Transfer

Transferring the operation, maintenance and infrastructure renewal of the HWS to EPCOR is considered a sole source acquisition governed by *The Regina Administration Bylaw, Bylaw No. 2003-69*. The Bylaw's Purchasing Policy, Schedule D, Section 50 allows sole source acquisitions to be used in the following circumstances:

- (a) for the acquisition of any goods, equipment or services as approved by Council by resolution;
- (e) for the acquisition of goods, equipment or services where there is only a single vendor identified that is capable of providing the goods, equipment or service based on a consideration of the geographic location of potential vendors, and the practical ability of those vendors to supply and service the needs of the City; and
- (i) where the acquisition of goods, equipment or services falls within an exception provided for in any applicable trade agreements.

Section 50(a) will be met through a resolution of City Council if the recommendation to transfer the HWS is approved. EPCOR is the only vendor, (Section 50(e)) that is capable of meeting the City's risk transfer conditions through tying the operation of the HWS to the WWTP. The risk transfer can only be achieved with EPCOR, as they are the only entity operating the WWTP. Section 50(i) is met because EPCOR is a single vendor and exemption to applicable trade agreements would be granted.

In addition, since the transfer of the HWS would be aligned to the remainder of the 30-year term of the Project Agreement, the transfer will require City Council approval, Section 22(1)(b) as it exceeds a 5-year contract period.

RECOMMENDATION IMPLICATIONS

Financial Implications

The transfer of the operation, maintenance, and infrastructure renewal of the HWS to EPCOR is expected to be cost neutral. Because of the close proximity to the WWTP, EPCOR's travel time to perform operational checks and maintenance would be reduced. These costs would be negotiated to fall within cost recovery rates for the HWS.

The infrastructure renewal costs would also be negotiated to fall within cost recovery rates for the HWS. This work is provided through contract services and would have efficiencies by being bundled with similar work occurring within the WWTP.

Environmental Implications

The transfer of the HWS lowers the potential of environmental impact by providing a HWS that is operationally coordinated with the WWTP. This coordination reduces the risk of impaired wastewater treatment as a result of high strength septage entering the HWS.

Policy and/or Strategic Implications

The recommendation allows the City to transfer the operational risk from the HWS to EPCOR for little to no additional cost.

Other Implications

The transfer of the HWS would not have any staffing transfer or position elimination impacts, as this is a new facility that has not been brought into operation.

COMMUNICATIONS

The City of Regina and EPCOR will continue communications activities while construction of the WWTP reaches substantial completion later this year.

DELEGATED AUTHORITY

The recommendations in this report require the approval of City Council.

Respectfully submitted,

EXECUTIVE COMMITTEE

A handwritten signature in black ink, appearing to be 'J. Nicol', written in a cursive style.

Jim Nicol, Secretary