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# HALDIMAND COUNTY

## Memorandum ENV-M01-2020 Water Treatment and Supply Services Agreement Briefing

For Consideration by Council on June 30, 2020

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**To:** Mayor Hewitt and Members of Council  
**From:** Joseph Kuriger, Water and Wastewater Technologist

The Water Treatment and Supply Services Agreement is an important County contract that ensures the delivery of safe, reliable water to County residents in a financially sustainable manner through contractual water quality and demand requirements.

Water treatment and supply services was awarded in 2010 to Veolia Water Canada Inc. (Veolia). The initial five year term took effect on July 1, 2010 and was renewed in 2015 (three year term) and in 2018 (two year term). The contract was set to expire on June 30, 2020, but due to impacts from COVID-19 was extended an additional three months as an emergency measure. The current Agreement will expire on September 30, 2020.

A competitive procurement process was initiated in early 2020 for the operation and maintenance of the County's water treatment and supply facilities. In response to the proposal request, two compliant submissions were received and evaluated by a committee comprised of Public Works Operations, Environmental Operations and Water and Wastewater Engineering staff with facilitation support from Legal and Support Services (purchasing).

Ontario Clean Water Agency (OCWA) was determined to be the successful bidder based on the price per point methodology, in accordance with the County's Procurement Policy 2013-02.

Some key requirements to the Water Services Agreement are summarized in Table 1.

**Table 1: Summary of Key Water Services Agreement Changes**

Requirement	Explanation
Asset Management	The Contractor is required to provide and maintain asset management software and provide data to assist the County in meeting Provincial requirements for asset reporting and infrastructure sustainability. The Contractor is also required to support the development of an Equipment Replacement Program adhering to the County's Asset Management Policy 2019-03.

<b>Requirement</b>	<b>Explanation</b>
8-hour IPS Operations	The County is transitioning the Industrial Pumping Station (IPS) to eight hour per day operations. These changes are expected to be realized during the initial contract term and language has been incorporated into the Agreement to allow negotiations for a change to contract service levels.
Occupational Health & Safety Updates	Incorporation of updated Health & Safety requirements, including Contractor health and safety inspections and reporting.
Costing Structure	Through the previous cost-plus contract structure, the County incurred a management fee for all Contractor costs. The Agreement is comprised of a Fixed Fee component and a Variable Fee component, with the management fee only applicable to the variable fee components.
Management Fee	The Contractor's management fee for variable cost items has been reduced from 13% to 10%.
Annual CPI Increases	Over the term of the Agreement, the Contractor is only able to adjust the Fixed Fee component of the Services Agreement annually by the Consumer Price Index (CPI).
Activity Based Costing and Reporting	Activity based tracking is required for all activities to ensure costs are appropriately allocated to the County or Industrial Customers.
Performance Bonding	The Contractor is required, throughout the term of the Agreement, to provide and maintain a performance bond in the amount of 50% of the sum or aggregate of the Annual Fixed Service Fee for the ten year term.
Complaints	Incorporation of a formal process to address complaints.
Compliance and Performance Failures	Incorporation of a formal process to address performance or compliance failures.
Routine and Preventative Maintenance Responsibilities	Incorporation of wording detailing Contractor responsibilities for routine and preventative maintenance activities and who is accountable for repairs when proper maintenance schedules aren't followed.
Condition Assessments	The Contractor is required to complete an initial condition survey upon the start of the contract and a final condition survey in the final contract year. The Contractor would be responsible for remediating any deficiencies that result from inadequate maintenance prior to the Agreement expiration.
Enhanced Termination Clauses	Incorporation of wording that defines termination conditions and the rights of each party.

Requirement	Explanation
Term of Agreement	A ten year term with a County option for two, five year renewals. The previous Service Agreement was a five year term with options for an additional five years.
Agreement Consistency	The new Water Services Agreement is consistent with the Wastewater Services Agreement, which will allow for improved contract management across water and wastewater Agreements.

A key component of the new Service Agreement is the adoption of a dual costing structure with a Fixed Fee component valued at approximately 70% of the total operating service charge. Staff are confident that the overall variability of the operating service charge will be minimized, leading to more predictable year over year expenditures. In addition, because the Fixed Fee component is held to annual increases associated with CPI (five year average 2015 to 2019 of 1.67%), savings are expected to be realized in the later years of the ten year term. Contract operator salaries and benefits, which have historically increased through the previous cost-plus contract are now included in the Fixed Fee component.

Although included in the previous Water Services Agreement renewal in 2015, activity based tracking has been made a priority within the new Agreement. Currently, contract costs are assigned to cost centers based on historically assessed percentages. Activity based costing will enhance the County's ability to manage operational expenditures and provide important information for accurate cost allocation. Over time, this may result in some adjustments being required for both County and Industrial Customer operating budgets.

The current Council approved 2020 budget for contracted water treatment and supply services is \$2,287,500. As the bid price is within the 2020 budgeted amount, a change to the existing budget will not be required.

The fixed fee component of the operating service charge includes salaries and benefits, vehicles, routine and preventative maintenance. When extracting comparable fixed components from the current budget, it is expected that there will be annual savings of \$207,000 through the new contract.

As a Crown Agency, OCWA is not subject to corporate income tax, which will provide the County with 1.76% annual savings included in the amount below (the standard non-rebateable HST).

**Table 2: Contract Budget Comparison**

	2020 Budgeted Amount <sup>1</sup>	New Contract
<b>Fixed Fee Components</b>	\$1,639,000	\$1,431,810
<b>Cost Plus Components</b>	\$648,500	\$648,500
<b>Total</b>	\$2,287,500	\$2,080,310

<sup>1</sup> Note: the listed 2020 budget amount includes the 1.76% non-rebateable HST which is not applicable to the new contract

The cost plus portion of the operating service charge includes chemicals, fuel, overtime, breakdown maintenance and lagoon sludge removal and disposal. The cost plus portion is expected to remain similar to the current budgeted amount identified in Table 2, however based on OCWA's proposal and interview, additional savings may be possible for chemicals and maintenance services through economies of scale. Staff are committed to work collaboratively with OCWA to effectively manage these components and minimize cost variability, however it is expected to take a couple of years to assess actual values and savings for the cost plus component.

County staff have identified key factors to the Water Services Agreement that improve contract management, provide greater financial accountability, manage County assets and support continued delivery of safe, reliable drinking water to Haldimand County customers. The changes are believed to be in the best interest of the County and are aligned with current Term of Council Corporate Priorities.