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REGULAR COUNCIL MEETING AGENDA

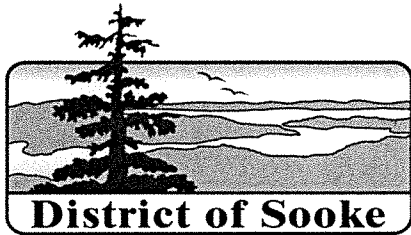
OPEN PORTION at 7:00 pm

March 29, 2016

Council Chambers

2225 Otter Point Road, Sooke, B.C.

| <i>INTRODUCTION OF NEW BUSINESS/SUPPLEMENTARY INFORMATION</i> | | Page # |
|--|---|---------------|
| NB-1 New Business | Cancellation of EPCOR Contract Report <ul style="list-style-type: none">• Council to consider not renewing the current EPCOR contract. | 1 |



File No. TBD

REQUEST FOR DECISION
REGULAR MEETING OF COUNCIL
Meeting Date: March 29, 2016

From: Teresa Sullivan, Chief Administrative Officer
Re: Cancellation of EPCOR Contract

RECOMMENDATION:

That Council direct staff to:

1. Provide notice to EPCOR that the District of Sooke will not seek renewal of its operational contract for the wastewater system
2. Take the necessary steps to manage the wastewater handback from EPCOR, as outlined in the legal opinion received March 26, 2016
3. Provide monthly progress reports to Council on the handback process until completed.

1. Executive Summary

Staff has conducted a cost analysis on the District of Sooke's Operations and Maintenance Agreement (October 1, 2011) with EPCOR and has concluded the District of Sooke will realize savings of up to \$225,000 per year by assuming responsibility for the operations and maintenance of the wastewater treatment system.

2. Background

History

In 2015, the District of Sooke Council instructed staff to conduct a comparative analysis on the current contract with EPCOR Water (West) Inc. (EPCOR) and to provide recommendations on whether or not it is feasible to bring this work in-house.

The Sooke wastewater collection and treatment system is owned and by the District of Sooke and operated by EPCOR. The system services the core are of Sooke and consists of:

- 51 kilometers of collection system piping
- 515 manholes
- 7 pump lift stations
- a wastewater secondary treatment plant with disinfection
- a marine discharge through a 1.7 kilometer long, 30 meter deep outfall

The treatment plant uses a Sequencing Batch Reactor (SBR) treatment process with UV disinfection to provide secondary wastewater treatment. Plant treatment removes 95% of the total suspended solids and high levels of other contaminants, providing significant environmental benefits to the District of Sooke and receiving waters.

The treatment plant has a design capacity of 3,000 cubic meters per day (annual average daily flow) and a peak wet weather flow capacity of 6,900 cubic meters per day. The plant is expandable by an additional 3,000 cubic meters per day (average daily flow).

Construction of the Sooke collection system and wastewater treatment plant began in 2004 and the system was commissioned in November 2005. Individual domestic and commercial connections began in January 2006 and continued throughout 2006 and 2007. Additional connections have continued since that time for new construction in the sewer specified area.

Plant Performance

The wastewater and treatment plant is performing very well. Three of the important parameters monitored at the plant are total suspended solids (TSS), carbonaceous biochemical oxygen demand (COBD) and fecal coliforms (FC). The plant effluent is consistently lower than regulatory limits.

Plant And Collection System Certification

The wastewater treatment plant is a Class III Wastewater Treatment Plant, Certification number 1358 in accordance with the Environmental Operators Certification Program (EOCP). The collection system is a Class III Wastewater Collection System, classified under EOCP number 1827 and is operated in compliance with the MWR and MOE guidelines.

Water Quality Standards

The Ministry of Environment approved the District of Sooke Liquid Waste Management Plan in May 2011. Contained in the plan is a proposed Operational Certificate (OC). The OC provides more extensive standards and guidelines for the operation of the wastewater treatment plant than is contained in the plant registration, the Municipal Wastewater Regulations and the proposed OC from the Liquid Waste Management Plan.

The water quality at the edge of the dilution zone (near the discharge point of the outfall) continues to exceed regulatory guidelines set out by the Ministry of Environment, Environmental Protection Division.

Risk Assessment

Low Risk - the District of Sooke owns the wastewater treatment centre and the collection system. If there were a failure in the system the District would be found liable.

Municipal Insurance Association

The District of Sooke is fully insured under the Municipal Insurance Association.

3. Findings

- a) On April 14, 2011, the DOS received a report from Raftelis Financial Consultants, Inc. (RFC) who conducted an independent financial analysis of the (then) proposed EPCOR Sewer Agreement.
- b) RFC is a full service water and wastewater company whose services include water and wastewater rate studies, cost of service studies, revenue bond feasibility studies, conservation pricing studies, and strategic financial planning studies.
- c) RFC concluded the (then) pricing structure was consistent with comparable service agreements.
- d) In early 2015, Mayor and Council asked staff to conduct a detailed cost analysis of the risks and benefits to the District of Sooke by continuing the Operations and Maintenance Agreement with EPCOR.
- e) In July 2015, Mayor and Council directed staff to schedule a Committee of the Whole meeting to discuss the matter further and to allow for Public Input. There is no record of said Committee of the Whole meeting.
- f) On December 14, 2015, Mayor and Council asked the CAO to make the above noted review a priority. The CAO and Director of Finance conducted a review and found the District of Sooke could save \$225,000 per year by conducting the operations and maintenance aspects of the wastewater treatment system itself.
- g) There are no opportunities to tender a Request for Proposals (RFP) as the District of Sooke must provide non-renewal notice to EPCOR six months in advance of the end date (March 29, 2016).
- h) Even if there were time to tender an RFP it would not be economically feasible given the report referenced in number 3 above.
- i) The DOS cannot renew its current contractual arrangement with EPCOR unless we go gain voter approval (referendum/counter petition). This will cost the DOS approximately \$30,000 and will take at least three months to complete.

4. Cost Analysis

The primary component of the pricing structure includes the assessment of an Operations Fee for services provided by EPCOR, which includes a Basic Service Fee and an Operating Margin. The Basic Service Fee is subject to adjustments in three-year re-determination periods to reflect inflation, with allowable adjustments within the re-determination periods for new capital works, growth, regulatory changes, and abnormal circumstances.

There are four key areas where the District of Sooke can realize savings:

| Cost Item | Yearly Cost (\$) |
|-----------------------------|------------------|
| Labour | 3,112 |
| Indirect Costs | 67,917 |
| Management Fees | 130,977 |
| Other Fees | 29,754 |
| Total Annual Savings | \$225,526 |

Comparison Epcor billed costs to possible DOS internal costs:

SCHEDULE A - OPERATIONS FEE

| Cost Category | Epcor operating costs billed to DOS | If DOS managed internally | Variance (potential saving to DOS) |
|---------------------------|-------------------------------------|---------------------------|------------------------------------|
| A Power | \$60,359 | \$60,359 | - |
| B Gas | | | |
| C Water | \$5,599 | \$5,599 | - |
| D Odour Control Chemicals | \$13,283 | \$13,283 | - |
| E Telecom | \$17,452 | \$17,452 | - |
| F Water Quality Analysis | \$28,359 | \$28,359 | - |
| G Other | \$16,607 | \$16,607 | - |
| H Operations | \$141,658 | \$141,658 | - |
| I Polymer | \$30,953 | \$30,953 | - |
| J Transportation | \$45,324 | \$45,324 | - |
| K Handling | \$99,434 | \$99,434 | - |
| L Bio-Solids | \$175,711 | \$175,711 | - |
| M Labour | \$324,819 | \$327,941 | 3,122.05 |
| N Maintenance | \$73,658 | \$73,658 | - |
| O Office & Admin | \$42,835 | \$42,835 | - |
| P Technical Support | \$29,342 | \$29,342 | - |
| Q New Services | \$60,910 | \$60,910 | - |
| R Sub-Total | \$848,932 | \$852,054 | - |
| S Indirect Costs | \$67,917 | \$0 | (67,917.00) |
| T Sub-Total Costs | \$916,849 | \$852,054 | - |
| U Management Fee | \$130,977 | 0 | (130,977.00) |
| V Operations Fee | \$1,047,826 | \$852,054 | (195,771.95) |

OTHER FEES

Epcor Repairs and Rehabilitation costs billed to DOS (average annual amount)

| | | | |
|--------------------------------|--------------------|------------------|-------------------|
| - Third party contractor costs | 70,914.32 | 70,914.32 | - |
| - Epcor labour (regular) | 19,440.25 | 0 | (19,440.25) |
| - Epcor labour (overtime) | 1,867.00 | 0 | (1,867.00) |
| - Total Epcor labour | 21,307.25 | 0 | (21,307.25) |
| - Epcor Management Fee | 8,446.98 | 0 | (8,446.98) |
| Total Other costs: | 100,668.54 | 70,914.32 | (29,754.23) |
| TOTAL COSTS | \$1,148,495 | \$922,968 | -\$225,526 |

5. Capital Costs (Not Part of the Operations Fee)

EPCOR billed a total of \$355K in capital repairs and for contracted goods and services between 2011 and 2015. These direct costs would also exist for the DOS if it were to manage the services internally. However, EPCOR charged the DOS a labour component of \$106,000 on those invoices, largely for salaries the DOS is already paying for through the operations fee.

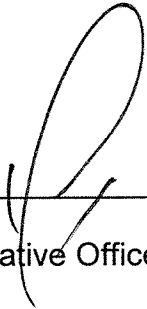
Total cost savings over a five-year period could total up to \$1,127,630. These funds could be set-aside in a reserve fund with monies allocated to system improvements and projected growth.


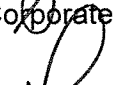
6. Strategic Relevance

- ✓ Fiscal Sustainability
- ✓ Excellence in Management & Governance

Respectfully,

Teresa Sullivan
Chief Administrative Officer



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|---|
| Approved for Council Agenda |
| _____ |
| Development Services |
| _____ |
| Financial Services |
|  |
| Corporate Services |
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| CAO |