

Gold Bar Waste Water Treatment Plant Transfer to EPCOR

Recommendations:

1. That the transfer of the Gold Bar Wastewater Treatment Plant assets and liabilities to EPCOR for a transfer fee of \$75 million payable to the City over 7 years (hereinafter referred to as the "Transaction"), be approved.
2. That the Transaction be completed no later than March 31, 2009.
3. That the City Manager be authorized to negotiate and settle the terms of, and execute and deliver on behalf of the City of Edmonton, all agreements, documents and instruments required to give effect to the Transaction as the City Manager determines to be necessary or desirable and in the best interests of Edmontonians generally.

Report Summary

City Administration is recommending that Council transfer the Gold Bar Wastewater Treatment Plant and operations to EPCOR for the sum of \$75 million. The report summarizes the results of the review that has been undertaken to arrive at the recommendation and outlines the potential benefits of the transfer.

Report

The Gold Bar Wastewater Treatment Plant is part of the City of Edmonton's Sanitary Drainage Utility and comprises approximately 45% of the Utility's asset base. EPCOR Utilities Inc. which is 100% owned by the City of Edmonton,

builds, owns and operates power plants, electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada and the United States. EPCOR has been named one of Canada's Top 100 Employers for nine consecutive years and was selected as one of Canada's 10 Most Earth-Friendly Employers.

In mid-September, the City of Edmonton initiated a joint review with EPCOR of the potential benefits and risks of transferring the Gold Bar Wastewater Treatment Plant (Gold Bar Plant) to EPCOR. Three baseline conditions or principles were identified at the start of the review as being essential to any favourable decision to transfer the Gold Bar Plant. Those principles were:

1. No City employees will lose their jobs as a result of the transfer.
2. Gold Bar's environmental leadership and expertise in the area of wastewater treatment must be maintained.
3. Council would maintain final approval over drainage rates.

These three principles are embodied in the information that follows as to the results of the review.

A number of meetings with various stakeholder groups were held in order to identify the issues and concerns associated with the transfer along with the potential benefits. Attachment 1 is a listing of all of the meetings held, the attendees and the primary purpose of the meeting.

Financial benefits and risks

The major impetus for considering a transfer of the Gold Bar Plant to EPCOR is the opportunity to generate additional revenue for the City. Additional revenue would be realized from two sources. First, the proposed transfer fee of \$75 million, and second an increase to the dividend payment to the City by EPCOR.

The \$75 million transfer fee would be paid to the City over seven years with a reduction in the amount of payment over the last three years. This time frame was chosen to allow for sufficient time for the projected incremental dividend associated with the growth of the waste water treatment business to replace the transfer payment. In this way, there would be no reduction in payments from EPCOR to the City once the transfer payment is fully made.

The \$75 million transfer fee was arrived at by creating a financial model that considered the debt EPCOR would assume, long term capital needs, operating expenses, the transfer payment and resulting rates. The goal of the model was to ensure that EPCOR could meet all of the commitments without adversely impacting the rates already proposed by Drainage Services. Despite the fact that no transfer fee has been paid in previous transfer of assets from the City to EPCOR, it was determined that a \$75 million staged payment could be made for this transaction. With respect to the asset itself, the agreement will prohibit EPCOR from ever selling the Gold Bar Plant.

Beyond the transfer payment, the on-going financial benefit to the City stems from EPCOR's ability to leverage the expertise of the Gold Bar staff to grow the wastewater business outside the City of Edmonton. EPCOR'S 2009 to 2013 long term plan contemplates significant investment and growth for EPCOR's water and wastewater business. Most of the growth is projected to result from investments in water and wastewater treatment plants for communities and industries outside the City of Edmonton. EPCOR's assessment is that a number of the proposed investments in the long term plan are directly related to wastewater treatment and reuse and the transfer of the Gold Bar operation would significantly enhance EPCOR's ability to be successful with those opportunities.

As a result of the transfer, the City would receive an increase in the dividend associated with the Gold Bar Plant as EPCOR pays a dividend based on 60% of net income while the City's Drainage Services pays a dividend based on 30% of net income. It is important to point out that the increase in the dividend payment is not indicative of an increase in the amount of net income that is expected in the four years immediately following the transfer, but rather is indicative of EPCOR's greater ability to pay dividends as measured by available cashflow. The first dividend payment from EPCOR would be received in 2010 based on the performance of the Gold Bar Plant in 2009.

Starting in 2013, EPCOR is projecting the payment of an incremental dividend associated with the growth of the wastewater business that would be

directly attributable to the acquisition of the Gold Bar Plant. Attachment 2 is a schedule detailing the impacts on City revenues that are projected as a result of the transfer. The total increase in revenue over a ten year period is projected to be over \$190 million.

Also included in Attachment 3 is a schedule showing the estimated net present value (NPV) of the transfer of the Gold Bar Plant to EPCOR for the period of 2009 to 2028. Along with the NPV of the transfer payments and the projected dividends, the schedule also presents the NPV of the debt assumed by EPCOR. The share of drainage services debt to be assumed by EPCOR has been pro-rated based on the relative net book values of the Gold Bar Plant and the balance of the Sanitary Drainage assets. The total net present value to the City over this period is estimated at over \$320 million.

In the review, the potential to transfer only the management of the Gold Bar Plant to EPCOR was considered. This alternative is not being recommended, as it would not provide a financial benefit to the City until 2013. There would be no transfer fee associated with the transaction if the asset is not transferred. As well, there would be no immediate increase to the dividend paid on the basis of the existing operations as the Gold Bar Plant operation would still be part of the City's Drainage Services and would continue to be accounted for in the same manner as it is currently. The dividend would continue to be paid to the City at the rate of 30% of net income annually with an increase to 40% scheduled to occur in 2013.

Leveraging the expertise at the Gold Bar Plant would still have a positive impact on the revenue generated by EPCOR in their wastewater operations with a resulting total increase in dividend to the City of an estimated \$82.4 million by 2018. However, under this alternative that increased revenue would be the only incremental revenue available to the City in that time period.

Governance

The City's Drainage system (which includes the wastewater treatment plant) operates under an Approval to Operate issued by Alberta Environment that sets the parameters and limits for wastewater effluent quality and system monitoring and strategy development. EPCOR operates its own water treatment plants under its own Approval to Operate issued by Alberta Environment. It also operates wastewater facilities for other communities under the approvals relative to those communities. With the transfer of the Gold Bar Plant, EPCOR would commit to the existing Approval to Operate for the Drainage system.

Currently, the Terms and Conditions of Service for EPCOR water services are approved by the City and are governed by the City's Waterworks Bylaw 12585. The Sanitary Utility is governed by the Sewers Bylaw 9425 and Sewers Use Bylaw 9675 and the City's Utility Fiscal Policy. Bylaws and/or policy will be amended or developed as required to recognize the transfer of the Gold Bar Plant to EPCOR.

The manner in which Council will approve the Sanitary Drainage rates, including the portion of the rates

attributable to the Gold Bar Plant could be accomplished through an amended or new bylaw. This would ensure that the principle that Council maintain final approval over drainage rates is met. A single rate for transmission and collection and treatment will continue to be charged in order to maintain transparency and simplicity for the customer.

Operations

A number of operational issues have been identified that will need to be addressed through the agreement process. Those issues include but are not limited to the following:

- Plans and partnership parameters for sustaining the supply of and managing the wastewater biosolids with the Waste Management Utility will be determined.
- The level of financial and in-kind support for the Waste Management Centre of Excellence – Gold Bar Campus will be established in order to maintain current programming.
- Process for utility rate recommendations will be developed.
- Asset and land ownership and control will be addressed for sites including the Gold Bar Plant, the Clover Bar Biosolids Recycling Facility, and the Bremner Lagoons.
- Commitments for treatment system upgrading and maintenance at current levels will be agreed upon. This would include the commitment to the construction of any proposed assets required under the current Approval to Operate.
- Level of service standards for maintenance and renewal of existing assets as contemplated in the 2009 to 2013 Capital Plan will be jointly

developed. The City and EPCOR will develop joint system and capital planning processes to ensure cost-effective expansion.

- EPCOR will honour the City's commitments to existing agreements related to the treatment plant.

Addressing these and other operational considerations through the agreement process will ensure that the leadership in environmental excellence currently enjoyed by the Gold Bar Plant is maintained.

Employee Impacts

No City employees will lose their job as a result of the transfer of the Gold Bar Plant to EPCOR. All Gold Bar Plant employees, including Corporate Services Shared Services employees embedded at the Plant will be needed by EPCOR to continue operations. The current management structure at the Gold Bar Plant will remain intact to the end of 2009 to ensure stability during the transition.

Agreements will need to be negotiated to establish the terms and conditions for the employees as they transition to the new employer. Commitments have been made to keep the employees informed of developments as they occur and to provide answers to questions and concerns as part of the process.

Customer Impacts

There is nothing to suggest that any of the mechanisms that influence and govern rates, quality and level of service, would change with the transfer of the Gold Bar Plant to EPCOR. The current levels of service for inquiry

handling and response to customers, City departments and Council will be maintained by EPCOR.

As pointed out under the governance heading, Council will continue to approve the Sanitary Drainage rates charged to the customer base.

Focus Area

The recommendation aligns with Council's strategic priority of ensuring Edmonton's financial sustainability. It supports the three-year priority goal to increase revenue sources and reduce reliance on residential property tax to meet strategic infrastructure and service needs.

Budget/Financial Implications

The recommended transfer of the Gold Bar Plant to EPCOR would have a positive financial impact with a projected increase in revenue of over \$190 million over ten years.

Justification of Recommendation

1. The transfer of the Gold Bar Waste Water Treatment Plant to EPCOR will result in a projected increase in revenue of over \$190 million over ten years. EPCOR is 100% owned by the City of Edmonton and so the City would still regulate this utility as it does the water utility.
2. A March 31, 2009, deadline will provide sufficient time to negotiate and settle the terms and conditions of the agreements that the transfer will necessitate.

3. Delegating authority to the City Manager to negotiate and settle the terms of, and execute all agreements required to give effect to the Transaction will ensure the Transaction is concluded in a timely manner, while also ensuring that the agreements are carefully considered, are determined to be necessary or desirable, and are in the best interests of Edmontonians.

Attachments

1. Employee and Business Unit Engagement
2. Impact on City Revenue
3. Value of Transfer of Gold Bar Plant to EPCOR, 2009 - 2028

Others Reviewing this Report

- J. Tustian, Deputy City Manager
- M. Koziol, General Manager, Capital Construction Department
- L. Cochrane, General Manager, Community Services Department
- C. Warnock, Chief Financial Officer and Treasurer
- D. H. Edey, General Manager, Corporate Services Department
- G. Klassen, General Manager, Planning and Development Department
- R. Boutilier, General Manager, Transportation Department
- S. Stanley, Senior Vice-President, EPCOR Water Services

EPCOR - GBWWTP Review Employee and Business Unit Engagement

Date	Event	Location	Attendees	#	Purpose
17-Sep	Council - review announced	Council Chambers	City Council, SMT.		Announcement to City Council; process and timing.
17-Sep	Announcement to Union Leadership	Century Place	Representatives from CUPE Local 30, CSU 52 and IBEW 1007	6	Announcement to union representatives; process and timing; response to questions.
17-Sep	Announcement to Directors and General Supervisors	Library	Directors and senior staff at Drainage Services.	20	Announcement to staff; process and timing; response to questions.
24-Sep	GBWWTP - General Assembly	GBWWTP (Centre of Excellence)	Drainage Leadership Team, GBWWTP staff.	110	Announcement to GBWWTP staff; process and timing; response to questions.
26-Sep	Focus Group #1 - GBWWTP	GBWWTP (Centre of Excellence)	Drainage Leadership Team, GBWWTP Management Team.	22	Review of business processes and gathering of issues for consideration.
29-Sep	Focus Group #2 - Drainage Operations	Kennedale Yard	Drainage Leadership Team, Drainage Operations management and Design/Construction representatives.	24	Review of business processes and gathering of issues for consideration.
03-Oct	Focus Group #3 - Waste Management	Clover Bar (Centre of Excellence)	Drainage Leadership Team, Waste Management leadership team.	6	Review of business processes and gathering of issues for consideration.
03-Oct	Focus Group #4 - Drainage Planning	Century Place	Drainage Leadership Team, Drainage Planning and Design/Construction representatives.	21	Review of business processes and gathering of issues for consideration.
03-Oct	Financial Analysis Update	Century Place	EPCOR and City Management and financial experts.	6	Review of Financial analyses.
07-Oct	GBWWTP - General Assembly	GBWWTP (Centre of Excellence)	Drainage Leadership Team, EPCOR and City Human Resources, GBWWTP staff.	150	Review Human Resources issues.
09-Oct	GBWWTP/EWSI site visit exchanges	Rossdale Water Treatment Plant	GBWWTP Plant Management Team and EPCOR counterparts.	20	Familiarization of staff with plant facilities, staff counterparts and operations.
10-Oct	Focus Group #5 - Shared Services	Century Place	Drainage Leadership Team, various Shared Services providers (HR, Finance, MES, OH&S, 311, Law, IT)	25	Review of business processes and gathering of issues for consideration.
10-Oct	GBWWTP/EPCOR/SYSCO Management	GBWWTP (Centre of Excellence)	Senior Management from Drainage Services and EPCOR.	12	Review of consultation findings and business plans.
17-Oct	Focus Group #6 - Regulatory Services	GBWWTP (Centre of Excellence)	Drainage Leadership Team, GBWWTP Regulatory Services.	12	Bylaw enforcement issues and business activities.
22-Oct	GBWWTP/EWSI site visit exchanges	GBWWTP	GBWWTP Plant Management Team and EPCOR counterparts.		Familiarization of staff with plant facilities, staff counterparts and operations.

Impact on City Revenue

(in 000's)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EPCOR Transfer Fee	\$15,000	\$13,000	\$13,000	\$14,000	\$9,000	\$5,500	\$5,500			
Dividend from EPCOR-owned GBWWTP		\$6,578	\$7,558	\$7,612	\$8,210	\$9,167	\$10,301	\$11,528	\$12,856	\$14,290
Incremental Dividend from EPCOR					\$6,246	\$10,440	\$11,047	\$17,668	\$18,177	\$18,842
Less COE GBWWTP Dividend		\$(3,289)	\$(3,779)	\$(3,806)	\$(5,473)	\$(6,111)	\$(6,867)	\$(7,685)	\$(8,571)	\$(9,527)
Net Increase to COE	\$15,000	\$16,289	\$16,779	\$17,806	\$17,983	\$18,996	\$19,981	\$21,511	\$22,462	\$23,605

Note: No dividend is shown in 2009 as it would be the COE Sanitary Drainage Utility that would be paying the dividend in 2009 based on 30% of net income for 2008. The total amount of dividend already included in the 2009 budget for the Sanitary Drainage Utility is \$6.089 million.

Value to the City

Discounted at 7.94%	Value to COE into Perpetuity	Value to COE 2009 – 2028
Debt Assumed by EPCOR	\$95,881	\$95,881
NPV of Transfer Payments to City by EPCOR	\$58,546	\$58,546
NPV of EPCOR-owned GBWWTP Dividends	\$357,675	\$146,989
NPV of Incremental Dividends	\$257,428	\$115,351
Deduct: NPV of COE GBWWTP Dividends	\$(235,344)	\$(94,887)
Total Value to City	\$534,186	\$321,880
Versus: Net Book Value	\$250,000	\$250,000
Incremental Value to City	\$284,186	\$71,880

Note: The debt to be assumed by EPCOR has been pro-rated based on the relative book values of the Gold Bar Plant and the balance of the Sanitary Drainage assets. In the agreement, the figure utilized for debt will be updated to reflect debt at the end of 2008.