

Collingwood Public Utilities Board comments re the Service Agreement Review presented to council on January 15, 2015.

The board of Collingwood Public Utilities welcomes the opportunity to review and comment on the report submitted to council by Beacon 2020 and True North Consultants dated December 22, 2014 with regard to an independent operational review of the service agreement between Collus PowerStream Solutions Corp. (Solutions) and Collingwood Public Utilities (Public Utilities) /Town of Collingwood (Town).

Firstly, the board fully supports council's directive to analyse the existing shared services agreement in order to establish an updated agreement. This board is of the opinion that the consultant may have either misunderstood the original purpose of the study, or may have been misdirected. The consultant's report appears to contain numerous inaccuracies or unsupported conclusions. Regrettably, the report was made public before these flaws were addressed. Therefore, while such misinformation must be corrected in the public sphere, this board does not consider that to be within its mandate.

Despite the inaccuracies of the consultant's study there are useful recommendations regarding ways in which the existing agreement could be improved or updated. It is the preference of this board, therefore, that the focus should now be upon updating the existing agreement with an awareness that given the passage of time and changes in various processes since the original agreement, there may be room for improvement.

Given the ramifications of a publicly distributed report this board has prepared the following brief summary of salient points of disagreement with the report with the intent of bringing clarity and understanding to the process going forward.

- **Auditor's Letter**

The board recognised the need for an updated agreement following the receipt of the auditor's letter dated May 12, 2014, which was in turn presented and received by council on June 30, 2014.

The auditor's letter noted that: *"The term of the agreement ended January 1, 2005...We recommend the services agreement with Collus PowerStream Solutions Corp. be updated in 2014."*

Much is made by the consultant with respect to whether there is an agreement in effect or not. Clearly the auditor's letter, which was later confirmed by a legal opinion obtained by the Town, recognizes that the agreement is in effect and requires updating.

- **Service Agreement**

An understanding of the current agreement is essential in order to effectively update it.

The consultant's report states: *the Agreement, SERVCO (Solutions) agreed to "provide supervisory, operational, engineering, finance, administration, and other services to PUC at a base cost of*

\$670,000 for the first year of the agreement – with an automatic 3.5% increase per annum thereafter”

This is misquoted from the actual agreement which in fact states the following:

SERVCO (Solutions) agrees to provide the services outlined in the terms of this agreement to PUC (Public Utilities) for an annual base cost of \$670,000 for the year ending December 31, 2003. The base cost will be reviewed annually and may be adjusted upon agreement between the PUC (Public Utilities) and SERVCO (Solutions). If a review is not performed and/or PUC (Public Utilities) and SERVCO (Solutions) fail to reach agreement, then a 3.5% per annum increase will be applied to the previous year's amount.

As evidenced by audited annual financial statements reported to this board and received by council, the costs, and by association the services provided, were reviewed, adjusted and agreed upon between Public Utilities and Solutions. This thorough reporting and publishing of business plans and financial reports dismisses the consultant's opinion that there is insufficient town oversight.

Additionally, it is clear from the excerpt of the original agreement (above) that there is no automatic 3.5% increase per annum. This percentage increase would apply only if an agreement was not reached and then only based upon the previous year's fees. This has never been applicable since the parties have always agreed.

It is significant that the consultant's report interprets this provision inaccurately as an “automatic” 3.5% increase. This fundamental misunderstanding of the agreement by the consultant makes much of the report either invalid, irrelevant or unreliable.

- **Benchmarking**

The consultant's report cites “limited benchmarking evidence” was available. This board disagrees with that finding. Collingwood Public Utilities is a leader in this field and subjects all water and wastewater data for scrutiny and comparison. Though much detail is available to support this assertion, for the purposes of this commentary it is sufficient to note that of over 400 municipalities in Ontario, Collingwood is one of 45 municipalities—and the smallest—to participate in the National Water and Wastewater Benchmarking Initiative (NWWBI). In participating in this national program, Collingwood compares its performance with the likes of major cities and regions in Canada. Amongst these is EPCOR, Edmonton's utility provider (which extends far beyond Edmonton), named as one of Canada's top 100 employers, top 10 earth-friendly employers and considered by many to be the preferred model for utility providers in Canada. This puts Collingwood in excellent company.

As noted by the consultant, Collingwood's overall water service delivery cost, *including business services provided by Solutions*, is in the median range of these 45 other participants. Within the consultant's report, however, there are contradictory statements, such as “the overall service delivery cost is reasonable”, followed by a subsequent statement that, “there is very little evidence,

however, that further describes whether those services are cost-effective". This board fails to understand what the consultant intends to communicate by these seemingly contradictory findings.

The consultant's report states that benchmarking results are of "limited value". Though it is beyond the scope of this response to detail evidence that refutes this assertion, it can be proven that Collingwood's results show that either economy of scale does not exist in respect to operational costs, or the Public Utilities operation is efficient and by extension is value for money.

- **Bill 13, the Sustainable Water and Wastewater System Improvements Act**

In 2010, Bill 13 received a first reading and was subsequently dropped due to objections from many municipalities due to cost implications. This board is unclear why the consultant would reference an unproclaimed bill. To refer to it as an "Act" is inaccurate. However, one of its objectives was to establish an Ontario Water Board (OWB) with a role similar to that of the Ontario Energy Board (OEB)

A more pertinent reference would be the Sustainable Water and Sewage Systems Act (SWSSA) passed and acclaimed in 2002. The Act was developed as a result of one of the recommendations from The O'Connor Report and if enforced, would require municipalities to undertake an assessment of "full cost" of providing water and wastewater services. This Act is voluntarily complied with by CPU despite the lack of any regulations enforcing it. Further to this compliance, the Public Utilities have conducted water and wastewater rate studies since 2004, applying the principles of the Act to establish the water and wastewater rate. The Rate study was revisited in 2010 and again in 2014 by Watson & Associates Economists Ltd. The report published by Watson and Associates, approved by council, states *"the Town and Public Utilities being leaders in the industry and providing water and wastewater services to their customers, the rate analysis...continues to provide fiscally responsible practices that are current with Provincial legislations at a level of rate increases that are reasonable."*

Further details of CPU's continuing practices in accordance with the rate study are available, including council's request to hold rate increases below the recommended levels in 2009, 2011 and 2014. These details are beyond the scope of this response but address, at least in part, the deficits noted in the consultant's report.

- **Shared Services**

This board recognizes that the sharing of administrative services between the Public Utilities and Solutions is mutually beneficial, with both entities providing services to one another.

In 2014:

Public Utilities paid \$744,000 to Collus PowerStream.

Collus PowerStream paid \$293,000 to Public Utilities.

The net difference is \$451,000 paid to Collus PowerStream by Public Utilities

For that \$451,000 Public Utilities received the benefit of services provided by 17 Solutions employees including: building maintenance, accounting, human resources, billing and customer and IT services including GIS (Geographic Information System). The synergies in sharing services seem obvious and were undoubtedly considered in the sale of 50% of the shares of the Town's electric utility to PowerStream in 2012. This board is not privy to the details of that sale, however, as an interested party, is cognizant that changes to the shared cost of services agreement could have negative consequences.

The consultant states that *"the rates Solutions charges CPU for its resources...do not reflect a profit margin. In the future, any service provider would supply a fully burdened rate (i.e. charge-out rate) for each of its resources. This rate would include a mark-up based on a target profit margin."*

The Board concurs that the rates charged by Solutions do not include a profit margin, an arrangement that clearly benefits Public Utilities; it is unclear what the consultant means by "In the future...based on a target profit margin."

In closing, it is the opinion of this board that the report by Beacon 2020 and True North Consultants contains numerous inaccuracies and questionable assumptions. Our comments here are not to be seen as comprehensive but address some of the more significant issues with the document. Despite our criticisms of the report we believe it offers some valid recommendations that may be useful in taking steps toward an updated agreement, as suggested by the auditor's statement. To this end Collingwood Public Utilities supports continuing discussions based on the spirit of the original agreement, which was to provide mutual benefit to both parties.