



**REPORT TO CORE AREA LIQUID WASTE MANAGEMENT COMMITTEE
MEETING OF WEDNESDAY 28 OCTOBER 2009**

SUBJECT **ERNST & YOUNG ORENDA CORPORATE FINANCE INC. CONTRACT EXTENSION –
CORE AREA WASTEWATER TREATMENT PROGRAM**

PURPOSE

To outline work to be completed by Ernst & Young Orenda Corporate Finance Inc. (Ernst & Young) and to recommend a contract extension.

BACKGROUND

In June 2007, following a competitive proposal call, Ernst & Young was retained by the Capital Regional District (CRD) to prepare a business case for the Core Area Wastewater Treatment Program (“the program”). This work included a review of procurement options, governance issues, funding options, risk analysis and market sounding.

Since commencing work in June 2007, Ernst & Young have provided staff and the Core Area Liquid Waste Management Committee (CALWMC) with several presentations and updates including the “Market Sounding and Stakeholder Consultation – Summary of Responses” in April 2008, and a detailed discussion paper titled “Procurement Analysis Planning: Scope and Options” in June 2009, both of which were submitted to the Ministry of Environment (MOE). During the CALWMC workshop of 03 October 2009 Ernst & Young provided a presentation on procurement options and they have completed preliminary risk workshops and analysis of integrated resource management issues.

In coming months, Ernst & Young will assist staff with funding discussions with both the federal and provincial governments, preparing a business case for each, and will provide an update to the MOE prior to 31 December 2009. Ernst & Young will coordinate several workshops and presentations to the CALWMC on business advisory issues as the program and business case peer review move forward.

The scope of the business case and funding advisory services has grown from the budget of \$306,360 originally approved in June 2007 to a projected final cost of \$599,000 by the end of February 2010. The expenditures to date total \$388,000. Some of these costs will be shared as part of federal and provincial funding commitments to the planning phase of the program. Appendix A provides details of the work completed to date and a brief description of remaining work to be completed by the end of February 2010.

A business advisory summary schedule is attached as Appendix B. The schedule is based on the west shore communities’ site identification within 30 days as indicated in the letter of 23 September 2009.

The completion of the business case early in 2010 is consistent with Minister Penner’s letter of 26 August 2009 in which he acknowledged that a portion of procurement planning and project implementation would occur after the Liquid Waste Management Plan amendment submission at 2009 year end.

ALTERNATIVES

1. That the CALWMC recommend to the Board that the contract of Ernst & Young Orenda Corporate Finance Inc. be increased by \$292,640 to enable completion of work described in Appendix A.

2. That the CALWMC request staff to seek competitive proposals for the remaining business case work.

FINANCIAL IMPLICATIONS

The estimated costs of Ernst & Young's proposed additional work are based on rates provided in the original proposal of June 2007, with an allowance for inflation.

While the costs of the program have increased, delaying completion of the business case has allowed the opportunity to receive provincial funding under the planning agreement.

This work will be funded through the core area wastewater treatment capital fund.

SUMMARY

Additional business and funding advisory services work, as described in Appendix A, is required to support completion of the business case to be submitted to the Province in early 2010. It is proposed that the contract of the consultant that carried out the work to date, Ernst & Young, be extended to complete the additional work.

RECOMMENDATIONS

That the Core Area Liquid Waste Management Committee recommend to the Board that:

1. The contract of Ernst & Young Orenda Corporate Finance Inc. be increased by \$292,640 to enable completion of the work described in Appendix A; and
2. That the work be funded from the core area wastewater treatment capital fund.

Tony Brcic, PEng
Project Manager, Core Area Wastewater Treatment

Dwayne Kalynchuk, PEng
Project Director, Core Area Wastewater Treatment
Concurrence

Kelly Daniels
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COMMENTS

SM:hr:
Attachments: 2



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DATE: 20 October 2009

TO: Dwayne Kalynchuk, Tony Brcic, Seamus McDonnell

FROM: Ernst & Young Orenda Corporate Finance Inc.
 Gary Morrison

RE: **Business & Funding Advisory Services**

As discussed, this note summarizes E&Y advisory costs from July 2007 (original contract award date) to September 30, 2009, and also provides a budget estimate of remaining work to completion of the Provincial business case in support of funding.

SUMMARY OF BUSINESS ADVISORY COSTS

Scope Item	Original Budget	Costs to Date	Remaining Budget to Completion
Original Business Case Advisory	\$ 299,160	\$ 197,491	\$ 101,669
Special Projects & Requirements (note 1)	190,640	190,640	-
Future Requirements (note 2)	109,200	-	109,200
TOTAL BUSINESS ADVISORY SERVICES	\$ 599,000	\$ 388,131	\$ 210,869

After an initial busy start on the project (based upon the old "Path Forward" plans), business analysis work for the project was basically placed "on hold" for much of 2008. E&Y costs were under \$1,000 per month for eight (8) months of 2008 as a result of technical investigations into the distributed treatment plant strategy and IRM discussions. E&Y analysis work generally re-started in March 2009 and continues for the new plans prepared by Stantec. The current schedule assumes the Provincial business case will be finalized in Q1 of 2010.

We understand two-thirds of costs incurred after April 1, 2008 will be funded by the Federal and Provincial governments. Costs prior to April 1, 2008 were \$173,343 (including detailed financial analysis work on the Path Forward plan, the initial risk workshops, IRM analysis and the procurement market sounding process). Costs from April 1, 2008 to September 30, 2009 total \$214,787 (described below) which is assumed to be split 1/3 for each level of government (\$71,596 each).

The scope of remaining work is summarized below in Note 2. It includes extensive workshops, presentations and discussion papers as well as business case submissions for the Federal and Provincial governments.

Note 1: Special Projects & Requirements

From July 2007 to September 30, 2009 the following special projects were completed by E&Y on behalf of CRD:

Special Project / Report	Results / Outcome
1. April 2008 procurement market sounding process, detailed report and presentation to Committee.	<ul style="list-style-type: none"> • Contacted 29 industry groups for detailed feedback on current procurement challenges/issues in wastewater industry (including web feedback) • Prepared detailed report on conclusions and recommendations. • Prepared and presented results to Committee and public in April 2008. • Minister Penner "acknowledged the effort by CRD carried out in the market sounding report" in correspondence to CRD June 8, 2008.
2. IRM reviews.	<ul style="list-style-type: none"> • Upon request from CRD, E&Y reviewed all aspects of IRM submissions and provided feedback to CRD on financial assumptions used by IRM group (over-estimate of revenues, under-estimate of costs etc.).
3. Min. Community Development planning and submission definition documentation.	<ul style="list-style-type: none"> • Worked closely with MCD to define submission requirements for CRD in support of funding. • Also assisted CRD with development funding analysis (and budget planning with MCD).
4. Project planning/meetings for June 30 2008 MoE submission.	<ul style="list-style-type: none"> • Some work has been required for submissions to the MoE.
5. April 8, 2009 business case summary to Committee.	<ul style="list-style-type: none"> • Upon request from CRD, E&Y presented to Committee a status update and plan as business advisory work re-started on the project in 2009.
6. Part A discussion paper.	<ul style="list-style-type: none"> • E&Y prepared a detailed discussion paper on program scope and plans, and such work was presented to Committee. • Feedback from Committee was generally positive on presentation.
7. Update of plans/financial models based upon Stantec and Peer Review Team guidance.	<ul style="list-style-type: none"> • A certain amount of re-work was required for the new Stantec plan (this work has been tracked in the Original budget). We still aim to complete the financial analysis work within the Original Budget.
8. Federal government funding assessment and meetings/discussions in Ottawa.	<ul style="list-style-type: none"> • E&Y has prepared a detailed review of requirements for the Federal funding submission based upon feedback from Infrastructure Canada and MCD. • Such feedback should accelerate funding approvals when integrated into the Federal business case.
9. Resource Recovery market sounding (ongoing).	<ul style="list-style-type: none"> • E&Y is conducting a second market sounding with industry practitioners on resource recovery matters. A preliminary update report has been delivered to CRD and technical team for integration into the Biosolids Plan. A final report will be prepared. • This project went over the expected budget level and E&Y is absorbing such cost over-runs.
10. Procurement Options presentation to Committee in September 2009.	<ul style="list-style-type: none"> • The project team believe it is important to keep CRD's Committee informed on all aspects of the procurement planning process. We are using discussion papers and presentations to Committee to inform Committee members of the key trade-offs.

Note 2: Future Requirements for Project

E&Y will deliver the following work as part of the current plan for business advisory services on the project.

1. Provincial business case in support of funding submission.
2. Federal business case in support of funding submission.
3. Ministry of Environment business case update memorandum reporting status as of December 31, 2009 (per request by Minister Penner).
4. Discussion papers on:
 - a. Resource recovery market sounding results
 - b. Service delivery options and the preferred plan.
 - c. Project governance.

- d. Risk analysis and value for money assessment of procurement options.
- 5. Presentations to Committee on the following issues:
 - a. Resource recovery market sounding results (if requested).
 - b. Project governance.
 - c. Risk analysis and value for money assessment of procurement options.
- 6. Workshops with staff and technical team for:
 - a. Procurement options and packaging.
 - b. Risk analysis for each procurement options reviewed.
 - c. Peer review meetings and workshops to review business case results.

APPENDIX B

Business Advisory Summary Schedule
20 October 2009

RESPONSIBILITY		October	November	December	January	February	March	CRITICAL DEPENDENCIES
Selection of Sites	CRD	█	█	█				All Sites
Capital & Operations Budgets for Major	Stantec		█	█				Sites, RR & representative technology
Preliminary Schedule for Fed Gov't BCF Req'mts	Stantec/CRD		█	█				Sites, RR & representative technology
Federal Funding Business Case for BCF Fund	E&Y		█	█				Sites, Scope, Schedule & Budgets
Workshop for Procurement Packaging & Phasing	E&Y/Stantec/CRD			█				Sites, RR, preliminary phasing, budgets
Risk Workshop	E&Y			█				Procurement Packaging, Budgets
Governance Plan	E&Y		█	█				West Shore plans & Phasing
MoE Business Case Update Memo for 31 Dec 2009	E&Y		█	█				Sites & Budgets
LWMP Amendment Approval by MoE	CRD	█	█	█		█		
Procurement Analysis - Part C Business Case	E&Y			█	█	█		Risk Workshop & Procurement Packaging
Provincial Business Case	E&Y			█	█	█		Procurement Analysis
CRD Committee Presentations & Updates*	E&Y			█		█		Risk/Packaging plus Value for Money
Peer Review of Business Case				█		█	█	

*An update on the resource recovery market sounding could also be added if requested by CRD