

TO:	CHAIR AND MEMBERS FINANCE & ADMINISTRATIVE SERVICES COMMITTEE MEETING ON TUESDAY, JUNE 26, 2012
FROM:	JOHN BRAAM, P. ENG ACTING EXECUTIVE DIRECTOR AND CITY ENGINEER
SUBJECT:	ELECTRICAL POWER PROCUREMENT LAKE HURON PRIMARY WATER SUPPLY SYSTEMS

RECOMMENDATION

That, on the recommendation of the Acting Executive Director and City Engineer, that the following actions be taken:

- a) That the City of London, in its capacity as Administering Municipality for the Lake Huron Primary Water Supply System in accordance with the Transfer Order issued by the Minister of the Environment on September 15, 2000, **CONFIRM** the provision of a guarantee to the Independent Electricity System Operator on behalf of the Primary Water Supply Systems; and,
- b) That Council for the City of London in its capacity as Administering Municipality for the Lake Huron Primary Water Supply System, **AUTHORIZE** the Mayor and Clerk to execute a guarantee agreement with the Independent Electricity System Operator on behalf of the Lake Huron Primary Water Supply System Board of Management.

BACKGROUND

On January 19, 2012, the Board of Management for the Lake Huron Primary Water Supply System, acting jointly and concurrently with the Board of Management for the Elgin Area Primary Water Supply System, awarded the five-year contracts for the operation of the water supply systems to the Ontario Clean Water Agency. The public procurement process included significant consultation with potential operating companies, assessment of risks and risk transfers, and a comprehensive review of terms and services to be undertaken by the contracted operating authority.

During the development of the procurement process and the draft Service Agreement for the contracted operating authority, it was determined that the procurement and purchase of electricity should be excluded from the service fee paid to the contracted operating authority, and the respective Board of Management would be responsible for electricity costs. This arrangement is similar to the pre-existing arrangement negotiated with the previous contracted operating authority, American Water Canada Corp.

Because the Lake Huron Primary Water Supply System is directly connected to the 115,000 volt electrical transmission system, the water system is designated as a "direct market participant" and purchases electricity on the provincial spot market for electricity. The price volatility of the energy market is mitigated by the regional water systems' electricity procurement strategy with the purchase of long-term block electricity purchases. As a result of its status as a direct market participant and it's connection to the provincial high-voltage electrical grid, the Lake Huron Primary Water Supply System must register as a Market Participant with the Ontario Energy Board and the Independent Electricity System Operator (IESO). The IESO has assessed the regional water system's application and financial statements, and has determined that either a letter of credit is required to assure payment the of electricity, or a guarantee agreement by the City of London in its capacity as Administering Municipality for the Lake Huron Primary Water Supply system may be provided.

The City of London Legal Services has confirmed that the contractual relationship, in regard to the provision of a guarantee to the Independent Electricity System Operator, is between the provincial agency and the City of London in its capacity as Administering Municipality acting on behalf of and at the request of the Board of Management for the Lake Huron Primary Water Supply System. As such, the exposure of risk and liability flows to the Board of Management for the Lake Huron Primary Water Supply System, and the assets of the Corporation of the City of London are not at risk.

SUBMITTED BY:	REVIEWED & CONCURRED BY:
ANDREW J. HENRY, P.ENG. DIVISION MANAGER, REGIONAL WATER SUPPLY	MIKE TURNER DEPUTY CITY TREASURER
RECOMMENDED BY:	
JOHN BRAAM, P.ENG. ACTING EXECUTIVE DIRECTOR AND CITY ENGINEER	