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FAST FACTS

May 14, 2010

Contract with Veolia for waste-water treatment does not pass the smell test

On May 12 EPC unanimously voted to accept a report prepared by Winnipeg Public Services. The Report recommends that the City award a contract to Veolia for the design, construction and, it appears, the shared operation of the South and North End sewage treatment plants. The Report assures readers that this is a good deal for Winnipeg. But those of us who have been following the process are not convinced.

Winnipeggers will be forgiven for not fully understanding what is at stake, or for not being able to follow the complicated, increasingly arcane recommendations and business plans leading to this week's report. The CCPA and citizens' groups raised enough concerns about the initial Plan A — first presented in November, 2008 — that the City came up with a Plan B. Plan B was passed by council last July, in spite of the many concerns voiced by citizens' groups.

Plan B did not allay CCPA's concerns around the plan to create a Municipal Corporate Utility (MCU) to provide water and potentially other services for the City of Winnipeg, and to enter into a public-private partnership (P3) for the upgrades to and operation of the North and South End Sewage Treatment plants. The MCU is on hold

pending amendment of the Winnipeg Charter by the Province.

The mayor and his supporters responded to these concerns by removing the terms "P3" "corporatization" and "strategic partner" from their vocabulary. This isn't the first time bureaucrats and the Mayor have tried to control the message by changing language. Neither P3 nor strategic partner are to be found in this latest report (Plan C). The first question that arises, then, is whether or not the contract with Veolia is a P3 and if so, what kind of P3.

Some P3 models protect public interest more than others. The City, well aware of these differences, modified the wording in the Report so that "the Public Service has pursued an innovated model of collaboration with world-class sewage treatment service providers where City utility staff will continue to operate and maintain the sewage system". So the word operate has been taken out of the mix, making the arrangement a design/build model of a P3, preferable to a design/build/operate model.

But the plot thickens. The recommendations on page 1 of the Report tell us that the CAO will be granted authority to "enter into a multi-year contract with Veolia that conforms to the terms set out in this Report". The terms are summarized in



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the vaguest of terms, but we learn on page 4 that “multi-year” means 30 years. We know that the upgrades have to be completed by 2014, so what will Veolia be doing for the remaining 26 years? Operating the waste-water treatment plants, of course.

The report assures us that City management and Veolia experts will work together in the spirit of partnership to provide service excellence and best possible cost of service for citizens” and that City staff will continue working under the supervision of City managers.

Where does all this leave us? We appear to have a design-build-operate P3 with a multi-national corporation infamous for its predatory business practices in developing countries, and with a less-than-stellar reputation in the developed world – in spite of what the report claims. We will never know the details as Veolia will claim that it has the right to safeguard its business transactions. For example, the City will be able to terminate the contract “if ever required”, but we are not told at what cost.

Supposedly this arrangement will save Winnipeggers between 10 and 20 percent over the 30 years. Details as to how they arrive at this estimate are sketchy. Why, for example, did they use a discount rate of 6% to calculate net present value? These small details can make a big difference to the bottom line.

They claim that taxpayers will be protected throughout the 30 year “program” because if service standards are not met, or if capital cost targets are missed, Veolia will forfeit margins to “share these costs with the City”. Will the City have to share such costs under all circumstances? What if Veolia is solely responsible for such shortfalls? Supposedly the City is willing to share the risk because it “will continue to control operating and maintenance parameters by which the sewage system shall operate”. This may sound reassuring, but a cautionary tale is in order at this point.

Consider a report by about the Indianapolis Department of Waterworks and its P3 partner, Veolia. The report found that “the city too often relied on the Department of Waterworks’ board, on consultants and on the private operator, Veolia Water, rather than on the department’s own staff ‘to ensure safe and efficient operation, maintenance and management’ of Indianapolis Water”.

Veolia is the private partner in a 20-year, \$1B P3 contract to run Indianapolis Water. The author — who ironically works for CH2M Hill, one of Veolia’s competitors — is critical of Indianapolis’ water department and “its ability to ‘stand up’ on behalf of taxpayers”.

One must be careful when relying on a report by Veolia’s competitor, but this account is more a defence of public oversight of a P3 than it is a criticism of Veolia. The tone of the report is that we expect private companies to behave badly, so we need strong public oversight of these partnerships.

This brings us full circle to the most glaring omission in Winnipeg’s Plan C: the role of the MCU in the contract between the City and Veolia. Will the Province ensure that Winnipeg’s proposed MCU provides sufficient oversight? The fact that the Indiana Utility Regulatory Commission — the equivalent to our Public Utility Board — is not standing up to Veolia is cause for concern. Not until we know how the Province is going to amend the Winnipeg Charter and how the MCU will accommodate the contract between the City and Veolia will we have a sense of what this deal means for Winnipeggers.

More than \$2 billion and the future governance of our public utilities will be at stake on May 19 when council votes on this issue. We hope Winnipeggers will be there to register their concerns.

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