

NO: R027

COUNCIL DATE: **FEBRUARY 24, 2014**

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## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **February 19, 2014**

FROM: **Acting General Manager, Engineering**

FILE: **2320-20 (Garbage & Recycling)**

SUBJECT: **Surrey Organic Waste Biofuel Processing Facility – Update on the Procurement Process**

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## RECOMMENDATION

The Engineering Department recommends that Council receive this report as information.

## INTENT

The purpose of this report is to provide information on progress that has been achieved in the procurement process for the Surrey Organic Waste Biofuel Processing Facility.

## BACKGROUND

At its Regular meeting on December 10, 2012 Council approved the recommendations of Corporate Report No. R249;2012, which authorized staff to:

1. Proceed with a Public-Private Partnership (P3) procurement process to establish an Organics Biofuel Processing Facility in Surrey; and
2. Enter into a contract with Partnerships British Columbia (PBC) for the provision of both Procurement Advisory and Project Management Services for this project under the direction of the City.

The report further outlined the project governance structure and the related roles and responsibilities of the full team of external expert advisors retained by the City to consult on this procurement. A copy of this report is attached as Appendix I.

In May 2013, the City initiated a market procurement process, via PBC, to establish a Public-Private Partnership (PPP) for designing, building, financing, operating and maintaining the Surrey Organic Waste Biofuel Processing Facility.

The initial step involved the issuance of a Request for Qualifications (RFQ). This RFQ closed in mid-July 2013 at which time the City had received eleven (11) proposals from both local and international respondents.

The City and its project advisors then completed a rigorous evaluation of each proponent based on the minimum requirements and specific evaluation criteria outlined in the RFQ documents.

Based on the evaluation, three proponent teams were short-listed and then subsequently invited to participate in the next phase of the procurement process, being the “Due Diligence” phase. The three shortlisted proponent teams are:

**Iris Solutions Team**

- Orgaworld Canada Ltd.
- Shanks Group
- Stantec Consulting Ltd.
- Smith Bros. Wilson(BC) Ltd.

**Plenary Harvest Surrey Team**

- Plenary Group (Canada) Ltd.
- Harvest Power Canada Ltd.
- CDM Constructors Ltd.
- CDM Smith

**Urbaser S.A. Team**

- Urbaser S.A.
- Knappet Projects Inc.
- Urbaser Environment (Valorga)

A fairness adviser, John Singleton, QC, Singleton Urquhart LLP, was appointed to oversee and monitor the evaluation process to ensure that it was fair and followed the requirements outlined in the RFQ. A report will be prepared by the fairness adviser and, once completed, will be publicly available at Partnerships BC’s website [www.partnershipsbc.ca](http://www.partnershipsbc.ca).

**DISCUSSION**

**Due Diligence Process**

The four-week long Due Diligence Process was initiated on January 20<sup>th</sup>, 2014 and ended on February 14<sup>th</sup>, 2014. The process required the shortlisted proponents to review, in confidence, the draft copies of the Organic Waste Biofuel Facility Request for Proposal (RFP) and its appended Project Agreement (PA) documents. It further permitted proponents to provide comments and/or make requests for revisions to either or both of these documents with a view to encouraging their participation in the RFP phase of the procurement process.

The Due Diligence phase was intended to:

1. Ensure that the procurement process leads to a best value solution for the City and meets the expectations of the shortlisted proponents; and
2. Ensure that the City receives a well-developed proposal from each of the three short-listed proponents as part of the RFP phase and will minimize the potential for delays during this phase.

During the Due Diligence phase, a number of clarifying questions were received from the shortlisted proponents along with a nominal number of requests for amendments to the draft documents. City staff and its project advisors met individually with each proponent in commercial-in-confidence sessions to review their questions and comments. All of the sessions were conducted in the presence of the project's Legal Fairness Advisor.

The requested changes were shared with and accepted by consensus by the shortlisted proponents. None of the changes are deemed to impact the commercial intent of the procurement or provide a commercial advantage to any one proponent over the other.

All three proponents confirmed their acceptance of the draft documents, as amended, and their willingness to participate in the RFP process. At this time, each of the three shortlisted proponents has provided a \$100,000 security to the City as a requirement to enter into the RFP phase of the process. The security may be drawn upon by the City in the event that a proponent does not deliver a legitimate proposal in the permitted timeframe.

## **NEXT STEPS**

### **RFP Issuance**

The immediate next steps will include the official release of the RFP during the week of February 24<sup>th</sup>, 2014 along with a media release that will announce the above shortlisted proponents.

The remaining phases and related timeframe to complete each remaining phase in the procurement and construction process are documented in the following table:

<b>Phase</b>	<b>Timeframe</b>
Issue a Request for Proposals and a Draft Project Agreement to the Short-listed Proponents	February 2014
Receive and Evaluate the Technical Proposal from each Proponent	Spring 2014
Receive and Evaluate the Financial Proposal from each Proponent	Summer 2014
Recommend to Council a Preferred Proponent as the basis for proceeding to the development of a Partnership Agreement with that Proponent	Fall 2014
Complete the development of a Partnership Agreement with the Selected Proponent and Obtain Approval from Council to Execute the Agreement	Late Fall 2014
Commence Construction of the Facility	Winter 2014
Complete Construction and Commence Operation	2016*

\*Depending on proposal selection.

### **Business to Business Networking Session**

Given the uniqueness of the biofuel project to the North American market and the high-level of local market interest it is attracting, the City has determined that it will host a Business-to-

Business (B2B) Networking session. The benefit of the B2B session is such that it will provide an opportunity for local independent entities to meet with representatives of each of the three shortlisted proponent teams for the purpose of presenting their respective services for each proponent team's consideration.

The overall objective of the B2B session will be to:

1. Reduce barriers and foster a business-friendly environment for local contractors and industry to engage the proponent teams;
2. Provide an opportunity for local businesses to promote their companies, services and credentials;
3. Provide proponent teams with insight into the availability and capacity of local services, products and labour;
4. Raise awareness, build support and enthusiasm for the project; and
5. Demonstrate the City's and the shortlisted proponent teams' commitment and leadership to job creation and economic stimulus by proactively facilitating opportunities for local contractor involvement in the project.

The City has established the one-day B2B session to be hosted at the Guildford Surrey Sheraton Hotel, located at 15269 104 Avenue in Surrey BC on Tuesday, March 11<sup>th</sup>, 2014 between the hours of 1 pm and 4 pm. The venue will be advertised jointly by the City, Partnerships BC and Vancouver Regional Construction Association (VCRA) via the following outlets:

- Joint news release:
  - Distributed by City and posted to website
  - Partnerships BC – news release issued to market database
  - VCRA – notification on website + email to member database
- Chamber of Commerce notification on website + email news release to member list

## CONCLUSION

The Engineering Department recommends that Council receive this report as information.

Gerry McKinnon  
Acting General Manager, Engineering

RAC/brb

Appendix I: Corporate Report No. R249; 2012

NO: **R249** COUNCIL DATE: **December 10, 2012**

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## REGULAR COUNCIL

TO: **Mayor & Council** DATE: **December 3, 2012**  
FROM: **General Manager, Engineering** FILE: **5360-60**  
SUBJECT: **Implementation Process Related to the Surrey Organics Biofuel Processing Facility**

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## RECOMMENDATION

The Engineering Department recommends that Council:

1. Authorize staff to proceed with a Public-Private Partnership (P3) procurement process to establish an Organics Biofuel Processing Facility in Surrey, all as generally described in this report; and
2. Approve the award of a contract to Partnerships British Columbia in the amount of \$794,500, excluding HST, for the provision of Procurement Advisory services to the Organics Biofuel Processing Facility Project Team (the "Team") and Project Management services under the direction of the Team.

## DISCUSSION

In late June 2011, Engineering staff submitted an application on behalf of the City to P3 Canada for capital funding consideration towards the development of an organic biofuel processing facility in Surrey. As part of the application development process a business case team was assembled that included the following representatives:

- Engineering staff overseeing the business case;
- Representatives of Partnerships British Columbia (PBC);
- Technical Advisors from Golder Associates; and
- Financial Advisors from Ernst & Young.

The business case team developed a detailed business case for the proposed facility, which was submitted to P3 Canada in January 2012.

The business case was based on the development of an 80,000 metric tonne per year anaerobic digestion (AD) facility that will process into a renewal fuel grade natural gas the City's curb side organic waste and organic waste from Institutional, Commercial and Industrial (ICI) sector sources.

In accordance with P3 Canada guidelines, the business case team focused on the analysis of proven and established technologies for organic biofuel processing. Two separate technologies were identified as being most conducive to maximizing the yield of gas from the type of organic waste feedstock that would be available to the facility. These two distinct technologies, called “wet AD” or “dry AD”, have been used in European and Asian markets to process municipal organic waste into renewable natural gas.

The business case that was prepared determined that the capital costs of the biofuel facility will be approximately \$68 million. The business case examined the merits of such an investment in light of alternative strategies for dealing with the same organic waste stream. The business case also established the most appropriate project procurement and delivery model by means of an evaluation of qualitative and quantitative metrics and set out a preferred long-term transaction structure that will allocate key project risks to the party most able to manage such risks cost effectively. The business case concluded that the project should be procured using a design, build, finance, operate and maintain delivery model.

The P3 Canada Board has now recommended approval of Surrey’s proposed biofuel project. Accordingly, the project was endorsed by the Federal Finance Minister and a public announcement regarding the availability of capital funding to the project was jointly delivered by the City of Surrey and P3 Canada on September 20, 2012. P3 Canada confirmed its intention to contribute up to \$16.9 million in federal funding to the Project. This represents 25% of the estimated capital costs of the project, which is the maximum percentage that P3 Canada offers for approved projects under its Program.

## **NEXT STEPS**

### Project Governance Structure

As a requirement of P3 Canada, the business case team was required to develop a project budget as well as an execution plan that includes a governance structure and a critical path schedule related to establishing the biofuel facility (the “Project”).

The governance structure for the Project and the related roles and responsibilities of the various parties are outlined in Appendix I.

### Estimated Project Costs – Indirect Capital Costs

The Project budget, including the costs related to all external advisors engaged on the Project team, is documented in Table 1. This budget represents the indirect capital costs of the project to the City and will be subject to ongoing reviews.

These costs are eligible for cost sharing with P3 Canada. The City will be reimbursed by P3 Canada for 25% of these costs (excluding legal advice and honouraria).

**Table 1: Project Management Budget**

Item	Indirect Capital Cost Item	Budget
1	Project Director	\$194,500
2	Procurement Advisor (incl. Communications)	\$600,000
3	Rate Setting Advisor (JCRA)	\$30,000
4	Financial Advisor	\$187,500
5	Legal Advisor	\$225,000
6	Technical Advisor	\$221,000
7	Quantity Surveyor	\$25,000
8	Fairness Advisor	\$75,000
9	Waste Auditor	\$35,000
10	Environmental Advisor	\$20,000
11	Unsuccessful Proponent Honourarium (2x \$200K)	\$400,000
12	<b>Sub-total procurement phase</b>	<b>\$2,013,000</b>
13	Contingency	\$201,300
14	Budget allocation for construction phase	\$475,000
15	<b>Total Project Management Costs</b>	<b>\$2,689,300</b>
16	<b>P3 Canada Funding Contribution (25%)*</b>	<b>(\$516,075)</b>
17	<b>Net Project Management Costs</b>	<b>\$2,173,225</b>

\*Excludes Item 5 Legal Advisor and Item 11 Honourarium costs

A budget allocation for advisory services during the construction phase is included under Item 14. The scope of advisory services required to support the City of Surrey during construction of the facility will be reviewed prior to financial close.

Assembly of the Project Team

PBC was an integral part of the business case team, acting as project manager and P3 advisor in the process of developing the business case. They were retained based on their extensive public private partnership experience and to demonstrate to P3 Canada that the BC government supported the Project. PBC is a company owned by the Province of British Columbia and governed by a Board of Directors reporting to its sole Shareholder, the Minister of Finance. The Company is incorporated under the British Columbia Business Corporations Act.

PBC provides services relating to the planning, delivery and oversight of major infrastructure projects, specifically those involving the use of private sector expertise, services and capital.

PBC has developed best practice procurement policies and procedures that are strongly preferred by P3 Canada. To this end, PBC will assist in ensuring that the following conditions are met:

- *the Project will be undertaken generally in accordance with Partnerships BC's (PBC) best practices methodology, processes and templates including, but not limited to, use of an affordability limit and documentation; and*
- *the procurement activities of the Eligible Recipient are consistent with best practice procurement policies and procedures established by leading Canadian P3 agencies such as PBC, to ensure that the procurement process is competitive, fair and transparent and*

*is consistent with the Agreement on Internal Trade and Canada's International trade obligations and all other applicable provincial and municipal laws, policies and procedures.*

PBC has submitted a quote with respect to providing Project Advisory and Project Management services for the Project in the amount of \$794,500, excluding HST. As a BC government agency, PBC does not compete with the private sector on procurement processes. The Agreement on Internal Trade (AIT) includes a provision that excludes public bodies from the broader requirements of AIT. PBC is a public body for the purposes of the AIT. Part of the benefit of this relationship is conflict of interest does not exist as PBC exclusively represents government with a view to maximizing the public interest from P3 arrangements.

### **Project Schedule**

Table 2 provides a listing of key dates associated with the delivery of the Project:

**Table 2: Key Procurement Dates**

<b>Procurement Milestone</b>	<b>Anticipated Timing</b>
Procurement Strategy review by Project Board	January 2013
RFQ Release	March 2013
RFP Release	May 2013
Technical Submissions Due	October 2013
Financial Submissions Due	November 2013
Preferred Proponent selected	December 2013
Financial Close / Start of Construction	Q1 2014
Commissioning of Biofuel Facility	Q3 2015

An RFP is to be issued in mid-May 2013, which will drive the timing of all subsequent activities. The following must be addressed prior to issuance of the RFP:

- Site rezoning is to be initiated in December 2012, with anticipated completion by April 2013;
- Confirmation that environmental requirements have been addressed;
- Methane off-take negotiations are to be concluded to a sufficient level to provide a reasonable level of certainty for proponents; and
- Completion of the waste composition study to establish seasonal variations in organic waste content so that results are available to proponents.

Further reports will be provided to Council with recommendations at appropriate stages in the proponent selection and Project Agreement approval process.



## CONCLUSION

The Engineering Department recommends that Council:

- Authorize staff to proceed with a Public-Private Partnership (P3) procurement process to establish an Organics Biofuel Processing Facility in Surrey, all as generally described in this report; and
- Approve the award of a contract to Partnerships British Columbia in the amount of \$794,500, excluding HST, for the provision of Procurement Advisory services to the Organics Biofuel Processing Facility Project Team (the “Team”) and Project Management services under the direction of the Team.

Vincent Lalonde, P.Eng.  
General Manager, Engineering

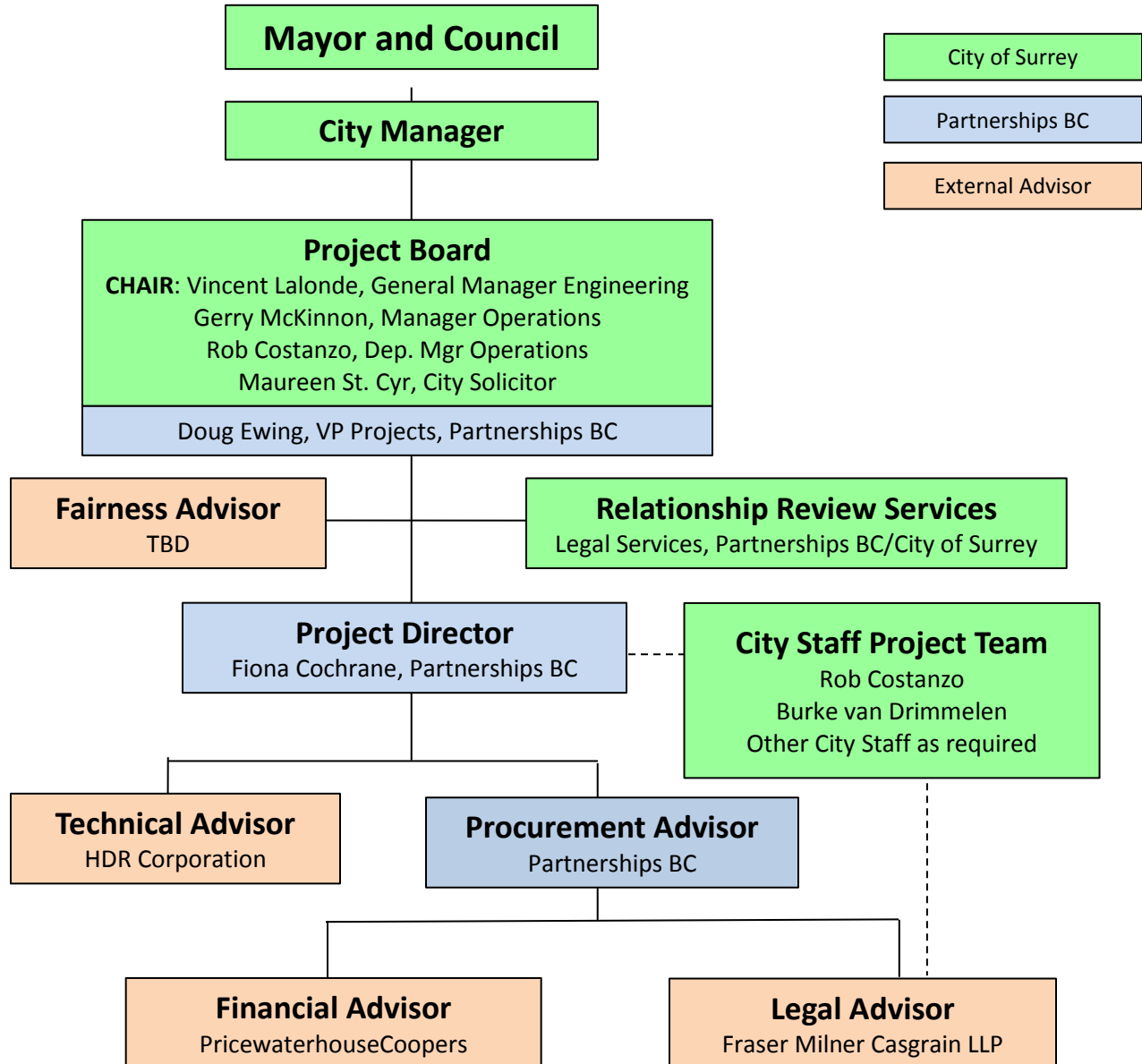
VL/RAC/brb

Appendix I: Biofuel Processing Facility Project Governance Structure and Related Roles & Responsibilities

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# APPENDIX I

## Biofuel Processing Facility Project Governance Structure, Roles & Responsibilities



## **ROLES & RESPONSIBILITIES**

### **Mayor & Council**

- Approves moving forward with implementation of the Project based on the related business case and Project Schedule.
- Approves expenditures in excess of \$500,000.
- Approves the Project Agreement with the preferred proponent.

### **City Manager**

- Liaises between Mayor and Council and the Project Board.
- Approves expenditures up to \$500,000.
- Vettes information being submitted to Mayor and Council for completeness.

### **Project Board**

The Project Board guides the Project from procurement through implementation. The roles, responsibilities and decision authorities of the Project Board are as follows:

- Provides direction to the project team on matters of strategic importance to the Project and its procurement and implementation, including scope, budget, schedule and communications.
- Approves project scope and budget.
- Approves expenditures of up to \$300,000 and refers expenditures that exceed this threshold to City Manager and/or Mayor and Council.
- Approves a Communications Plan for the Project.
- Approves the issuance of the RFQ and approves the short list of proponents for the RFP competition.
- Approves the issuance of the RFP.
- Approves the RFP evaluation results and approves the results of the negotiations with the preferred proponent for referral to the City Manager and Mayor and Council for approval.

### **Fairness Advisor**

The Fairness Advisor is an independent third-party whose role is to observe and/or monitor the procurement process and to report as to the fairness of the procurement process. A clean report by an independent, credible, knowledgeable third party that attests to the fairness of the procurement process enhances the integrity of the public procurement process by providing comfort to the proponents that the process is credible and provides equal opportunity for all to compete. The Fairness Advisor reports directly to the Project Board. The reports are also made publicly available throughout the procurement process.

A Fairness Advisor will be engaged by the Project team approximately one month in advance of RFQ release.

## **Relationship Review Committee**

A Relationship Review Committee will comprise members of the Project team with the legal and procurement knowledge required to assess and determine, on an as required basis, whether any relationships that have been disclosed among members of the Project team and members of potential or shortlisted proponent teams give rise, or might give rise, to an unfair advantage to one or more teams.

The Relationship Review Committee will be engaged:

- prior to both the RFQ and RFP evaluations to screen relationships disclosed by evaluators in relation to Respondent or Proponent team members; and
- on an as needed basis if and when such requests for determinations are made by Project team members, interested market participants, Respondents or Proponents.

## **Project Director**

The Project Director is accountable for directing and managing the Project team. The roles, responsibilities and decision authorities of the Project Director are as follows:

- Provides direction to the project team on matters of strategic importance to the Project and its procurement, including scope, budget, schedule and communications;
- **The day to day management of the project; and**
- Reports to the Project team comprising both internal City of Surrey staff members and external specialist advisors.

## **Procurement Advisor – Responsibilities include:**

- leads development and execution of procurement strategy;
- leads development of RFQ and RFP documents and processes, including evaluation;
- coordinates project team in development of the Project Agreement (or contract);
- coordinates involvement of Fairness Advisor;
- liaises with external legal counsel to ensure alignment of Project documents with City of Surrey policies and requirements;
- coordinates with other City of Surrey departments on information requests and confirmations; and
- supports Project and procurement activities.

## **Technical Advisor – Responsibilities include:**

- leads development of technical specifications for the Project Agreement;
- establishes technical qualifications of bidders at RFQ;
- assists with development of technical submission requirements for RFP; and
- participates in RFQ and RFP evaluations.

**Financial Advisor** – Responsibilities include:

- advises on development of commercial and financial terms in the Project Agreement;
- establishes financial qualifications submission requirements for each of the RFQ and the RFP; and
- participates in the evaluation of submissions related to the RFQ and the RFP.

**External Legal Advisor** – Responsibilities include:

- leads drafting of Project Agreement and schedules;
- ensure legal consistency throughout all procurement documents; and
- advise as required on processes, commercial terms and other legal matters.