

NO: R151

COUNCIL DATE: July 9, 2018

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **July 5, 2018**

FROM: **General Manager, Engineering**

FILE: **5600-10 (Jericho)**

SUBJECT: **Amendments to the 1989 Cost Sharing Agreement with the Greater Vancouver Water District**

RECOMMENDATION

The Engineering Department recommends that Council:

1. Authorize the Mayor to execute the Amending Agreement with the Greater Vancouver Water District attached as Appendix "I" to this report; and
2. Authorize staff to add the Phase 2 of the Jericho Reservoir to the next edition of the City of Surrey's 10-Year Servicing Plan as a non-growth cost.

INTENT

The purpose of this report is to seek Council's approval for an Amending Agreement to the Water Supply Agreement that the City of Surrey and the Greater Vancouver Water District ("GVWD") established in 1989.

BACKGROUND

Beginning in the late 1980's, with the inclusion of the Township of Langley to the GVWD, the City of Surrey, the City of Langley, the Township of Langley and the GVWD completed a series of studies to establish how the GVWD could best service each community for the foreseeable future.

With a strategy established, the GVWD entered into supply agreements with each member municipality. The City of Surrey entered into a Water Supply Agreement (the "1989 Water Supply Agreement") with the GVWD on August 14, 1989; a copy of this agreement is attached as Appendix "II".

As part of the 1989 Water Supply Agreement, the GVWD agreed to commence construction on various infrastructure projects in the City of Surrey. These works included a reservoir in Grandview Heights, a water main between the Grandview Reservoir and the existing Sunnyside Reservoir, the 192 Street joint water main from Clayton to South Surrey and expansion of the Sunnyside Reservoir. The GVWD has completed the construction of all of these improvements.

As part of the 1989 Water Supply Agreement, the City of Surrey agreed to transfer a number of pieces of infrastructure to the GVWD as they would become part of the regional water distribution system. The City of Surrey has completed the transfer of these pieces of infrastructure to the GVWD.

As part of the 1989 Water Supply Agreement, the City of Surrey also agreed to fund 28.8% of the cost for the GVWD to construct the Jericho Reservoir, which was to be constructed to service the City of Surrey, the City of Langley and the Township of Langley. The Jericho Reservoir is to be located on lands within the Township of Langley, as illustrated in the map attached as Appendix "III".

In the late 1990's, City of Surrey staff and GVWD staff agreed that the City of Surrey's share of funding for the Jericho Reservoir needed to be revised to 33.72% as the City of Langley elected to construct its own reservoir at its own expense, thereby removing the need for them to fund a portion of the Jericho Reservoir.

As of today, the Jericho Reservoir has yet to be constructed by the GVWD.

DISCUSSION

As previously noted, City of Surrey staff and GVWD staff agreed that the City of Surrey's share of funding for the Jericho Reservoir needed to increase from 28.8% to 33.72% to reflect that the City of Langley elected to construct its own reservoir at its own expense, but the 1989 Water Supply Agreement was not revised to reflect this understanding. To address this oversight, City of Surrey staff and GVWD staff have worked to develop an Amending Agreement, a copy of which is attached as Appendix "I". Section 1 of the proposed Amending Agreement seeks to revise the City of Surrey's share of cost for the Jericho Reservoir from 28.8% to 33.72%.

In 1997, the estimated cost to construct the 39.95ML Jericho Reservoir to service the City of Surrey and the Township of Langley was \$7,570,000.00.

The estimated cost to construct the Jericho Reservoir has increased substantially since this project was originally envisioned, due to significant construction cost escalation, and increasing design construction standards/requirements (i.e., seismic).

While the cost to construct the project has substantially increased, the timing for when the reservoir is required to support growth in the City of Surrey and the Township of Langley has been deferred by almost 20 years, in large part due to decreasing water demands in each community.

At this time, GVWD staff plan to construct a portion of the Jericho Reservoir in the coming years, and the remainder of the reservoir in the future as growth in the City of Surrey and the Township of Langley materializes. The estimated cost to construct Phase 1, which is 20.61ML, is \$30,400,000.00. The estimated cost to construct Phase 2, which is 18.43ML, is \$13,300,000.00.

The City of Surrey's estimated funding requirement for Phase 1 is \$10,200,000. The funding requirements related to the City of Surrey's Phase 1 obligation is currently included in the City of Surrey's 10-Year Servicing Plan and related water development cost charge program.

As the amount owing to the GVWD is significant, a payment plan has been established in the proposed Amending Agreement. The proposed payment plan, which allows for no interest costs, is as follows:

• On or before December 31, 2018	\$ 2,400,000.00
• On or before December 31, 2019	\$ 2,000,000.00
• On or before December 31, 2020	\$ 2,000,000.00
• On or before December 31, 2021	\$ 2,000,000.00
• On or before December 31, 2022	\$ 1,800,000.00
TOTAL	\$10,200,000.00

Upon completion of Phase 1 and final determination by GVWD of the actual costs incurred by GVWD in constructing and installing Phase 1, GVWD will promptly refund the City of Surrey or the City of Surrey will pay GVWD, as the case may be, the difference between 33.72% of such actual costs and the total of the amount already paid by the City of Surrey pursuant to Section 3, such that the final amount paid by the City of Surrey in respect of Phase 1 equals 33.72% of the actual costs incurred by GVWD.

The City of Surrey's estimated funding requirement for Phase 2 is \$6,244,773.00. At present, the GVWD has yet to establish the exact timing for the construction of this phase. In an effort to address the potential for continued construction cost increases, City of Surrey staff and GVWD staff have established a payment plan in the proposed Amending Agreement. The proposed payment plan is as follows:

• On or before December 23, 2023	\$2,081,591.00
• On or before December 23, 2024	\$2,081,591.00
• On or before December 23, 2025	\$2,081,591.00
TOTAL	\$6,244,773.00

In the event that Phase 2 exceeds the current estimated cost, the GVWD will solely fund the difference. In the event that the project costs less than the estimated cost and funding provided by the City of Surrey, the GVWD will not reimburse the difference. Staff are of the opinion that the proposed payment plan establishes an equal amount of risk by both the City of Surrey and GVWD.

At present, the funding requirements related to the City of Surrey's Phase 2 obligation is not currently included in the City of Surrey's 10-Year Servicing Plan. It is recommended that the funding requirements related to the City of Surrey's Phase 2 obligation be added as a long range cost to a future edition of the City of Surrey's 10-Year Servicing Plan. With this approach, the City of Surrey would use either DCCs or utility funds to cover the costs of the prepayment in 2023, 2024 and 2025.

It is also recommended that once the actual timing and actual costs for Phase 2 become known, staff work with Local Government Infrastructure and Finance staff at the Ministry of Municipal Affairs and Housing to explore opportunities to potentially recover the costs associated with this prepayment from the development community such as through the use of development cost charges.

Agreement Fulfillment

With the execution of the Amending Agreement, the completion of the Jericho Reservoir by the GVWD, funding of 33.72% of the actual costs of Phase 1 of the Jericho Reservoir and funding of 33.72% of the estimated costs of Phase 2 by the City of Surrey, all of the obligations in the 1989 Water Supply Agreement and the Amending Agreement will be fulfilled by the City of Surrey and the GVWD.

Legal Services Review

Legal Services has reviewed this report and the Amending Agreement and have no concerns.

Finance Department Review

The Finance Department has reviewed this report and the Amending Agreement and have no concerns.

Next Steps

Following consideration of this report and the execution of the Amending Agreement by the City of Surrey, the Amending Agreement will be provided to Metro Vancouver's Utilities Committee and the GVWD Board to seek approval for the Commissioner of the GVWD to execute the Agreement.

SUSTAINABILITY CONSIDERATIONS

The 1989 Water Supply Agreement and the proposed Amending Agreement supports the objectives of the City of Surrey's Sustainability Charter 2.0. In particular, the Sustainability Charter 2.0 theme of Infrastructure. Specifically, the Amending Agreement supports the following Desired Outcomes ("DO"):

- All Infrastructure DO2: Infrastructure systems provide safe, reliable and affordable services; and
- Water DO16: Surrey's water is clean, abundant and safe for drinking.

CONCLUSION

The Engineering Department recommends that Council:

1. Authorize the Mayor to execute the Amending Agreement with the Greater Vancouver Water District attached as Appendix "I" to this report; and
2. Authorize staff to add the Phase 2 of the Jericho Reservoir to the next edition of the City of Surrey's 10-Year Servicing Plan as a non-growth cost.

Fraser Smith, P.Eng., MBA
General Manager, Engineering

FS/JA/jma/ggg

Appendix "I": Amending Agreement

Appendix "II": 1989 Water Supply Agreement

Appendix "III": Regional Water Distribution Network Map

AMENDING AGREEMENT

THIS AGREEMENT dated as of _____, 2018

BETWEEN:

GREATER VANCOUVER WATER DISTRICT
4730 Kingsway, Burnaby, British Columbia V5H 0C6

("GVWD")

AND:

CITY OF SURREY
13450-104 Avenue, Surrey, British Columbia V3T 1V8

("Surrey")

WHEREAS:

- A. GVWD and Surrey are parties to a water supply agreement dated August 14, 1989, relating to the construction and installation by GVWD of certain water supply works (the "Water Supply Agreement");
- B. The Water Supply Agreement requires that Surrey pay its share of the actual costs incurred by GVWD in constructing and installing such water supply works, including the reservoir designated in the Water Supply Agreement as the Future Jericho Reservoir (the "**Jericho Reservoir**");
- C. Section 5.(2)(a) of the Water Supply Agreement provides that Surrey's percentage share of the actual costs for the Jericho Reservoir is 28.8%;
- D. Due to changes to the Langley-Surrey Water Supply Scheme approved by the GVWD Board, the total capacity of the Jericho Reservoir was reduced to 8.6 million imperial gallons, resulting in an adjustment to Surrey's percentage share of the costs for the smaller Jericho Reservoir;
- E. GVWD and Surrey have agreed upon a payment schedule pursuant to which Surrey will pay its share of the actual costs of Phase 1 of the Jericho Reservoir ("**Phase 1**");
- F. GVWD and Surrey have agreed that instead of paying the actual costs of Phase 2 of the Jericho Reservoir ("**Phase 2**"), Surrey will prepay the projected costs of Phase 2; and
- G. The parties wish to amend the Water Supply Agreement to reflect these changes and agreements.

NOW THEREFORE IN CONSIDERATION of the premises and the mutual covenants and agreements set out below and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties hereto agree as follows:

1. The Water Supply Agreement is hereby amended by deleting “28.8%” in section 5.(2)(a) and replacing it with “33.72%”.
2. GVWD and Surrey acknowledge and agree that the estimated cost for constructing and installing Phase 1 is \$30,400,000.
3. Subject to Section 4, GVWD and Surrey agree that Surrey will pay GVWD its share of the actual costs of Phase 1 by making payments as follows:

On or before December 31, 2018:	\$2,400,000
On or before December 31, 2019:	\$2,000,000
On or before December 31, 2020:	\$2,000,000
On or before December 31, 2021:	\$2,000,000
On or before December 31, 2022:	\$1,800,000

4. Upon completion of Phase 1 and final determination by GVWD of the actual costs incurred by GVWD in constructing and installing Phase 1, GVWD will promptly refund Surrey or Surrey will pay GVWD, as the case may be, the difference between 33.72% of such actual costs and the total of the amount already paid by Surrey pursuant to Section 3, such that the final amount paid by Surrey in respect of Phase 1 equals 33.72% of the actual costs incurred by GVWD.

If the difference between 33.72% of such actual costs and the total of the amount already paid by Surrey is less than \$500,000, Surrey will pay GVWD within 1-year from the date Surrey is advised of actual costs (“**Initial Reconciliation Payment Date**”).

If the difference between 33.72% of such actual costs and the total of the amount already paid by Surrey is greater than \$500,000, Surrey will pay GVWD no less than \$500,000 per annum beginning on the Initial Reconciliation Payment Date until such time as Surrey has paid GVWD the difference between 33.72% of such actual costs and the total of the amount already paid by Surrey plus interest of 3% per annum compounded annually, calculated from the Initial Reconciliation Payment Date until the date of the final payment.

5. Notwithstanding sections 5.(1) and 5.(2)(a) of the Water Supply Agreement, GVWD and Surrey agree that Surrey will pay a fixed amount of \$6,244,773 (the “**Requirement**”) toward the costs incurred by GVWD in constructing and installing Phase 2. The Requirement will be paid to GVWD as shown below, and will be in full and final satisfaction of the amount owing by Surrey to GVWD under the Water

Supply Agreement in respect of Phase 2, regardless of whether 33.72% of the actual costs incurred by GVWD in constructing and installing Phase 2 is higher or lower than the Requirement. GVWD and Surrey agree that GVWD will have no obligation to refund any amount to Surrey if 33.72% of the actual costs of Phase 2 is less than the Requirement.

On or before December 31, 2023:	\$2,081,591
On or before December 31, 2024:	\$2,081,591
On or before December 31, 2025:	\$2,081,591

6. The terms of this Agreement are expressly made a part of the Water Supply Agreement to the same extent as if the terms were incorporated in the Water Supply Agreement.
7. This Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.
8. Time is of the essence of this Agreement.
9. This Agreement is governed by and will be construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.
10. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same instrument.
11. Delivery of an executed signature page to this Agreement by a party by electronic transmission will be as effective as delivery of an originally executed copy of the Agreement by such party.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first written above.

GREATER VANCOUVER WATER DISTRICT
by its authorized signatory:

Carol Mason
Commissioner

CITY OF SURREY

by its authorized signatories:

Name:
Title:

Name:
Title:

WATER SUPPLY AGREEMENT'
BETWEEN
GREATER VANCOUVER WATER DISTRICT
AND
THE CORPORATION OF THE DISTRICT OF SURREY

THIS AGREEMENT made the 14 day of August, 1989.

BETWEEN:

GREATER VANCOUVER WATER DISTRICT,
of 4330 Kingsway, Burnaby, British Columbia,
V5H 4G8,

("GVWD")

OF THE FIRST PART

AND:

THE CORPORATION OF THE DISTRICT OF SURREY,
of 14245 - 56th Avenue, Surrey, British Columbia,

("Surrey")

OF THE SECOND PART

WHEREAS:

- A. GVWD proposes to enter into or has entered into an agreement (the "Entry Agreement") with the Corporation of the Township of Langley ("Langley Township") providing for Langley Township to be added to GVWD and for the construction of certain waterworks more particularly described below;
- B. Subject to GVWD entering into the Entry Agreement and the conditions precedent therein being satisfied GVWD proposes to construct certain additional waterworks and to acquire certain other waterworks from Surrey in order to better assure the supply of water to Surrey.

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises and the mutual covenants and agreements set out below the parties agree as follows:

Condition Precedent

1. The subsequent sections of this agreement are subject to the execution and delivery by GVWD and Langley Township of the Entry Agreement free of any conditions on or before the 25th day of August, 1989 or such other date as may be agreed between the parties (the "Effective Date").

The New Supply Works

Construction and Installation

2.(1) Subject to the construction under the Entry Agreement of the New Supply Works - Part 1 as defined therein (being the works shown in bold line on the Plan as defined below) GVWD will construct and install certain watermains, pumping stations and the reservoirs as shown in broken line and described as "Facilities Funded 100% by Municipalities" in the legend on the plan entitled "Drawing WF-1720 Sheet 2 Revised June 5, 1989" (the "Plan") annexed hereto as Schedule "A" (the "New Supply Works - Part 2"). The New Supply Works - Part 2 and the New Supply Works - Part 1, are sometimes called jointly the "New Supply Works."

Commencement and Completion of Construction

2.(2) As soon as possible after the execution and delivery of this agreement GVWD will proceed with all due diligence to

commence the construction and installation of those portions of the New Supply Works designated on the Plan as follows:

- (a) "Proposed Grandview P.S.";
- (b) "Proposed Grandview Main";
- (c) "Proposed Grandview - Sunnyside Main";
- (d) that part of the "Proposed 192nd Street Joint Main" lying south of 64th Avenue ("6B");
- (e) "Sunnyside Reservoir Unit 2"; and
- (f) those parts of the "Barnston Island Main" labelled 2A, 2B and 2C.

2.(3) The dates of the commencement and the completion of the construction and installation of the balance of the New Supply Works - Part 2 and the New Supply Works - Part 1 shall be in the discretion, reasonably exercised, of GVWD and the dates for completion of the various constituent parts thereof set out on the Plan are approximate only and are not meant to bind GVWD, except where failure to complete in accordance with the dates for completion set out on the Plan would reduce the capacity of GVWD to supply water to South Surrey (as defined in section 3.(1)) to a rate less than 350 gallons per person per day.

2.(4) Notwithstanding subsection (3) GVWD will commence construction of the reservoir designated on the Plan as "Future Grandview Reservoir" as soon after written request from Surrey's Municipal Engineer as is practicable and will proceed with all due diligence to complete the construction of that reservoir.

Title

2.(5) Title to the New Supply Works - Part 2 and the New Supply Works - Part 1 shall vest in GVWD.

Transfer of Existing Surrey Works to GVWD

2.(6) After the completion of the construction and installation of those portions of the New Supply Works - Part 2 designated on the Plan as "Proposed Grandview - Sunnyside Main", "Proposed Grandview Main" and "Proposed Grandview P.S." and that part lying south of 64th Avenue of the portion designated on the Plan as "Proposed 192nd Street Joint Main (6B)," Surrey shall transfer to GVWD the following facilities owned by Surrey, shown lined in red on the Plan and further detailed on Drawing WF-1720 Sketches 4 and 5, annexed hereto as Schedule "B", and designated as follows:

- (a) "Existing South Surrey Main" (the "South Surrey Main");
- (b) "Existing Newton Pump Station," (Units 1 and 2) (the "Newton Pump Station"); and

(c) "Existing Sunnyside Reservoir";

all of which are hereinafter collectively called the "Transferred Facilities."

2.(7) Subject to sections 9.(1), 9.(2) and 9.(3) the reservoirs designated on the Plan as "Existing Sunnyside Reservoir", "Sunnyside Reservoir Unit 2" and "Future Grandview Reservoir" shall become GVWD supply points. "Supply point" means the point at which GVWD supplies water in bulk pursuant to section 45 of Greater Vancouver Water District Act.

2.(8) Surrey shall also transfer or assign to GVWD all necessary and ancillary pipes, appurtenances and facilities for the Transferred Facilities and the fee simple or leasehold interests of or statutory rights-of-way in, the lands on or under which the Transferred Facilities are situated and for that purpose Surrey shall execute and deliver in registrable form all such transfers, assignments and other documents and shall do all such things as GVWD may reasonably request in order to transfer and assign to GVWD and to have registered in the applicable Land Title Office the Transferred Facilities and all related interests in land.

2.(9) The Transferred Facilities and all related interests in land shall be transferred and assigned to GVWD free and clear of all charges, encumbrances or notations on the title or claims whatsoever.

2.(10) Surrey hereby represents to GVWD that the Transferred Facilities are of good design in good repair and operating condition and Surrey is not aware of any existing or potential defects in the Transferred Facilities.

Operation and Maintenance

2.(11) GVWD shall operate and maintain in accordance with GVWD's usual standards and practices all the New Supply Works and the Transferred Facilities.

Newton Pump Station

3.(1) The Newton Pump Station comprises two separate pumping stations "Unit 1" and "Unit 2" which for technical reasons cannot be separated. Unit 2 pumps water both to a local distribution zone (commonly known as the "Newton Zone") and to Unit 1. Unit 1 boosts the water pressure of the water received from Unit 2 and supplies South Surrey (defined below) through the South Surrey Main. Notwithstanding that title to Unit 2 will pass to GVWD and that Unit 2 along with Unit 1 will be operated and maintained by GVWD, Surrey will continue to be obligated to supply water to the Newton Zone. "South Surrey" means all that portion within the municipal boundaries of Surrey that lies to the south of an imaginary line drawn parallel to the southerly boundary of 40th Avenue and extended in an easterly and westerly direction to the easterly and westerly municipal boundaries of Surrey.

3.(2) GVWD will operate and maintain Unit 2 using its best efforts with the equipment available to provide a minimum

hydraulic grade line elevation of 534 feet above GVWD datum, measured at the point of discharge, to enable Surrey to supply the Newton Zone and Surrey shall reimburse GVWD for its proportionate share of the cost of operating and maintaining Unit

2. Surrey's proportionate share shall be a fraction the numerator of which is the quantity of water pumped by Unit 2 to the Newton Zone and the denominator of which is the total quantity of water pumped by Unit 2 to the Newton Zone and to Unit 1 for the supply of South Surrey.

3.(3) GVWD, at Surrey's expense, shall upgrade the existing flow metering equipment or shall install such additional flow metering equipment as GVWD reasonably deems necessary to determine the quantities of water pumped for the purposes of subsection (2).

3.(4) Except for the year 1990, GVWD will bill Surrey for its proportionate share of the costs of operating and maintaining Unit 2 every 12 months in arrears on each 31st day of December commencing on December 31, 1991. For the year 1990 GVWD shall bill Surrey on December 31, 1990 for its proportionate share of the costs from the date of transfer of the "Transferred Facilities" to December 31, 1990. GVWD's bill shall identify the specific items of expenditure constituting the operation and maintenance costs. Surrey shall pay GVWD's account within 30 days of receipt of GVWD's bill.

3.(5) If, in Surrey's sole opinion, improvements are required to Unit 2 to enable Surrey to meet an increased demand for the supply of water for the Newton Zone, GVWD shall make those improvements at Surrey's sole cost.

3.(6) Subject to sections 9.(2) and 9.(3) if improvements are required to Unit 2 to enable GVWD to meet an increased demand for the supply of water for South Surrey and if the increased capacity resulting from the improvements is utilized solely for the supply of South Surrey, GVWD shall bear all of the costs for such improvements.

3.(7) Subject to sections 9.(2) and 9.(3), if improvements are required to Unit 2 for both Surrey and GVWD to meet their obligations to supply water the costs will be shared between the parties on the basis of the capacity utilized by each party or on such other basis as may be agreed by GVWD's Chief Engineer and Surrey's Municipal Engineer.

Connections

4. Surrey shall have the right to connect its water distribution system to the New Supply Works - Part 2 at the locations specifically designated on the Plan and at such other locations as may be agreed between Surrey and GVWD and failing such agreement at the locations specified by either the Commissioner or the Chief Engineer of GVWD acting reasonably.

Cost of Works

5.(1) Surrey shall pay its share of the actual costs incurred by GVWD in constructing and installing the New Supply Works - Part 2, and the New Supply Works - Part 1 (which costs shall include without limitation interest and financing charges and all costs associated with the acquisition or leasing of any interests in land) as provided in subsection (2) and in accordance with section 7. The costs shown on Table 1 of the Plan are approximate costs in 1988 dollars and represent only GVWD's best estimate of such costs at the time the Plan was prepared and shall not be binding on GVWD.

5.(2) Surrey's share of the actual costs referred to in subsection (1) shall be:

- (a) for the reservoir designated on the Plan as "Future Jericho Reservoir" - 28.8%;
- (b) for the portion designated on the Plan as "Proposed 192nd Street Joint Main" - 65.3%;
- (c) for that portion designated on the Plan as "Proposed Grandview Main" and for the pumping station designated on the Plan as "Proposed Grandview Pump Station" - 100%;
- (d) for the reservoir designated on the Plan as "Future Grandview Reservoir" - 100%;

- (e) for the portion designated on the Plan as "Grandview - Sunnyside Main" - 100%;
- (f) for the reservoir designated on the Plan as "Sunnyside Reservoir Unit 2" - 100%.

Financing of Works

6.(1) GVWD, from time to time, will borrow (by way of interim borrowing and long term borrowing) such monies as may be necessary or desirable to construct the New Supply Works. GVWD may in its absolute and sole discretion:

- (a) borrow all of the monies required at once or may borrow portions of the monies as they are required, from time to time, or as market and economic conditions allow;
- (b) determine the timing and the other conditions of the borrowings;
- (c) determine the interest rate or rates and other costs of financing applicable to the borrowings;
- (d) determine the type of security to be given for the borrowings and the terms and conditions upon which such security is to be granted and may refund or renew any liability or security issued by GVWD in respect thereof;

- (e) determine such other matters in relation to the borrowings as may be relevant.

6.(2) GVWD will consult with Surrey before it converts any of the borrowings under subsection (1) from interim borrowing to long term borrowing. "Long term borrowing" means any borrowing having a term to maturity of twelve months or more.

6.(3) Without limiting subsection (1) and subject to market and economic conditions, GVWD will use its best efforts to obtain borrowings under subsection (1) on the most favourable terms and conditions available.

Repayment of Borrowing By Surrey

7. Surrey shall pay to GVWD all the amounts required by GVWD to meet its obligations with respect to the borrowings made by GVWD under section 6.(1) for that portion of the costs for which Surrey is responsible under this agreement at the time or times required by such borrowing.

Supply of Water to Clayton Reservoir and Port Kells Main

8.(1) Upon the completion of the portions of the New Supply Works designated on the Plan as "Jericho Clayton Connector" and "Barnston Island Main," the existing Clayton Reservoir shall become a GVWD supply point for supply to Surrey.

8.(2) Where, in the joint opinion of GVWD's Chief Engineer and Surrey's Municipal Engineer, it is practical, Surrey shall

allow the use of its Port Kells Main to backfeed water from the "Barnston Island Main" as designated on the Plan for use within the Port Kells area of Surrey. This will reduce the demand on GVWD's existing Whalley Clayton Main.

8.(3) If GVWD's Chief Engineer and Surrey's Municipal Engineer are unable to agree whether to use the Port Kells Main for backfeeding under subsection (2), the issue shall be settled by arbitration under section 15.

Capacity of New Supply Works and South Surrey Main

9.(1) When completed the New Supply Works will provide for South Surrey a maximum instantaneous rate of flow not to exceed 11.1 million gallons per day ("MGD") through that portion designated on the Plan as "Proposed 192nd Street Main" with a minimum design pressure of 40 pounds per square inch which is equivalent to a hydraulic grade line elevation of 338 feet above GVWD datum measured at the point of connection to the "36th Avenue Main" as designated on the Plan. GVWD and Surrey have estimated that the flow of 11.1 MGD when added to the design flow of the South Surrey Main of 18 MGD (for a total of 29.1 MGD) will satisfy the requirements for South Surrey until the year 2011. The flow of water available to Langley Township through the "Proposed 192nd Street Joint Main" as designated on the Plan shall not exceed a maximum instantaneous rate of 5.9 MGD.

9.(2) If prior to the year 2011

- (a) the peak day average demand for water in South Surrey exceeds 29.1 MGD; or
- (b) the Newton Pump Station and the South Surrey Main are unable to sustain a rate of flow equal to 18 MGD and the demand for water in South Surrey exceeds the aggregate of (i) 11.1 MGD from the New Supply Works and (ii) the combined capacity of the Newton Pump Station and the South Surrey Main;

then in the sole discretion of GVWD's Chief Engineer GVWD will either provide such additional facilities or upgrade the South Surrey Main or the Newton Pump Station as may be necessary to meet the demand for water in South Surrey.

9.(3) If GVWD provides additional facilities or upgrades either or both of the South Surrey Main and the Newton Pump Station under subsection (2) Surrey shall pay its proportionate share of all the costs and expenses (including without limitation financing costs) incurred by GVWD in providing the additional facilities or in upgrading, as the case may be. Surrey's proportionate share shall be a fraction the numerator of which is the difference in MGD between the peak day average demand in South Surrey in the year 2011 and the actual flow capacity in MGD of the New Supply Works designated for South Surrey and the South Surrey Main combined and the denominator of which is either the flow capacity in MGD of the additional facilities provided by

GVWD or the additional flow capacity obtained by the upgrading of either or both of the South Surrey Main and the Newton Pump Station. The value of any fraction so derived shall not exceed 1.

9.(4) For the purpose of subsection (3) the "peak day average demand in South Surrey for the year 2011" shall be estimated by GVWD's Chief Engineer and shall be adjusted, if necessary, in January of 2012 against the actual peak day average demand for the year 2011 and any consequential adjustment to Surrey's proportionate share shall be made forthwith between the parties.

9.(5) After the year 2011 GVWD will supply water in bulk to Surrey on the same terms and conditions as it supplies water to all its other members under the provisions of the Greater Vancouver Water District Act.

Definition of Flow to South Surrey

10. A reference in this agreement to a rate of flow of water to South Surrey refers to the capacity of that flow to supply ground level storage at the existing Sunnyside Reservoir and the reservoirs designated on the Plan as "Sunnyside Reservoir Unit 2" and "Future Grandview Reservoir" and includes any water that may be supplied to "takeoffs" south of 40th Avenue in Surrey.

No Supply of Water to Third Parties Prior to 2011

11.(1) The New Supply Works shall not be utilized prior to the year 2011 to supply water to any party except Langley Township and Surrey unless GVWD's Chief Engineer and the Municipal Engineers of Surrey and Langley Township have first agreed that such utilization will not detract from the ability of GVWD to supply water pursuant to the terms of this agreement and the Entry Agreement.

11.(2) If GVWD's Chief Engineer and the Municipal Engineers of Surrey and Langley Township are unable to agree under subsection (1) whether the utilization of the New Supply Works will detract from GVWD's ability to supply water, the issue shall be settled by arbitration under section 15.

Rights-of-Way

12.(1) Surrey shall grant to GVWD, without compensation and when requested by GVWD, such statutory rights-of-way and temporary working spaces as GVWD may require for the construction and installation of the New Supply Works over any lands owned by Surrey and through which the New Supply Works are to be constructed and installed.

12.(2) If GVWD and Surrey agree that any reservoir or pump station site required for the construction and installation of the New Supply Works is to be situated on lands owned by Surrey, Surrey shall either:

- (a) convey the fee simple interest therein to GVWD for a nominal consideration; or
- (b) lease the lands to GVWD for a term not less than the useful life of the reservoir or pump station as estimated by GVWD's Chief Engineer.

12.(3) If the lands referred to in subsection (2) are leased to GVWD pursuant to paragraph (2)(b) the rental shall be nominal and the other terms and conditions of the lease shall be agreed between GVWD's Chief Engineer and Surrey's Municipal Engineer and failing agreement the terms and conditions of the lease shall be determined by arbitration under section 15.

Whalley Clayton Agreement

13.(1) That certain agreement between GVWD and Surrey dated August 18, 1976 and commonly known as the "Whalley-Clayton Agreement", shall be amended as follows:

- (a) by deleting the second paragraph of section 7 on page 4;
- (b) by deleting the second paragraph of section 12 on page 5;

- (c) by deleting the third paragraph of section 12 on page 5 and substituting the following paragraph:

"The costs of renewing the section of the facility shall be agreed in the manner outlined in clause 6 hereof."

13.(2) All the other provisions of the Whalley-Clayton Agreement shall remain in full force and effect.

13.(3) The provisions of subsections (1) and (2) shall become effective upon the completion of the construction of the New Supply Works as certified by GVWD's Chief Engineer.

Supply of Water Subject to Greater Vancouver Water District Act

14. The supply of water to Surrey under this agreement or otherwise is subject to the Greater Vancouver Water District Act and to Surrey being a member of GVWD and to a sufficient supply of water generally being available to GVWD and its members.

Arbitration

15. If under sections 8.(3), 11.(2) and 12.(3) the respective engineers are unable to agree then any one of the engineers may by giving written notice to the other engineer or engineers require that the issue be settled by a single arbitrator agreed to by all the engineers. If the engineers within 15 days of the giving of the notice referred to in the

previous sentence fail to agree upon a single arbitrator the issue shall be settled by an arbitrator appointed by the Supreme Court of British Columbia under the provisions of the Commercial Arbitration Act of British Columbia.

Legal Expenses

16. The legal fees and disbursements incurred by GVWD in connection with the New Supply Works shall be shared between GVWD, Langley Township and Surrey in the respective proportions that those parties share in the costs of the New Supply Works.

Assignment & Enurement

17.(1) This agreement may not be assigned in whole or in part by Surrey without the prior, express written consent of GVWD.

17.(2) This agreement shall enure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto.

Force Majeure

18. If GVWD is prevented from or delayed in performing any obligation under this agreement for any reason whatever beyond its control including without in any way limiting the generality of the foregoing, acts of God, fire, earthquake, storm, hail, wind, war (declared or undeclared) acts of civil disobedience or of terrorists or guerillas, restrictive governmental laws or regulations, strike, lock out or other labour or labour related

dispute or slowdown, or unavailability of labour or materials then the period for performing such obligation shall be extended for a period of time equal to the length of the delay caused by such event as aforesaid or such other time as the parties may agree.

Gender and Number

19. In this agreement words importing the male gender include the female gender and either includes the neuter and vice versa and words importing the singular number include the plural number and vice versa.

IN WITNESS WHEREOF the parties have hereunto affixed their corporate seals in the presence of their duly authorized officers on the day and year first above written.

The Corporate Seal of GREATER VANCOUVER WATER DISTRICT was hereunto affixed in the presence of:

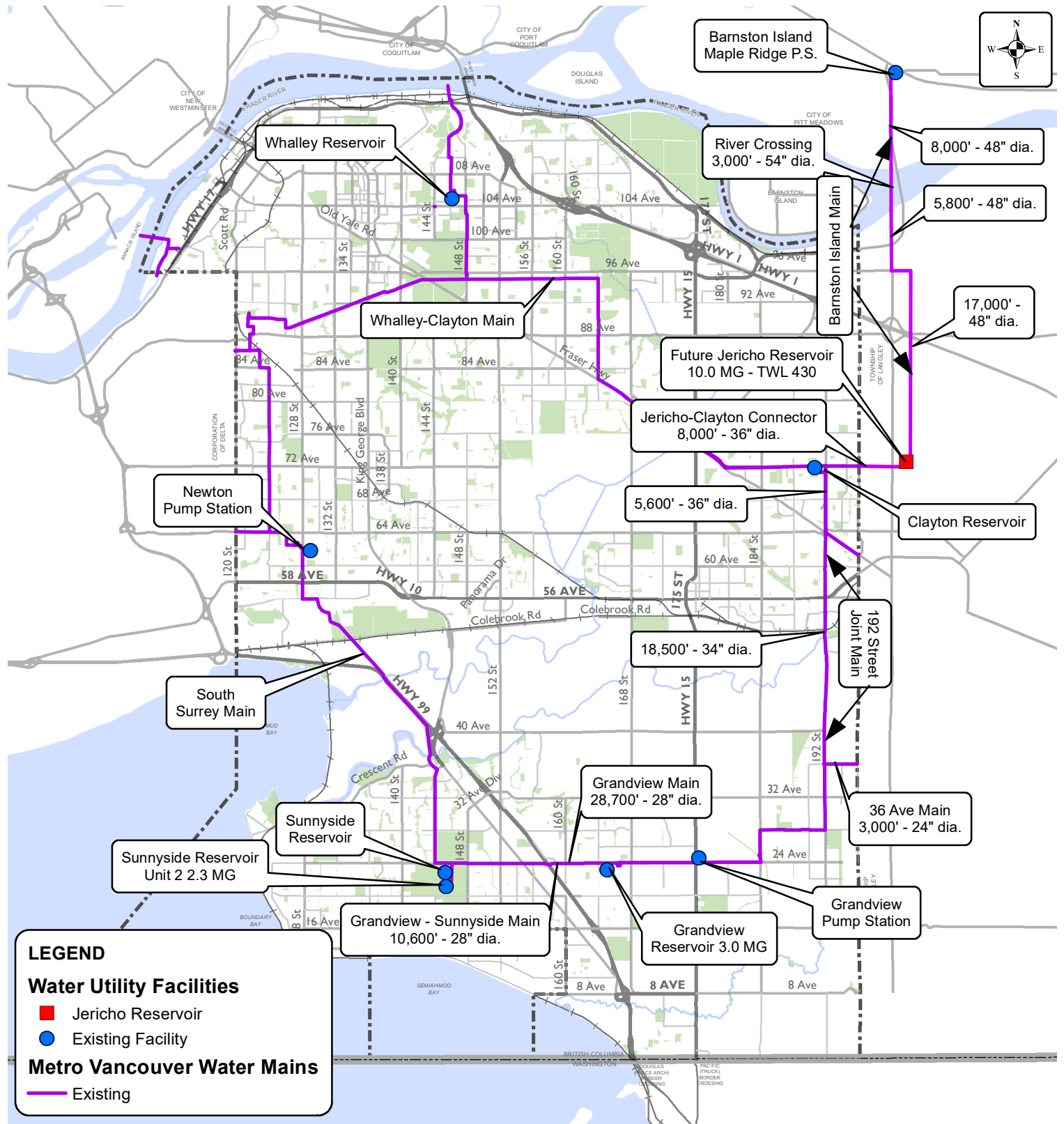
[Signature]
[Signature]

(c/s)

The Corporate Seal of THE CORPORATION OF THE DISTRICT OF SURREY was hereunto affixed in the presence of:

[Signature] Mayor
[Signature] Clerk

(c/s)



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Scale: 1:130,000 0 1,000 M



Regional Water Distribution Network Map

ENGINEERING DEPARTMENT