



**Drainage to EPCOR -
control, service, performance:**

Down the drain

A presentation by CUPE 30



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Drainage to EPCOR: Control, service, performance – down the drain Submission To Edmonton City Council

September 27, 2005

The Canadian Union of Public Employees, Local 30 (CUPE 30) represents the men and women who provide drainage and water services to Edmonton on a daily basis. Our members work for both the City and EPCOR, and know the system better than anyone.

We hope that because of the knowledge and expertise our members present to this issue, our concerns will be given the most serious of consideration.

We consider the issues arising from the Price Waterhouse Coopers study to be very serious, with the potential to put public control of drainage services in jeopardy.

From the outset, we want to be clear that our opposition to the transfer of drainage services to EPCOR does not arise from any self-interest of our members or CUPE as a whole. We are confident that the employment interests of our members will be protected regardless of the decision council makes on the issue.

We ask you to reject this proposal not because it is against our self-interest but because it is against the public interest.

CUPE is making this presentation because members of our union, the ones who run the drainage system, know all too well the perils of this proposal.

And they have demanded that CUPE take a stand in favour of the public interest.

The fact this issue has been raised three times since 1995 has caused some angst to our members. They know moving drainage would compromise the service they are proud of.

And they don't understand why administrators won't accept no for an answer.

Overview of Concerns:

It is CUPE's position that water, wastewater and sewer are among the most essential and critical of public services.

Public ownership, operation and accountability are necessary to ensure the public has safe affordable services, delivered to meet community and environmental priorities.

Drainage services (including sanitary, storm and combined sewers and wastewater treatment) are City owned and operated directly to serve the needs in our community.

Drainage operations are divided into two major areas – operational activities and restoration maintenance activities¹.

The City assets that are a part of the drainage services are by far the largest assets owned by our community. Public safety, environmental concerns and future community needs guide the planning and public investment in drainage services in a way that is directly accountable to the people of Edmonton.

When potable water services became part of EPCOR, public ownership was retained by the City as the sole shareholder. While the City benefits from the dividends generated, the water services are no longer operated or managed by the City. The Report of the Joint Study² describes EPCOR Water Services Inc. as “a corporatized public utility service model” where “the utility is operated by a private company with the owner being the public”. As the sole shareholder, Edmonton retains “public” ownership and benefits from dividends but loses control over direct delivery of an essential public service to the community.

Citizen concerns are directed to the private utility – not to a city department. Specific concerns about water services cannot be directly addressed by members of Council, but become the concern of EPCOR management. The concern of the City becomes much more narrowly focused as the shareholder.

Six years ago, a proposal to privatize the essential services provided by EPCOR was defeated by Council. The expansion of EPCOR operations to include drainage services would greatly increase the risks associated with any future privatization proposal – through loss of critical public infrastructure and assets, and loss of accountability for service quality, delivery and planning.

It is the position of CUPE that the public interest is best served by maintaining direct City ownership, operation and accountability for essential community services like drainage.

Experience with water and wastewater privatization in other areas provides ample evidence of reasons for serious concern about any decisions that could result in future privatization of Edmonton water/wastewater service. CUPE and many other organizations have been very active in defending the crucial municipal role in operation of water and wastewater services.

And while the proposal before council is not, strictly speaking, the privatization of drainage services, it encompasses many of the biggest disadvantages of a privatization model, specifically – loss of direct control, oversight and accountability to the taxpayer. Under EPCOR’s watch, elected city councillors lose almost all oversight of drainage services – and that is not in the interest of voters.

Included in this brief is a list of CUPE resources and sample presentations addressing the problems with privatization of water services,³ including a special report by Public Citizen's Water for All program titled *Waves of regret – What some cities have learned and other cities should know about water privatization fiascos in the United States* (June 2005)⁴ Operation of drainage services by EPCOR will result in significant loss of public accountability and community control – identical to problems faced in other jurisdictions that experimented with fully private models. In short, commercial interests will take precedence over community priorities.

EPCOR’s prime objective is to deliver a dividend to its shareholder – not to provide public services. EPCOR’s mandate is most clearly explained in a recent commentary on its commercial success (see: Neil Waugh’s comments in the Edmonton Sun on July 31, 2005 – *Going Public? EPCOR is more and more like a private sector company.*⁵)

The corporate mandate of EPCOR is not before council and CUPE is not proposing to bring forward that debate at this time. However – it is important to understand that transferring drainage services to EPCOR will mean they are operated in a very different context.

¹Attached at Tab A is a summary list of drainage services provided by the City of Edmonton.

²City of Edmonton Drainage Services and EPCOR Water Services Inc. - Joint Study of Utility Service Models. Price Waterhouse Coopers, May 20, 2005. Pages 15-16.

³Tab B - CUPE resources list and recent presentations on water privatization including examples of problems and privatization failures.

⁴Tab C *Waves of regret – What some cities have learned and other cities should know about water privatization fiascos in the United States* Public Citizen (June 2005) www.wateractivist.org

⁵Tab D - *Going Public? EPCOR is more and more like a private sector company* Edmonton Sun on July 31, 2005 –

CUPE has made every effort to fully participate in the Joint Study. At the outset, we would like to note the serious concern of Local 30, that on May 06, 2005 CHED Radio reported that:

EPCOR has confirmed its expansion plans. CEO Don Lowry says EPCOR sees a lot of potential in water. Talks are underway with the city to take over the drainage utility. If that works, Lowry tells CHED news EPCOR's expertise can be marketed elsewhere.⁶

This media report appears to suggest that the EPCOR takeover of drainage is already in the works, not just one option under consideration.

Further, and more importantly, this report makes it quite clear the incentive for a takeover of drainage by EPCOR is economic – **rather than driven by priorities for service to the public.**

CUPE is participating in the process with the trust that all options are being given fair consideration. This is an absolutely essential condition for discussions concerning the future of an essential city service.

Drainage infrastructure is by far the largest asset of the City of Edmonton with a replacement value of over \$8.1 billion representing 45% of the total replacement value of the infrastructure managed by the City.

Background:

CUPE currently represents 2,000 employees of the City of Edmonton. Approximately 300 CUPE members work in the Drainage Department.

CUPE members are responsible for work in all major activity areas of drainage operations including: operational activities (inspecting, cleaning and clearing of all pipes and appurtenances) and restoration activities (all repair or rehabilitation activities).

The arguments for maintaining city ownership of drainage assets and services are stated very clearly in the City publication – *Edmonton's Infrastructure – What do we own?*⁷

Infrastructure is commonly defined as the “physical assets developed and used by a municipality to support its community's social and economic activities”.

This summary provides important information about publicly owned assets and their management in order to provide services to meet community needs. The overview shows that drainage infrastructure is by far the single largest asset of the City of Edmonton with a replacement value of over \$8.1 billion representing 45% of the total replacement value of the infrastructure managed by the City.

Public Delivery of Drainage Services

The transfer of Drainage services would not only result in the loss of the largest City asset. It would also result in the loss of service capability – the capacity of City to plan, operate, integrate and set priorities for wastewater and sewer services for our community

Edmonton's drainage service responsibilities were given in depth profile in the 2001 Annual Report on drainage services. The report provides a clear profile of drainage operations, priorities and projects. This full and detailed view of Drainage Operations includes information on infrastructure inventory, description of major drainage activities, public complaint response, maintenance activities and environmental issues.

The 2001 Annual Report also reports on customer satisfaction with Drainage Operations. Cards were distributed to the public asking for comments on services they received. In the years 1997 to 2001, public response was positive in 98.5 to 99.5% of cases. In **each** year between 1997 and 2001 the City received voluntary responses from

⁶Tab E – CHED Friday, May 06, 2005.

⁷Tab F – *Edmonton's Infrastructure – What do we own?*

between 711 and 995 citizens praising the services they received. The very high public response to the opportunity to provide feedback is indicative of both the value of the service and public interest in service delivery.⁸

Clearly, there is a high level of satisfaction with drainage services as it is currently being operated.

Detailed information about Drainage Operations and current activities is now accessible to everyone in the community by way of the City of Edmonton website. Samples of the web pages are attached as they show the important role that drainage has as part of a number of related essential city services. The web information is a direct link to the community and provides direct community access contact information.⁹

Drainage information on the City website currently profiles important Edmonton initiatives concerning flood prevention and control. Research and community consultation have been key to these initiatives and are reported in depth under the Flood Prevention Program link. This program includes: Flood proofing program, Flood check up, Public Bulletins, Flooding FAQ and Flood prevention tips – all available on the website.

Public information about Drainage Services, budgets and plans is also available through the City Committee Meetings, public consultations and the City budget process.

The level of information available to citizens about their public services stands in significant contrast to the information provided to customers of private companies – including EPCOR. Providing this level of information and service is simply not in the interest of a company with an eye toward maximizing returns.

CUPE members working at the Gold Bar Wastewater Treatment Plant are responsible for working in an environment where safety is a priority. The significance of safety issues for workers and for the public is set out in detail in the Gold Bar Wastewater Treatment Plant Site Safety Orientation manual¹¹

The Drainage Operations Emergency Manual documents in detail the procedures to be followed and the links between City Drainage services and other emergency services.

These are just some examples of the high level of integration of City services and the development of protocols that have been developed by the City of Edmonton to ensure the safety of the community and workers. Direct control and accountability in these areas of essential community services has a long and respected history in meeting and securing community health and environmental goals.

Public Accountability

Direct operation by the City of Edmonton of Drainage Services is the only way to ensure this service is delivered in a way that is accountable to the community and ensures that public investment (tax dollars and service fees) is transparent.

Under City management the commitment is: “As Edmonton grows, its total infrastructure investment will grow in proportion to those needs”¹². The responsibility of the City to address these growing needs is clear on reviewing the 2006 Business Plan and Budget – Proposed Program Guidelines.

Between 1997 and 2001, drainage received a positive response from 98.5 to 99.5% of customers. In each of those years, the City received between 711 and 995 voluntary responses from citizens praising the services of drainage.

⁸Tab G – *Drainage Operations 2001 Annual Report*, City of Edmonton- Asset Management and Public Works

⁹Tab H - selected pages printed from Drainage information at www.edmonton.ca have been attached to this presentation

¹⁰Tab I – Sample community consultation – Drainage Services Flood Prevention Strategy Community Consultation

¹¹Gold Bar Wastewater Treatment Plant Site Safety Orientation – printed November 4, 2004

¹²Tab F – *Edmonton's Infrastructure – What do we own?* www.edmonton.ca/infrastructure

These guidelines include budget allocation proposed in order to respond to growth demands both in drainage planning, operations and construction and at the Goldbar Wastewater Treatment Plant. In addition, expanded capital requirements due to growth and new service, and to support flood prevention and neighbourhood rehabilitation are identified. The City will also be participating in a Joint Municipal Study to research the impacts of urbanization on the river – updating a previous study¹³.

The work of the City in managing drainage services and assets is key to delivering high quality services. The proposed 2006 Business Plan states:

1. *Drainage is part of the City of Edmonton's Asset management and Public Works Department. It is responsible to plan, design, build, operate and maintain the network of pipes, storage and treatment facilities...Drainage Services is recognized nationally for their tunnelling expertise and contributions to asset management and environmental protection.* (2006 Business Plan and Budget – Proposed Program Guidelines Page 20 – emphasis added).

Committees and City Council work in a transparent and accountable way in assessing and investing in community priorities. Putting the needs of community first is clearly stated in City information concerning infrastructure investment as Edmonton grows:

The value and range of what we own will increase and must be managed carefully so that our city's growth, economic development and quality of life are not compromised.

*The City is working hard to address its infrastructure issues and to meet the needs of citizen's in the 21st century.*¹⁴

Retaining Drainage as a City service is the best assurance that service delivery will continue to be subject to public priorities and publicly accountability – rather than to a strict profit motive.

The extensive City publications speak directly to the fact that information about City services should be clear, available and up to date. Public consultation and involvement are key to the successful delivery of drainage services.

Drainage services are best delivered as directly accountable public service operations of the City of Edmonton bought and paid for by the citizens of Edmonton over the last 100 years.

Comments on the Price Waterhouse Coopers Report

The results and recommendations flowing from the PWC report reinforce the CUPE's concerns.

The movement of drainage to EPCOR would have the same affect on public accountability and community control as any privatization plan for the largest asset of the City. The transfer of assets and service delivery would end the role of the City in this core public service, except as shareholder and regulator. If at some point in the future, City Council made the decision to divest of EPCOR, the role of the City in this essential service would be reduced to that of being party to a service contract.

Earlier in this brief we made reference to the arguments against privatization of public services, and water services in particular. Many of these concerns are also identified in the PWC report. Consider the following issues addressed in the Joint Study (JS):

Qualification/Comments on Financial gains and benefits:

- "The potential operational and capital cost savings related to closer integration of Drainage & EWSI as regulated business are estimates only" (JS pg. 9)

¹³City of Edmonton 2006 Business Plan – proposed program guidelines – Sanitary and Land Drainage Utility, pg 20-26

¹⁴Tab F – *Edmonton's Infrastructure – What do we own?* www.edmonton.ca/infrastructure

- Financial analysis - “the high level nature of the financial model means that financial analysis is only indicative to provide a rough order of magnitude results” (JS pg. 25)
- “One of the prime motivations for the Joint Study stems from issues arising from attempts by EWSI to leverage Drainage in selling wastewater related commercial services...” (JS pg.55)
- “The key strategic objectives” include “operational excellence, reliable provision of safe drinking water, **quest for shareholder returns through business outside of Edmonton**” (emphasis added JS pg.17)
- “The forecast for Commercial Services assumes a steady increase in municipal and industrial opportunities...” which could be influenced by “primarily the political will for municipalities and provincial governments to support private sector (e.g. EPCOR) participation in water and wastewater operations, management, design, construction and financing...” (JS pg. 9)

Risks and Liabilities:

- “There are real risks of potential disruption of existing operation, potential challenges in employee transitions, potential loss of synergy in the city planning function, potential loss of grants and potential investment required to maintain the relationship with ACRWC (Alberta Capital Region Wastewater Commission) and the development community.” (JS pg 9)
- The move to EPCOR of Drainage Services would result in permanent stranded costs related to the PAC (Permanent Area Contribution) and SSSF (Strategic Sanitary Servicing Fund) processes. (JS pg. 39)
- “It is Alberta Environment's view that many circumstances exist where liability would not necessarily follow the assignment of the license to operate but may continue to reside with the municipality...” (JS pg 41)
- “Having Drainage move outside of the municipal organization...could further erode planning coordination and development approval.”(JS pg.50)
- There is concern from ACRWC about the move of drainage to a “for profit entity” as the “relationship with the City does not lend itself to a vendor relationship where the transparency offered by a political governance relationship would be lost”. (JS pg 49)
- “Local Improvements financing cannot be accommodated by the City should drainage be transferred outside the civic administration” (JS pg 52)
- City Council's involvement in Planning and Development may “fundamentally change” with a move to EPCOR (JS pg52)
- Enforcement of municipal bylaws concerning environmental protection, remedies and enforcement staffing, training and prosecution roles could be affected. (JS pg.52)
- The success of businesses depends in part on ensuring “their plans and actions are not visible to competitors...” “...Civic business on the other hand often needs transparency, public input and debate...” (JS pg 57).

Strengths of City of Edmonton delivery of Drainage Services

- “The overall organization of Drainage and its operation units is fairly common for municipal wastewater services with the exception of its in-house tunnel design and construction capability – we are not aware of any other municipality in Canada with this capability” (JS pg. 13)
- “ We understand that Drainage's design and construction unity is extremely cost effective particularly for tunnelling design and construction.”
- **Drainage has a lower cost of debt than EWSI.** At current rates, Drainage has an approximately 50 basis point advantage for 10-year debt and 110 basis point advantage for 20 and 25 year debt. (JS pg. 30 – emphasis added).
- “Excluded from the financial analysis are the two “unfunded” capital programs at Drainage – the accelerated Neighbourhood Improvement Program (\$225 million) and capital expenditures. To the extent these programs are financed, they would cost more under Model #1 and #3 due to the higher cost of debt.” (JS pg. 31)
- “The ability to make local improvement assessments resides in authorities provided to municipalities by the Municipal Government Act. The MGA does not contemplate local improvement financing for a municipal controlled corporation like EPCOR...”(legal issues arising if the City levied a local improvement tax for EPCOR are described as “onerous”).(JS pg. 35)“Drainage currently has a collaborative relationship with ACRWC...A strong relationship with ACRWC is viewed to be strategic because a high level of collaboration is necessary to minimize future investment in wastewater infrastructure to serve the city and surrounding communities in the Capital Region...(JS pg. 37)
- “Drainage has a key role in the development process in conjunction with other City Departments.”(JS pg. 38)
- During the summer of 2004 flooding (a non-declared emergency), the City’s response and coordination abilities were enhanced by integrated communications of frontline staff across the civic corporation (JS pg. 24)

- ...Drainage participates in the development of a wide range of municipal plans, planning committees, as well as reviewing of subdivision applications through circulation review processes. This level of planning and review participation by Drainage ensures that the Planning and Development Department is aware of service issues, limitation and conditions that may result from development in various parts of the City. (JS pg. 50)

All of these points support continued operation of Drainage Services by the City of Edmonton.

What is surprising is that despite the arguments for maintaining City Drainage Services, and even returning water service to the City, the report strongly recommends that Drainage should be transferred.

Debate about water service privatization was highlighted in the *Canadian Consulting Engineer*, January/February 2005. The case for privatization was written by Mark Hodgson, PriceWaterhouse Coopers. The case against was written by Kathy Corrigan, CUPE.¹⁵ This debate is central to the issues raised by the Joint Study report. **It is with some concern that we note the recommendations of the Joint Study by PWC are entirely consistent with the privatization arguments put forward by Mark Hodgson in the Canadian Consulting Engineer article. And they are entirely inconsistent with many findings of the report itself.**

All options must be given fair and full consideration as absolutely essential condition for discussions concerning the future of an essential city service. It is our concern that this has not happened.

Similar issues are facing Ontario. The directions proposed for water and wastewater services in Ontario fail in large measure to address or even consider the longer-term risks of corporatization and privatization. These concerns are presented in detail in the CUPE submission to the Ontario Expert Panel attached for your consideration¹⁶

One final note – the recent sale of Terasen Inc. to Houston based Kinder Morgan Inc. is a clear example of path from public utility (BC Gas) to Vancouver based private corporation (Terasen) which expanded services to include private water services, all which are now owned by Kinder Morgan described as a “U.S. Energy Giant”.¹⁷ This progression is not the exception, but too often the rule where corporate interests and commercial priorities take precedence over the public interest.

CUPE’s Plan to Strengthen Canada's Water and Wastewater Systems¹⁸

There is an alternative to privatization, corporate, and multinational control of water resources and services. The following points are particularly relevant to the proposals under consideration:

- Public ownership and operation of water and wastewater systems is essential to safeguarding the public’s interest.
- A concerted effort is needed by governments at all levels to finance the expansion and upgrading of water and wastewater systems in the form of grants and loans to municipalities.
- The federal government needs to set national water standards and provide sufficient federal resources to enforce these standards in every community.
- Water should be conserved with respect for the environment and should be shared by all equally.
- Water must not be treated as a commodity and water services must not be treated as tradable commodities.
- Public water utilities must be managed in ways that respect the rights of the water workers who operate them and promotes the interests of the citizens who depend upon them.

¹⁵Tab I selection from *Canadian Consulting Engineer*, January/February 2005.

¹⁶Tab J *CUPE Submission to Ontario Ministry of Public Infrastructure Renewal – Expert Panel on Long-Term Water and Wastewater Infrastructure Investment and Financing Strategy*.

¹⁷Tab K – news reports and commentaries on the sale of Terasen to Kinder Morgan.

¹⁸Copies provided with this presentation.

- Citizens must have access to decision-making bodies, and have the right to appeal decisions regarding water prices, water quality, infrastructure renewal and water conservation.

It is the position of CUPE that these key objectives to securing the public interest in water and wastewater services can only be achieved by retaining direct ownership and operation of Drainage Services by the City of Edmonton. Full consideration should be given to returning water services to the City to ensure that the long term community and environmental priorities for water are the first priority.

Attachments – Table of Contents

Tab A Summary list of Drainage Services

Tab B CUPE Resources/presentations

Rebuilding Strong Communities – Water leaflet

CUPE Water and Waste-Water Bibliography
(excerpt from presentation to Ontario Expert panel)

CUPE BC – “*Water Watch*” wins big on Island (August 24, 2005-09-07)

French Creek Water Services: The Case for Integration, Coordination and Regional Ownership – CUPE 401
Presentation (July 3, 2005)

Secretive, Risky Unaccountable: How Public Private Partnerships are Bad for Democracy
Presentation to Parkland Institute Conference by Blair Redlin, CUPE Research (Nov. 2004)

Tab C *Waves of regret – What some cities have learned and other cities should know about water privatization
fiascos in the United States* Public Citizen (June 2005) www.wateractivist.org

Tab D Edmonton Sun on July 31, 2005 – *Going Public? EPCOR is more and more like a private sector company* by
Neil Waugh

Tab E CHED Friday May 06, 2005 CHED “EPCOR has confirmed its expansion plans”

Tab F *Edmonton’s Infrastructure – What do we own?* www.edmonton.ca
Infrastructure Strategy

Tab G *Drainage Operations 2001 Annual Report.* City of Edmonton Asset Management and Public Works

Tab H Selections for City of Edmonton website re: Wastewater and Sewers

Tab I *To Privatize or Not?* Canadian Consulting Engineer, January/February 2005.

Tab J *Canadian Union of Public Employees Submission to Ontario ministry of public Infrastructure Renewal Expert
pane on Long-Term Water and Wastewater Infrastructure Investment and Financing Strategy.* CUPE
National Research Branch

Tab K – News clips re: sale of Terasen