



ARROWSMITH WATER SERVICE MANAGEMENT BOARD RECOMMENDATIONS - JULY 2023

RECOMMENDATIONS

1. The Regional District of Nanaimo Board approve the 2022-2027 Arrowsmith Water Service Joint Venture Agreement 2022-2027 as revised June 2023 and included as Attachment 1.
2. The Regional District of Nanaimo Board approve an amendment to the 2023-2027 Arrowsmith Water Service Financial Plan to add \$100,000 in 2023 for consulting services required to inform amendments to the Arrowsmith Dam Provisional Operating Rule.

BACKGROUND

These items were originally brought to the Regional District of Nanaimo (RDN) Board on July 11, 2023 as part of the recommendations from the Arrowsmith Water Service (AWS) Management Board meeting:

10.3 ARROWSMITH WATER SERVICE MANAGEMENT BOARD RECOMMENDATIONS

10.3.1 B. Woods, City of Parksville Director of Operations - Arrowsmith Water Service Management Committee - Revision to Joint Venture Agreement

That the Regional District of Nanaimo Board approve the revision to the Arrowsmith Water Services Joint Venture Agreement July 1, 2022, to June 30, 2027, as attached as Appendix A.

10.3.2 B. Woods, City of Parksville Director of Operations - Provisional Operating Rule Update

That the Regional District of Nanaimo Board approve an amendment to the 2023-2027 Arrowsmith Water Service Financial Plan to add \$100,000 for consulting services to obtain the technical information required to inform potential amendments to the Provisional Operating Rule for 2024.

Both of the recommendations listed were approved in separate sessions by the City of Parksville (Parksville) and Town of Qualicum Beach (Qualicum) Councils. The RDN Board requested a further report on the subject before considering the recommendations.

Item 10.3.1

The Arrowsmith Water Service is a joint venture between Parksville, Qualicum, RDN's Nanoose Bay Bulk Water Service (RDN Nanoose), and French Creek Bulk Water Service (RDN French Creek). The original partnering agreement expired at the end of June 2022. A revised agreement was prepared for the period July 1, 2022 to June 30, 2027 and was approved by the joint venture partners in 2022. The revised agreement was intended to

modernize the language to be more legally relevant, but no financial structure or payment changes were intended. During the 2022 financial reconciliation and preparations for the 2023 budgets, an error was noticed in the cost apportionment language in the revised agreement. The AWS Management Board recommendations presented in the July 11, 2023 meeting were to correct this error.

The intention of cost apportionment in the agreement is that all joint venture partners pay their share of the Capital, Maintenance, and Administrative/Management costs of the AWS. Only those partners using the water stored by the AWS (Parksville and RDN Nanoose) pay the operating costs of the AWS. To make this easy to review, the cost apportionment clauses from the **original**, the **revised (2022)**, and the **corrected revised (2023)** agreements are shown below:

The cost apportionment clauses in the **original** agreement:

- 7.11. *The **Capital** costs will be apportioned among the parties as set out in Schedule C.*
- 7.12. *The **Operating** Costs will be apportioned among the parties on the basis of the metered flow to the party receiving the bulk water.*
- 7.13. *The **Maintenance** Costs will be apportioned among the parties on the basis of the percentage of the Capital Costs apportioned in respect of that party pursuant to the formulae in Schedule C.*
- 7.14. *The **Administrative** Costs will be apportioned among the parties on the basis of the percentage of the Capital Costs apportioned in respect of that party pursuant to the formulae in Schedule C.*

The cost apportionment clauses in the **revised** agreement:

- 7.8 *The **Capital** Costs will be apportioned between RDN, Parksville and Qualicum Beach based on the percentage apportionment set out in Schedule C.*
- 7.9 *The **Operating, Maintenance, Administrative/Management** Costs will be apportioned between RDN, Parksville and Qualicum Beach based on relative metered flow of water from the Facility to each Joint Venturer's Community Water System.*

The cost apportionment clauses in the **corrected revised** agreement:

- 7.8 *The **Capital, Maintenance, and Administrative/Management** Costs will be apportioned between RDN, Parksville and Qualicum Beach based on the percentage apportionment set out in Schedule C.*
- 7.9 *The **Operating** Costs will be apportioned between RDN, Parksville and Qualicum Beach based on relative metered flow of water from the Facility to each Joint Venturer's Community Water System.*

The entire **corrected revised** agreement is included as Attachment 1.

Approval of Recommendation 1 would finalize the adoption of the **corrected revised** agreement.

Item 10.3.2

The fall of 2022 was one of the driest time on record, and AWS staff were in close contact with the Ministry of Forests (MoF) regarding the water release rate from the Arrowsmith Dam to avoid the Englishman River going dry. The MoF regulates the release of water from the dam via the Provisional Operating Rule (POR). In these discussions, the MoF confirmed that the re-establishment of the POR after the ERWS water intake was commissioned was an outstanding task that the AWS needed to complete. Subsequent discussions with MoF and the Department of Fisheries and Oceans, along with the prolonged drought that we are still in the middle of, brought some urgency to this task and motivated MoF to provide two interim orders on water release this summer. Doing the science necessary to re-establish the POR is the responsibility of the water license holder (AWS), and the MoF will make a decision based on this science and their own data. To allow for this to take place in time for MoF to develop a new POR for 2025, AWS staff brought forward motion 10.3.2 to the AWS Board. This resolution would amend the 2023 AWS Financial Plan to add an allowance of \$100,000 to do this work. The exact cost was not known at that time, but advice from several consultants indicated that this would be adequate funds. More recently the actual cost of the study has been established at about \$60,000.

Approval of Recommendation 2 would finalize the amendment of the 2023 AWS Financial Plan to include the \$100,000 allowance for the POR study.

FINANCIAL IMPLICATIONS

Item 10.3.1

The parties had never intended to amend the apportionment from the original agreement. The change was introduced by virtue of a drafting error. With the *corrected revised* agreement approved, there will be no change to the way costs are apportioned between the joint venture partners, and there are no financial implications.

Item 10.3.2

Assuming that Item 10.3.1 is approved via Recommendation 1; the \$100,000 allowance, as an Operating Cost, would be split between the joint venture partners according to their use of water from the river. Using the default values of water consumption from the Englishman River Water Services water treatment plant as a guide implies that the City of Parksville would be responsible for 74% (\$74,000) and RDN Nanoose Bay Bulk Water would be responsible for 26% (\$26,000).

STRATEGIC PLAN ALIGNMENT

Growth Management - Provide effective regional land use planning and responsible asset management for both physical infrastructure and natural assets.

REVIEWED BY:

- E. Tian, General Manager, Regional and Community Utilities
- D. Holmes, Chief Administrative Officer

ATTACHMENT

Arrowsmith Water Service Joint Venture Agreement, revised June 2023