

Ashbridges Bay Treatment Plant – Biosolids Pelletizer Facility Operations, Maintenance and Pellet Marketing Services Agreement

Date:	June 27, 2007
To:	Public Works and Infrastructure Committee
From:	Lou Di Gironimo, General Manager of Toronto Water
Wards:	All Wards
Reference Number:	P:\2007\Cluster B\TW\pw07032

SUMMARY

The purpose of this report is to seek Council approval and authority to finalize and execute an agreement between the City of Toronto and Veolia Water Canada, Inc. (formerly doing business as USF Canada Inc.) (“Veolia”) on substantially the same terms and conditions outlined in this Report.

Reconstruction of the Ashbridges Bay Treatment Plant (ABTP) Pelletizer Facility, which burned down in 2003, is expected to be completed and ready for final testing (“Secondary Testing”) by mid July 2007. In order to start Secondary Testing and to operationalize the Pelletizer Facility, the City requires the professional services of an experienced operator to operate and maintain the Pelletizer Facility and to market for beneficial use the pellets produced. City Council had previously authorized staff to enter into negotiations with Veolia for these services subject to a report back to the appropriate Committee regarding the proposed terms and conditions and City Council approval of any negotiated draft agreement.

Under the terms of the proposed agreement, Veolia will provide all staff and resources necessary to process 25,000 Dry Tonnes per year of biosolids produced at the ABTP. This represents 50% to 60% of the total biosolids production and is a significant step towards fulfilling the City’s commitment to the beneficial use of the biosolids generated at the ABTP. The remainder of the City’s biosolids will continue to be managed through a combination of other beneficial use options and landfilling.

RECOMMENDATIONS

The General Manager of Toronto Water recommends that:

1. Authority be granted to finalize and execute the Operations, Maintenance and Pellet Marketing Services Agreement with Veolia Water Canada, Inc. on substantially similar terms and conditions as set out in the attached Schedule 'A', and on such other terms as may be acceptable to the General Manager, Toronto Water, and all in a form acceptable to the City Solicitor;
2. Funds in the amount of \$2,880,000 net of GST be reallocated for the payment of enhancements made to the Pelletizer Facility during rebuilding as follows: \$1,440,000 from CWW005-92- Ashbridges Bay WWTP Digester Refurbishment and \$1,440,000 from CWW008-44- Humber WWTP Waste Activated Sludge Upgrade, to CWW010-98 Ashbridges Bay WWTP Biosolids Pelletizer; and
3. The appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Implementation Points

Staff of Toronto Water and Human Resources Divisions have met with members of Local 416 and advised them of the intent to proceed with consideration of this report and the recommendation to enter into an agreement with Veolia for the operation, maintenance and provision of pellet marketing services for the Pelletizer Facility. Local 416 have not had an opportunity to review the details of the proposed agreement.

The adoption of this report will have no impact on existing staff working at the ABTP. All unionized staff will continue to work in their present job classifications and at their present work locations.

Financial Impact

The proposed agreement calls for a variety of services to be provided at an initial unit price of \$159.54 per dry tonne (exclusive of all taxes) of biosolids received, processed and marketed by Veolia (this is equivalent to \$44.67 per wet tonne on a 28% solids basis as processed at the plant's centrifuges). The City would be committing to providing a target of 25,000 dry tonnes of biosolids to Veolia at the Pelletizer Facility each year for an initial period of ten years. Assuming the start of Secondary Testing of the Pelletizer Facility in July 2007, the fiscal commitment for 2007 would be approximately \$1,994,250 (based on 26 weeks of production). The fiscal commitment for each of the subsequent nine (9) contract years would be approximately \$3,988,500 per year (based on 2007 unit price) – plus annual CPI adjustments.

In addition, in 2007 the City would make a lump sum payment to Veolia in the amount of \$2,882,170 to pay for enhancements implemented to the Pelletizer Facility during the reconstruction. This project is included in the approved 2007-2011 Toronto Water Capital

Budget in WBS Element (CWW010-98) Ashbridges Bay WWTP – Biosolids Pelletizer, however, at this time, the uncommitted cashflow in CWW010-98 is insufficient and additional cash flow authority is therefore required to meet these commitments. The additional cashflow and project cost (all net of GST) is to be reallocated from approved 2007 capital projects (with net impact of \$0) as follows:

CWW005-92- Ashbridges Bay WWTP Digester Refurbishment - \$1,440,000
CWW008-44- Humber WWTP Waste Activated Sludge Upgrade - \$1,440,000

A further lump sum payment of \$180,000 would be made from the operating budget (WW1036) for Veolia's mobilization costs.

The City is required to pay the cost of all utilities used at the Pelletizer Facility. However, the City benefits under the proposed agreement by the capped maximum consumption rates in place for electricity and natural gas used by the Pelletizer dryer units. Veolia will refund the City the cost of electricity and natural gas that exceeds the capped consumption rates. The cost of natural gas for 2007 is estimated to be \$1,062,375 and the cost of electricity is estimated to be \$142,375, assuming 6 months of operation. Funds in the amount of \$2,991,093 for these utilities have been budgeted for 2007 in Account Number WW1036.

All fee increases in future years are linked to CPI and will therefore be funded through annual water rate increases. Future capital equipment and improvement costs of \$200,000 per year are anticipated over the life of the Pelletizer Facility and will be budgeted for accordingly in future year Toronto Water capital budgets. The following table summarizes the financial impacts as estimated.

Description	2007	Annualized	Funding
Operating Contract	\$1,994,250	\$3,988,500	WW1036 Ashbridges Bay TP Biosolids Work Area
Mobilization Costs	\$180,000	One time	WW1036 Ashbridges Bay TP Biosolids Work Area
Natural Gas	\$1,062,375	\$2,124,750	WW1036 Ashbridges Bay TP Biosolids Work Area
Hydro	\$142,375	\$284,750	WW1036 Ashbridges Bay TP Biosolids Work Area
Capital Enhancements	\$2,882,170	One time	CWW010-98 Ashbridges Bay WWTP Biosolids Pelletizer
Future Capital Equipment & Improvements	N/A	\$200,000	CWW010-98 Ashbridges Bay WWTP Biosolids Pelletizer (for 2008 only; new capital budget will be established for subsequent years)
Capital Funds Transfer	(\$1,440,000)	N/A	CWW005-92 Ashbridges Bay WWTP Digester Refurbishment
Capital Funds Transfer	(\$1,440,000)	N/A	CWW008-44 Humber WWTP Waste Activated Sludge Upgrade

The Deputy City Manager and Chief Financial Officer have reviewed this report and concur with the financial implications and impact statement.

DECISION HISTORY

In March 1999, City Council authorized the negotiation and execution of an agreement with USF Canada Inc.(now known as Veolia Water Canada, Inc.) for the design, construction and commissioning of a \$23 million biosolids pelletizer facility (the “Pelletizer Facility”) at the ABTP capable of processing 25,000 dry tonnes of biosolids per year. Authority was also given to negotiate and sign a 15 year marketing agreement with USF Canada Inc. to transport, store and market the biosolids pellets to be generated by the Pelletizer Facility. At the time, the negotiations by the parties contemplated a term of 5 years plus two (2) five (5) year options based on mutual consent for the marketing agreement. Based on the negotiations, it was intended by the parties that, upon final commissioning of the Pelletizer Facility, while USF Canada Inc. would transport, store and market the biosolids pellets, City staff would be responsible for the daily operation and maintenance of the Pelletizer Facility. However, prior to the finalization and execution of the marketing agreement, and before the City’s acceptance of the Pelletizer Facility, on August 21, 2003 a fire severely damaged the Pelletizer Facility. For this reason, a marketing agreement was never entered into between the City and USF Canada Inc.

As a result of the fire, at its July 20, 21 and 22, 2004 meeting, City Council authorized staff to begin the negotiation of a claim settlement agreement between the City and Factory Mutual Insurance Company (“FM Global”) arising from the fire at the Pelletizer Facility and to further negotiate a rebuild agreement of the Pelletizer Facility with Veolia.

At its meeting on February 1, 2 and 3, 2005, City Council granted authority to enter into the negotiated agreements with FM Global for the claim settlement and with Veolia to allow the rebuilding of the Pelletizer Facility to its condition the day before the August 2003 fire with the addition of several enhancements to the Pelletizer Facility as requested by the City.

Authorization was also given to allow staff to begin negotiations with Veolia regarding a possible 20 year operations, maintenance and marketing services agreement (“OM&M Agreement”) for the Pelletizer Facility, and to report back to Works Committee with the proposed final terms and conditions once negotiated for approval by City Council.

This report provides the Public Works and Infrastructure Committee with the results of the negotiations that have occurred between the parties and is seeking approval and authority to finalize and execute an OM&M Agreement on substantially similar terms and conditions as outlined in Schedule “A” of this report, and such further other terms as may be acceptable to the General Manager, Toronto Water.

ISSUE BACKGROUND

USF Canada Inc. (now known as Veolia Water Canada, Inc.) began the design and construction of the Pelletizer Facility in 1999. In 2002, staff negotiated a draft marketing agreement with USF Canada Inc. to transport, store and market the biosolids pellets generated by the Pelletizer Facility.

On August 21, 2003, a fire severely damaged the Pelletizer Facility. The Pelletizer Facility was substantially complete by this time but had not yet met all of the Secondary Testing requirements. The Ontario Fire Marshal's Office determined that the source of the fire was a fractured discharge cover on a hot-oil circulation pump. The fire was isolated to one particular area of the building and the fuel of the fire was the oil that was purged from the circulation system. Flames from this source ignited electrical and mechanical equipment, insulation and cladding, portions of the roof and various hoses and pipes.

After completing various structural and mechanical inspections, and receiving appropriate Council authority, the City entered into settlement agreements with FM Global and Veolia to allow, among other things, the rebuilding of the Pelletizer Facility to its condition the day before the August 2003 fire. The rebuild agreement with Veolia amended the original design, construction and commissioning contract dated April 30, 1999 between the parties and authorized Veolia to complete all "remediation work" required to commission the Pelletizer Facility, at no additional expense to the City beyond those amounts owed to Veolia prior to the fire.

As part of the rebuild process, the City requested several modifications to the original design in order to enhance operational performance (the "Enhancements"). The Enhancements provide additional operating flexibility, upgrade fire safety systems, improve working conditions and enhance quality control of final pellet size specifications. The specific list of Enhancements and related estimated costs are as follows:

Description	Original Estimate	Current Estimate
Building Temperature Control	\$90,000	\$45,200
Additional/Revised Instrumentation	\$220,000	\$124,000
Equipment Modifications	\$350,000	\$75,000
Engineering and Construction Management Services	\$600,000	\$596,300
Pellet Quality Enhancements	\$1,000,000	\$1,350,390
Employee Facility Improvements	\$270,000	\$270,000
Safety Improvements (Sprinklers & Foam Suppression)	\$320,000	\$421,280
Total Enhancements	\$2,850,000	\$2,882,170

The rebuild of the Pelletizer Facility began during the summer of 2005. The Enhancements, including the new fire protection systems, have since been designed and incorporated in the new Pelletizer Facility. Commissioning, final testing and acceptance of the rebuilt Pelletizer Facility commenced in May 2007 and is anticipated to be complete in mid July 2007. Secondary Testing which involves continuous operation of the Pelletizer Facility for a period of 66 days will then commence.

COMMENTS

Rationale for Proposed Agreement with Veolia:

The services provided under the proposed agreement with Veolia cover the full range of activities required to develop and sustain a pellet production and marketing business. The proposed agreement commits the City to providing biosolids that meet the requirements for agricultural land application under the Nutrient Management Act and, in turn, Veolia is required to convert the biosolids to pellets and identify, develop and sell the pellets to beneficial end use markets. By fully integrating the pelletizer operation function with the marketing function, which includes haulage and distribution, Veolia is well positioned to successfully supply pellets to a broad variety of end use markets and to respond to changes in pellet market demand.

As the Pelletizer Facility designer and builder, Veolia is best positioned to effectively operate and maintain the Pelletizer Facility. The City's 2003 attempt, prior to the fire and during the final commissioning phase, to operate the Pelletizer Facility with City staff met with mixed success. City staff assigned to the Pelletizer Facility was being trained and were in the process of assisting Veolia (as the design-builder) to commission the Pelletizer Facility. Veolia was marketing the pellets that were being produced during this stage for beneficial use and was just beginning to put together a supply network of storage and use sites throughout Southern Ontario.

Due to the 2003 fire, existing City staff was redeployed to other duties and have since been absorbed into other process areas within the ABTP. The knowledge these staff developed before the fire has for the most part been lost and therefore significant re-training would be required for the City to resume any operational responsibilities. Key management staff that were directly involved and were to oversee the operation of the Pelletizer Facility have since left the City thus leaving a significant knowledge gap within the ABTP.

If City Council were now to decide that the ABTP staff is to operate and maintain the Pelletizer Facility, then it would be necessary to undertake the following:

- Redeploy five (5) operational staff from the ABTP to the Pelletizer Facility, backfill positions left vacant and hire eight (8) additional operational/maintenance staff.
- Redeploy or recruit a manager or senior supervisor for the Pelletizer Facility.
- Negotiate an amendment to the original design-build agreement with Veolia to provide additional training services over and above the scope that had been

previously identified in the contract. It is estimated that these steps would take approximately three months and cost approximately \$200,000.

The following summarizes the estimated annual cost (using 2007 base year) to the City of using City staff to operate and maintain the Pelletizer Facility (exclusive of any related marketing services) versus the cost of contracting with Veolia:

Description	Toronto Cost if City Operates Pelletizer Facility	Toronto Cost if Veolia Operates Pelletizer Facility
Operations & Maintenance staffing salary and benefits (14 FTEs)	\$1,183,000	included
Logistics staff – haulage coordination and clerical (2 FTEs)	\$136,400	included
Equip replacement and specialized maintenance (total est. based on \$23.12/dry tonne)	\$578,000	\$200,000
Haulage Cost (assume \$25/wt X 25,000 Dry Tonnes / 92% solids content)	\$679,348	included
Initial Training	\$200,000	included
Natural gas	\$2,124,750	\$2,124,750
Electricity	\$284,750	\$284,750
Process water	\$177,750	\$177,750
Lab testing	\$6,250	\$6,250
Site Operational Overheads (communications, tools, regulatory requirements) – lump sum	\$100,000	included
Management Overheads (engineering, purchasing, HR, Legal, QA/QC and other City resources) – lump sum	\$350,000	included
Veolia Fee (Facility Operations and Maintenance component only)	N/A	\$3,106,000 (Based on \$124.24/dry tonne)
Total Estimated Annual Cost	\$5,820,248	\$5,899,500
Estimated Cost per Dry Tonne (based on 25,000 dry tonnes/year)	\$232.81	\$235.98

The estimated cost differential between the City operating the Pelletizer Facility and Veolia operating is generally negligible. For approximately the same cost, Veolia's operation and maintenance of the Pelletizer Facility would provide the City with the following added benefits:

- Added insurance coverage on the Pelletizer Facility
- Operational risk is assumed by Veolia
- Access to in-plant technical expertise at no cost to the City

The volume of pellets to be produced is significant and the marketing effort to find beneficial end use markets is beyond the current capabilities within Toronto Water. For the following reasons, Veolia is ideally positioned to provide this required service to the City:

- Veolia has an established Residuals Management business and has resources and expertise to assess and secure the various biosolids end use markets;
- Veolia's corporate size provides market reach across North America – well beyond the reach Toronto could reasonably develop on its own;
- Veolia is in the process of commissioning a 54,500 dry tonne per year pelletizer facility for the City of Chicago and, therefore, has the ability to combine the Toronto and Chicago pellets into a more sustainable long term pellet marketing business; and
- Veolia is in discussions with Milwaukee to partner and jointly market their biosolids based fertilizer pellets commonly sold under the brand name Milorganite. If successful, this would involve an additional 27,200 dry tonnes per year of pellets.

The Proposed OM&M Agreement:

The proposed negotiated agreement with Veolia, attached hereto as Schedule A, is for an initial term of ten (10) years with a mutual option for an additional ten (10) year term. The negotiated unit price is based on the Price Proposal dated December 16, 1998, as submitted by USF Canada Inc. in accordance with the City of Toronto's Request for Proposal for Beneficial Use of Biosolids issued on September 28, 1998. Given the passage of almost 9 years since that price submission, the unit price has been adjusted to reflect various additions and deletions from the original proposed scope of services and has been adjusted for inflation.

Highlights of the proposed OM&M Agreement are as follows:

Services:

- Veolia will provide all labour, management, technical support staff, and all other resources to operate and maintain the Pelletizer Facility. Veolia will also establish and maintain a pellet marketing function and be solely responsible for the marketing, handling and distribution of pellets produced at the ABTP Pelletizer Facility.
- Veolia will guarantee processing of 24,000 to 26,000 dry tonnes of biosolids per year. The City will only pay the unit price for pellets actually produced by Veolia. Payments to Veolia are therefore performance based.
- Veolia will assume the responsibilities of the City during secondary testing period. If Veolia does not successfully complete secondary testing the City has the right to terminate the agreement.
- The City has the right to reduce supply of Biosolids during first year ("Processing Reduction Period") in response to obligations of the City to other service providers.

Pricing:

- In the first contract year, the City will pay Veolia a price of \$159.54 per dry tonne of biosolids processed into pellets. This price is subject to CPI adjustments in subsequent years.
- The City will pay Veolia 50% of the per dry tonne price for each dry tonne of biosolids processed during the Commissioning Period and the full per dry tonne price for biosolids produced during Secondary Testing.
- The City will pay Veolia a lump sum fee of \$180,000 for mobilizing all necessary operational staff and resources to commence delivery of services under the proposed agreement.
- Under the Design Build Agreement, the City will make a lump sum payment of \$2,882,170 to pay for the “Enhancements” implemented as part of the Pelletizer Facility rebuild.
- The City will pay for electricity and natural gas subject to capped maximum consumption rates. Veolia will refund the City the cost of electricity and natural gas that exceeds the cap.

Monitoring:

- Veolia will be required to periodically prepare and present various documents which the City will use to monitor Veolia’s performance under the agreement. These include: Operations and Maintenance Plans, Quarterly Operations Reports, Quarterly Maintenance Reports, Compliance Reports, Annual Operations and Maintenance Reports, Annual Pellet Marketing and Distribution Reports, and Corporate Financial Reports.
- The City will perform certain compliance and performance testing to ensure suitable biosolids quantity and quality has been provided to Veolia by the City. Veolia will be responsible for monitoring pellet quality and reporting to the City.
- The General Manager of Toronto Water has been given the delegated authority to make certain decisions related to this agreement except with respect to extending or renewing the agreement or making any material changes to the agreement without the express written authority from City Council.

Asset Protection and Maintenance:

- Veolia will be responsible for and shall pay for the first \$20,000 of any and all incidents of repair and replacement related to mechanical, electrical, civil, and structural and site related assets. The City will pay the cost in excess of \$20,000 for any individual incident of repair and replacement. Participation by the City in these repairs will provide incentive to proactively perform maintenance and preserve the assets owned by the City. City participation will also provide added opportunity for the City to monitor the condition of the assets throughout the term of the agreement.
- During the term of the agreement, the City can implement any capital improvement or enhancements to the Pelletizer Facility – including expansion of the capacity of the Pelletizer Facility. Subject to the City’s written consent, Veolia may implement capital improvements to the Pelletizer Facility at its expense in order to generate efficiencies.

- During the penultimate contract year, the City and Veolia will conduct a Final Condition Survey of the Pelletizer Facility and Veolia will be responsible for correcting the identified deficiencies prior to the end of the contract term. The Pelletizer Facility is to be returned to the City in a condition that meets or exceeds the condition at the start of the contract, except for normal wear and tear and abandoned equipment mutually agreed to by the parties.

Termination Provisions:

- Subject to varying payment provisions, the City retains the right to suspend and/or terminate the agreement at any time. Compensation to Veolia will vary depending on when the termination provision is triggered and the reason for termination.
- Suspension Payments to Veolia are significant and are therefore a disincentive for the City to suspend unless the City intends to terminate for convenience.

Insurance and Financial Security:

- Subject to any claims of the City against Veolia to recover payments from insurance policies, the aggregate liability of Veolia to the City in relation to the agreement shall not exceed \$10 million.
- The obligations of Veolia will be guaranteed by the parent, Veolia Water North America Operating Services, LLC., through a separate agreement included in Schedule 15.
- Veolia will post a 3 year renewable performance bond in the amount of \$10 million which will be backed by a \$4 million Letter of Credit in favour of the City that can be exercised should Veolia allow the Bond to expire.
- The proposed agreement provides a significant indemnity from Veolia in favour of the City for claims resulting from or related to various matters including, but not limited to, breach of the agreement, property damage, personal injury or death, any intellectual property infringement, related legal fees and any third party claims. However, this indemnity does not apply to the extent the claim is caused or contributed to by the City's negligence or breach of the agreement. The City is also required to indemnify Veolia for claims related to or arising from the City's breach of the agreement or the City's negligence.
- Veolia will be required to maintain the following insurance coverage: All-Risk Property Insurance, Boiler and Machinery Insurance, Business Interruption and Extra Expense Insurance, Commercial General Liability Insurance in an amount not less than \$10 million per occurrence, Pollution and Environmental Liability Insurance, and Automobile Insurance. The adequacy of the insurance coverage has been verified and approved by Risk Management.

Changes in Laws:

- The City assumes the financial risk for operational changes in laws that have a total direct cost impact in excess of \$10,000 over the remaining term of the agreement.
- The City assumes the financial risk for marketing changes in laws that affect the end usage of pellets within Ontario and have a total direct cost impact in excess of \$20,000 over the remaining term of the agreement.

- The City assumes the financial risk for marketing changes in laws outside of Ontario that affect 20% or more of the pellets produced by the Pelletizer Facility.

Dispute Resolution:

- The dispute resolution provision does not contain a mandatory mediation or arbitration obligation; instead the parties are required to participate in a stepped negotiation and if the matters are not resolved, then litigation would occur.

Pellet Marketing Plan:

- Veolia's initial draft Pellet Marketing Plan is included as Schedule 4 to the draft Agreement. Initial efforts focus on pursuing a broad range of markets in order to develop all-season year round demand. This will help minimize Veolia's need for pellet storage.
- Veolia will retain all revenues derived from the pellet marketing business and these revenues are to be used by Veolia to offset costs incurred in the delivery of services under the agreement.
- Veolia does not plan at this time to sell any significant quantity of pellets to the consumer market, either directly or through distributors. However, they intend to sell to the diversified industries that use fertilizer in their production process, including: turf producers, ornamental plant nurseries, greenhouses, golf courses, landscapers, etc.
- A significant portion of the marketing effort will be directed toward the use of pellets for the production of agricultural crops grown as a source of fuel, such as corn, grains and switch grass for ethanol production, as well as soybeans and jojoba for biodiesel.
- Veolia have committed significant resources in developing the combined Toronto/Chicago pellet marketing business and as such consider their client lists as confidential.
- Long term efforts will focus on identifying and securing the highest value end markets.
- A financial penalty is imposed if Veolia disposes of any pellets in a landfill.

Cost Comparisons:

When the Agreement is executed, the City will have five (5) service providers under contract to provide a range of services with respect to Biosolids haulage, processing, beneficial end use and/or disposal. In addition, Toronto Water has discussed with the Solid Waste Management Division the possibility of accessing the Green Lane Landfill site as a contingency biosolids disposal site in case of emergency. Although no commitments have been made with respect to Green Lane, it is included in the table below for comparison purposes.

Service Provider	Technologies	Cost per Wet Tonne of Biosolids	Comments
GSI	Co-composting, landfilling, degraded site rehabilitation (incl. haulage)	\$116/wt \$150/wt	Base volume Emergency volume

Modern & Terratec	Landfilling Haulage	US\$49.88/wt \$45.50/wt	Haulage by Terratec
IMS	Alkaline Stabilization and landfilling (incl. haulage)	\$156.50/wt	Excess volume goes to landfilling
Terratec	Haulage and agricultural land application	\$47.00/wt	Capacity limited by weather and agricultural practices
Veolia	Pelletization	\$66.07/wt (assumes 28% dry solids)	(\$235.98/dry tonne) Includes all City funded utilities and costs
Internal Contingency: Haulage and disposal at Green Lane Landfill	Landfilling: Haulage:	\$48.11/wt (est.) \$23/wt	Based only on preliminary discussions with Solid Waste

Conclusion

If Council approves the finalization and execution of this proposed agreement with Veolia, it will form a significant step towards achieving City Council's objective of 100% beneficial use of ABTP biosolids. In addition, this proposed agreement complements the arrangements currently in place with other service providers who supply to the City alternate beneficial end uses such as land application, co-composting, alkaline stabilization and degraded site remediation.

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SIGNATURE

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ATTACHMENTS: SCHEDULE A - OPERATION, MAINTENANCE AND PELLET MARKETING SERVICES AGREEMENT