An aerial photograph of the Fort Lauderdale skyline, featuring various high-rise buildings, some under construction with cranes, and green spaces. A large yellow box is overlaid on the left side of the image, containing the title and date.

Fiveash Water Treatment Plant Proposal Evaluation – Comparative Report Summary

City of Fort Lauderdale

18 January 2022

Disclaimer

Outline

- I. Background and Approach**
- II. Preliminary Considerations**
- III. New WTP Evaluation Considerations**
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 - 3. Financial Terms and Certainty**
- IV. Water System Concession Considerations**
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I. Background and Approach

Background

Between May and September 2021, the City of Fort Lauderdale (the “City”) received unsolicited proposals (“Proposals”) from four consortia (“Proposers”) under Chapter 255.065 of the Florida Code (“P3 Regulation”) to develop a new Water Treatment Plant (“New WTP”) in Fort Lauderdale, FL through a long-term Public-Private-Partnership (“P3”) arrangement and, in one instance, to assume the renewal, operations and management of the City’s entire water system (“Water System”). The City engaged Ernst & Young Infrastructure Advisors, LLC (“EYIA”) to undertake a preliminary analysis of each Proposal on the basis of its own financial and commercial considerations (“Evaluation Reports”). The City has further engaged EYIA to provide a comparative analysis of the Proposals to inform the City’s ranking of the Proposals, in accordance with the P3 Regulation, in order to determine a Preferred Proposer (as defined in the P3 Regulation) with whom to negotiate further. An introduction to each Proposal, in alphabetical order, is provided below:

Aqualia Team

Consortium composed of FCC Aqualia, S.A. (“Aqualia”) (financing construction and operations) and FCC Construction, Inc. (“FCC”), Primoris Services Corporation (“Primoris”) and CES Consultants Inc. (“CES”) (collectively the design and construction team) – (the “Aqualia Team”). The Aqualia Team will deliver a 33.5-year P3 project comprising:

- Financing and design/construction of a replacement of the existing Fiveash WTP (“Fiveash”) with a new 50 million-gallon-per-day (“MGD”) WTP at the City’s Prospect Wellfield site.
- Operation and maintenance of the New WTP

The City will make regular Availability Payments (“AP”) for the duration of the contract period.

FLW Team

Fort Lauderdale Water consortium composed of SUEZ Water Environmental Services Inc. (“SUEZ”) (operations, financing), Kohlberg Kravis Roberts & Co. L.P. (“KKR”) (financing) and Garney Construction (“Garney”) (design and construction) – (the “FLW Team”). The FLW Team will take over the management of the Water System through a 50-year agreement (“Concession”) including:

- Financing and design/construction of the New WTP
- O&M and rehabilitation of the Water System
- Billing and collection of water rates directly with rate payers

Rates would be determined by a formula in the agreement with the FLW Team and would fund the Concession. The FLW Team advised that it would be willing to undertake the replacement of Fiveash without the full system concession if that is the City’s preference.

IDE Team

Consortium composed of IDE Technologies (“IDE”) (design, construction and operations) Ridgewood Infrastructure (“Ridgewood”) (financing) and Kiewit Corporation (“Kiewit”) – (the “IDE Team”). The IDE Team will deliver a 32.2-year P3 project comprising:

- Financing and design/construction of a replacement of Fiveash with a new 50 MGD WTP at the City’s Prospect Wellfield site.
- Operation and maintenance of the New WTP

The City will make regular APs for the duration of the contract period with a minimum “take-or-pay” offtake of 50MGD (but willing to review this approach).

NextSpring Team

Consortium composed of NextEra Energy Capital Holdings, Inc (“NextEra Capital”) (financing), NextSpring Water Investments LLC (design and construction) and U.S. Water Services Corporation (“US Water”) (operations) – (the “NextSpring Team”). The NextSpring Team will deliver a 34-year P3 project comprising:

- Financing and design/construction of a replacement of Fiveash with a new 50 MGD WTP at the City’s Prospect Wellfield site.
- Operation and maintenance of the New WTP

The City will make regular APs for the duration of the contract period based on a minimum “take-or-pay” offtake of 30MGD

I. Background and Approach

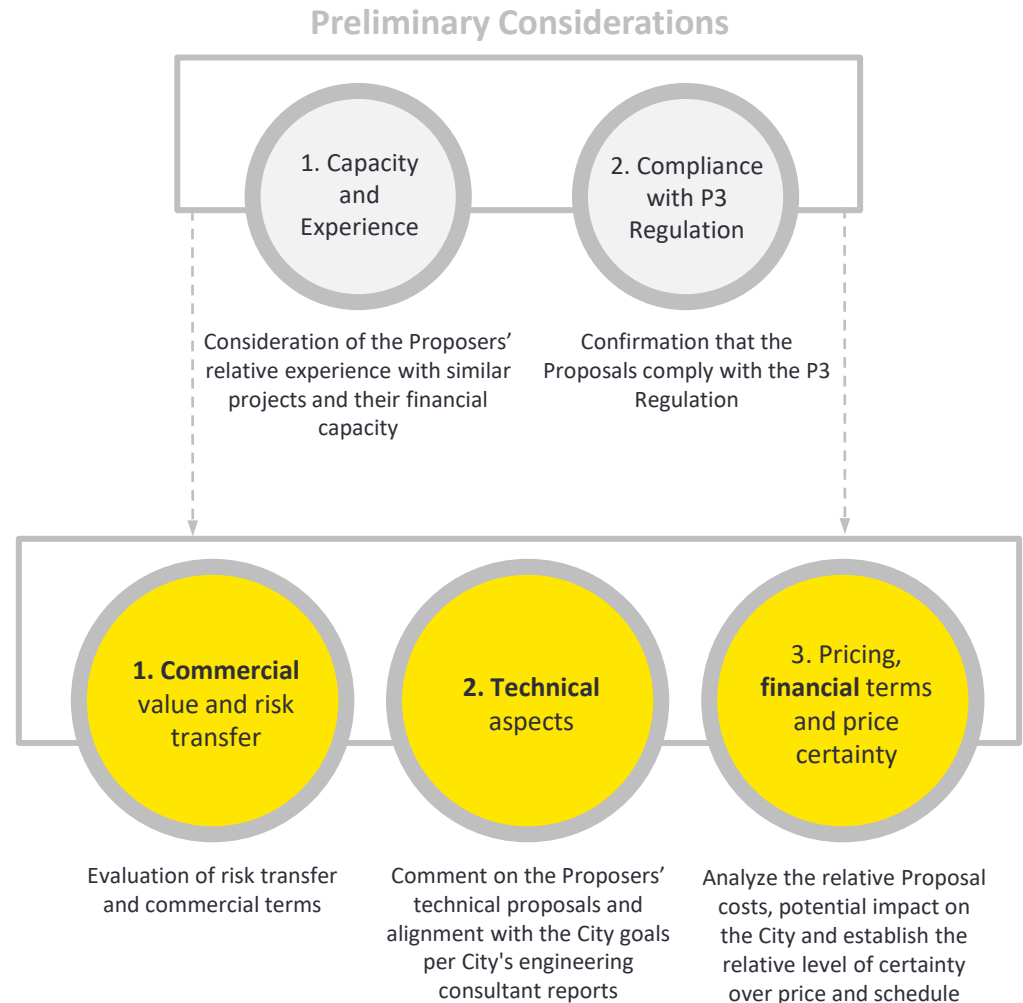
City Priorities and Evaluation Criteria

Evaluation Framework

The analysis aims to provide the City with objective information in order for it to be able to rank the four Proposals, and establish pros and cons, against three key criteria, shown to the right and identify a Preferred Proposer, if any, with which to continue negotiations.

The analysis is contained in three sections:

1. It first considers the **extent to which each Proposal meets the Preliminary Considerations** identified in the adjacent graphic (Section II) for the delivery of the New WTP and/or Water System concession, as relevant.
2. The analysis goes on to **consider the Proposals relating to the delivery of the New WTP** through three different lenses, including commercial, technical, and financial aspects (including the level of price and schedule certainty included in the Proposal) (Section III). These are the same criteria used in the Evaluation Reports for each Proposal.
3. Finally, the analysis addresses the **unique considerations relating to the FLW Team's proposed Water System concession proposal** (Section IV).



II. Preliminary Considerations

1. Capacity and Experience

	The Aqualia Team	The FLW Team	The IDE Team	The NextSpring Team
Key team members	Equity Provider and Operator: Aqualia Construction: FCC Construction Inc, Aqualia, CES and Primoris	Equity Provider: SUEZ and KKR Construction: Garney Operator: SUEZ	Equity Providers: IDE and Ridgewood Construction: Kiewit Operator: IDE	Equity Provider: NextEra Capital Construction: NextSpring Water Investments, LLC Operator: US Water
Financial capacity comments	<p>Aqualia has total assets of €3.4 billion and revenues of €1.2 billion (four-year increase of 15%) in 2020.</p> <p>FCC Construcción, S.A. is providing a parent company guarantee for FCC Construction Inc. It holds total assets and revenues of €3.8 billion and €1.73 billion, respectively. Its profits have decreased in recent years but FCC Construcción, S.A. remains a substantial construction company.</p>	<p>KKR has over \$218 billion in assets under management and saw increases in revenues and net income in the short-term to \$2.7 billion and \$1.8 billion, respectively. SUEZ has over \$5.8 billion in assets and year-over-year increases in revenue (\$847 million) and income (\$157 million) from 2019 to 2020 of 11%.</p> <p>Garney's revenues decreased by 6% to \$1.04 billion and gross profit and net income decreased in 2020 by 18% to \$158 million and 35% to \$59 million, respectively. Garney had \$558 million in assets as of 2020.</p>	<p>Each team member has indicated financial strength through operating profit, revenue and investments in the short and medium-term.</p> <ul style="list-style-type: none"> • IDE has profits of \$29 million and cash reserves of \$55 million in 2020, based on \$64m turnover. • Ridgewood had \$161 million in investments in 2020, an increase of 500% from 2016. • Kiewit has nearly \$12 billion in revenues in 2020. <p>The performance of the contract will be a material component of IDE's revenue. The capital and guarantee structure underpinning the transaction recognizes this, but the financial efficiency of the solution requires further diligence,</p>	<p>NextEra Energy, Inc. (the parent and guarantor of NextEra Capital and NextSpring Water Investments, LLC) has \$18 billion in revenues and increasing operating revenues in the medium-term.</p> <p>US Water's 2020 revenues and profits have increased to \$93 million and \$16 million, respectively.</p> <p>The performance of the contract will be a material component of US Water's revenue, and the appropriateness of the capital and guarantee structure underpinning the transaction requires further diligence in this context.</p>
Sources	FCC Aqualia, S.A. & Subsidiaries Financial Statements y/e – 31 Dec. 2018, 2019, 2020 FCC Construcción, S.A. & Subsidiaries Financial Statements y/e – 31 Dec. 2018, 2019, 2020	Garney Holding Co. & Subsidiaries Financial Statements y/e – 31 Dec. 2018, 2019, 2020 SUEZ Water Inc. & Subsidiaries Financial Statements y/3 – 31 Dec. 2019, 2020 KKR & Co. Inc. SEC Form 10-K - 2020	IDE Technologies Ltd. Financial Statements y/e – 31 Dec. 2018, 2019, 2020 Ridgewood Water & Strategic Infrastructure Fund, L.P. Financial Statements y/e – 31 Dec. 2018, 2019, 2020	Nextera Energy, Inc. / Florida Power & Light Company SEC Form 10-K – 2018, 2019, 2020 U.S. Water Services Corp. Reviewed Financial Statements – 31 Dec. 2018, 2019, 2020

II. Preliminary Considerations

1. Capacity and Experience

	The Aqualia Team	The FLW Team	The IDE Team	The NextSpring Team
Experience comments	<p>Aqualia has delivered over 400 water and other P3 projects globally, however has not delivered WTPs in the US.</p> <p>While FCC Construction Inc. has experience working across various projects in the US, its experience is primarily outside of the water sector. FCC Construcción, S.A., however, recently completed El Realito Aqueduct System P3 in Mexico amongst other water infrastructure projects in North America.</p> <p>Primoris and CES (design and construction team) are headquartered in Florida and have experience working on WTP projects in Florida and the City of Fort Lauderdale. This includes the El Realito Aqueduct System P3 in Mexico and the existing Fiveash WTP.</p>	<p>SUEZ and KKR have experience teaming on past WTP concessions in the US which included a similar scope to what is proposed for the City (e.g., Bayonne water system, \$157 million). Garney has developed water treatment facilities and P3 projects across North America and was ranked in 2019 by Engineering News Record as No.1 in Water/Sewer/Waste.</p>	<p>The IDE Team has experience in US and global water infrastructure delivery. IDE specializes in the development of WTPs, Ridgewood is currently financing the delivery of the largest water P3 project in the US and Kiewit has over 35 years' experience in Florida, including \$2 billion of work on water facilities in the southwestern US.</p>	<p>Has no prior development experience of large scale municipal WTPs. It has, however, constructed and operated water treatment projects with a similar technology configuration (albeit smaller scale) to that proposed for the City as part of its energy project portfolio. Its parent company has significant experience in capital investments (\$14.6 billion of capital investment in 2020).</p> <p>US Water has extensive experience operating WTPs in the City, Florida and the US.</p>
Overall comments	<p>The Aqualia Team has global water infrastructure experience mixed with local design and construction experience. The equity provider, operator and principal construction entity have indicated financial stability and improvement over the medium term.</p>	<p>The FLW Team has experience delivering the same project scope in the US. The team has also indicated a its history of infrastructure investment and profitability.</p>	<p>The IDE Team has indicated extensive local municipal and water experience. Smaller in size when compared to some of the other Proposers, the equity partners have still indicated profitability and positive investments.</p>	<p>NextEra has no large scale municipal WTP infrastructure experience, however intends to leverage its utility development experience and US Water's WTP operating experience. NextEra has indicated profitability over the medium-term.</p>

II. Preliminary Considerations

2. Compliance with P3 Regulation

P3 Regulation Requirement	The Aqualia Team	The FLW Team	The IDE Team	The NextSpring Team
Project description including conceptual design and schedule	Yes	Yes	Yes	Yes
Description of method to secure property interests	Yes	Yes	Yes	Yes
General plans for financing including funding sources and dedicated revenue sources	Yes	Yes	Yes	Yes
Name and address of proposal contact	Yes	Yes	Yes	Yes
Proposed user fees or service payments and method for altering those payments	Yes	Yes	Yes	Yes
Additional material as requested	Yes	Yes	Yes	Yes
Expiry of any pricing terms in the proposal	None provided at this stage	None provided at this stage	None provided at this stage	None provided at this stage

The City is advised to seek separate legal advice as to the applicability of the P3 Regulations to the Proposal, and the adherence of the Proposal to the P3 Regulation.

III. New WTP Evaluation Considerations

1. Commercial Value and Risk Transfer

#	Commercial Term / Risk Item	The Aqualia Team	The FLW Team	The IDE Team	The NextSpring Team
	Scope	<i>DBFOM project for replacement water plant</i>	<i>Concession for the full Water System</i>	<i>DBFOM project for replacement water plant</i>	<i>DBFOM project for replacement water plant</i>
	Contract term	33.5 years	50 years	32.25 years	34 years
D&C Risks	1 Design/construction compliance	Proposer	Proposer	Proposer	Proposer
	2 Construction schedule	Proposer	Proposer	Proposer	Proposer
	3 Construction cost	Proposer	Proposer	Proposer	Proposer
	4 Permitting (compliance)	Proposer	Proposer	Proposer	Proposer
O&M Risks	5 Demand (revenue risk)*	Shared	City	City	City
	6 O&M performance/water quality	Proposer	Proposer	Proposer	Proposer
	7 O&M cost risk	Proposer	Proposer	Proposer	Proposer
	8 Lifecycle maintenance (costs)	Proposer	Proposer	Proposer	Proposer
	9 Power consumption	Shared	Proposer	Proposer	Shared
	10 Labor cost and performance*	Shared	Shared	City	Shared
Other Risks	11 Technology obsolescence	Proposer	Proposer	Proposer	Proposer
	12 Force majeure	City	City	City	City
	13 Pre-existing conditions	City	City	City	City
	14 Change in Law / other "relief"	City	City	City	City
	15 Price inflation (excl. power prices)*	City (floating, CPI)	City (floating, CPI)	Proposer (fixed 1% p.a.)	Proposer (fixed 1.5% p.a.)
	16 Current price/schedule certainty*	Not guaranteed	Not guaranteed	Guaranteed (subject to limited caveats)	Not guaranteed

*key differentiator addressed on the following pages

+reflects the removal of a \$70m contingency in the FLW Team capex



Fiveash Water Treatment Plant Proposal Evaluation

City of Fort Lauderdale Public Works
Department



Fiveash Water Treatment Plant Overview



- The existing water treatment plant was built in 1954 and supplies the bulk of the City's drinking water using a lime-softening treatment process
- The future water treatment plant will be built at the prospect wellfield site. The preferred process is Treatment Scheme 11: Nanofiltration + Ion Exchange, as stated in the Carollo report issued on December 2019
- The existing plant will be demolished and site will be used for water storage and distribution purposes only



Criteria Considered

- Experience Constructing Water Treatment Plants of Similar Size in US
- Experience Operating Water Treatment Plants in US
- Management of City Employees
- Achieves City Water Quality Goals
- Complies with Consumptive Use Permit
- Project Completion
- Meets City Resilience Goals



Experience Constructing Water Treatment Plants of a Similar Size in the US

CRITERIA DESCRIPTION: P3 Entity has experience constructing drinking water treatment plants (WTP) of approximately 50 MGD in USA

Aqualia	FLW (Suez)	IDE-Tech	NextSpring
No	Exceed	Exceed	No
Has constructed multiple large water treatment facilities internationally, none in USA	Has constructed multiple large water treatment facilities internationally, including, some in USA <ul style="list-style-type: none">Haworth WTP (200 MGD)	Has constructed multiple large water treatment facilities internationally, including, some in USA <ul style="list-style-type: none">Claude Lewis Desalination WTP (50 MGD)Wayne Hill Water Resource Center (40 MGD)	Has not constructed water treatment plants of this magnitude in the past



Experience Operating Water Treatment Plants in US

CRITERIA DESCRIPTION: P3 entity has experience operating Water Treatment Plants

Aqualia	FLW (Suez)	IDE-Tech	NextSpring
No	Exceed	Exceed	Exceed
Entity operates multiple Water Treatment Plants, none in USA	Entity operates multiple Water Treatment Plants, some in USA <ul style="list-style-type: none">Haworth WTP (200 MGD)	Entity operates multiple Water Treatment Plants, some in USA <ul style="list-style-type: none">Kay Bailey Hutchinson Desalination Plant (25 MGD)Claude Lewis Desalination WTP (50 MGD)Wayne Hill Water Resource Center (40 MGD)	US Water operates many Water Treatment Plants in USA <ul style="list-style-type: none">City of North Lauderdale WTP (7.5 MGD)City of Lauderhill WTP (16 MGD)



Management of City Employees

CRITERIA DESCRIPTION: P3 proposal allows Water Treatment Plant staff to remain City Employees

Aqualia	FLW (Suez)	IDE-Tech	NextSpring
Meet	Meet	Meet	No
<p>Water Treatment Plant staff remain City Employees</p> <ul style="list-style-type: none">Existing City staff would stay with the City and work on the new WTP.	<p>Water Treatment Plant staff remain City Employees</p> <ul style="list-style-type: none">Existing City Staff would stay with the City and work on the new WTP (and the wider water system) .	<p>Water Treatment Plant staff remain City Employees</p> <ul style="list-style-type: none">Existing City Staff would stay with the City and the IDE Team would take no risk on staff costs or their performance of their services.	<p>Water Treatment Plant staff become NextSpring employees after five years</p> <p>* City Staff may remain with the City or transfer, however after five years the NextSpring Team assumes that all staff transfer.</p>



Achieves Water Quality Goals

CRITERIA DESCRIPTION: Proposed Water Treatment Plant will meet finished water quality goals as required by State Law with preference for proposals using the City preferred technology identified in Carollo Report

Aqualia	FLW (Suez)	IDE-Tech	NextSpring
Meet	Exceed	Exceed	Exceed
<p>Proposed treatment technology meets State requirements</p> <ul style="list-style-type: none">• 80% Nanofiltration + 20% Raw Water bypass• pH may be lower than goal• Color goal not met (15 or less)	<p>Proposed treatment technology will meet all goals identified in Carollo Report</p> <ul style="list-style-type: none">• 70% Nanofiltration + 30% Ion Exchange	<p>Proposed treatment technology will meet all goals identified in Carollo Report</p> <ul style="list-style-type: none">• 70% Nanofiltration + 30% Ion Exchange	<p>Proposed treatment technology will meet all goals identified in Carollo Report</p> <ul style="list-style-type: none">• 70% Nanofiltration +30% Ion Exchange



Complies with Consumptive Use Permit

CRITERIA DESCRIPTION: Water Treatment Plant will remain within Biscayne Aquifer withdrawal limitations through 2035 as stated in the Carollo Report. A lower conversion factor (% rejected water during the nanofiltration process) results in reduced demand and ability to remain the below consumptive use permit allocation.

Prospect wellfield Consumptive Use Permit 43.43 MGD, 15 MGD at Peele-Dixie wellfield and 52.55 MGD for the City overall.

Aqualia	FLW (Suez)	IDE-Tech	NextSpring
Exceed	Exceed	Exceed	Exceed
<p>Treatment technology will be under permit allocation in 2035</p> <ul style="list-style-type: none">• Treatment process is 90% efficient (10% reject)• 6 million gallons sent to waste for every 50 million sent to customers	<p>Treatment technology will be at permit allocation in 2035</p> <ul style="list-style-type: none">• Treatment process is 90% efficient (10% reject)• 6 million gallons sent to waste for every 50 million sent to customers	<p>Treatment technology will be under permit allocation in 2035</p> <ul style="list-style-type: none">• Treatment process is 90% efficient (10% reject)• 6 million gallons sent to waste for every 50 million sent to customers	<p>Treatment technology will be under permit allocation in 2035</p> <ul style="list-style-type: none">• Treatment process is 90% efficient (10% reject)• 6 million gallons sent to waste for every 50 million sent to customers



Project Completion

CRITERIA DESCRIPTION: Water Treatment Plant will be operational within five years

Aqualia	FLW (Suez)	IDE-Tech	NextSpring
Meet	Meet	Exceed	Exceed
Water production from new plant to begin spring of 2026	Water production from new plant to begin in 2026	Water production from new plant to begin in 2025	Water production from new plant to begin summer of 2025



Meets City Resilience Goals

CRITERIA DESCRIPTION: Water Treatment Plant will be constructed to withstand Hurricane forces and flooding and redundancy requirements

Aqualia	FLW (Suez)	IDE-Tech	NextSpring
Meet	Meet	Meet	Meet
<ul style="list-style-type: none">• Building Finished Floor Elevations based on Southeast Florida Climate Compact sea level rise “High” Projections for critical infrastructure• Withstand Category 5 Hurricane Winds• Redundancy in treatment processes• Emergency backup power and fuel storage in the event of power outage			



Summary

Criteria	Aqualia	FLW (Suez)	IDE-Tech	NextSpring
Experience Constructing WTP of Similar Size in USA	No	Exceed	Exceed	No
Experience Operating WTP in US	No	Exceed	Exceed	Exceed
Management of City Employees	Meet	Meet	Meet	No
Achieves Water Quality Goals	Meet	Exceed	Exceed	Exceed
Complies With Consumptive Use Permit	Exceed	Exceed	Exceed	Exceed
Project Completion	Meet	Meet	Exceed	Exceed
Meets City's Resiliency Goals	Meet	Meet	Meet	Meet

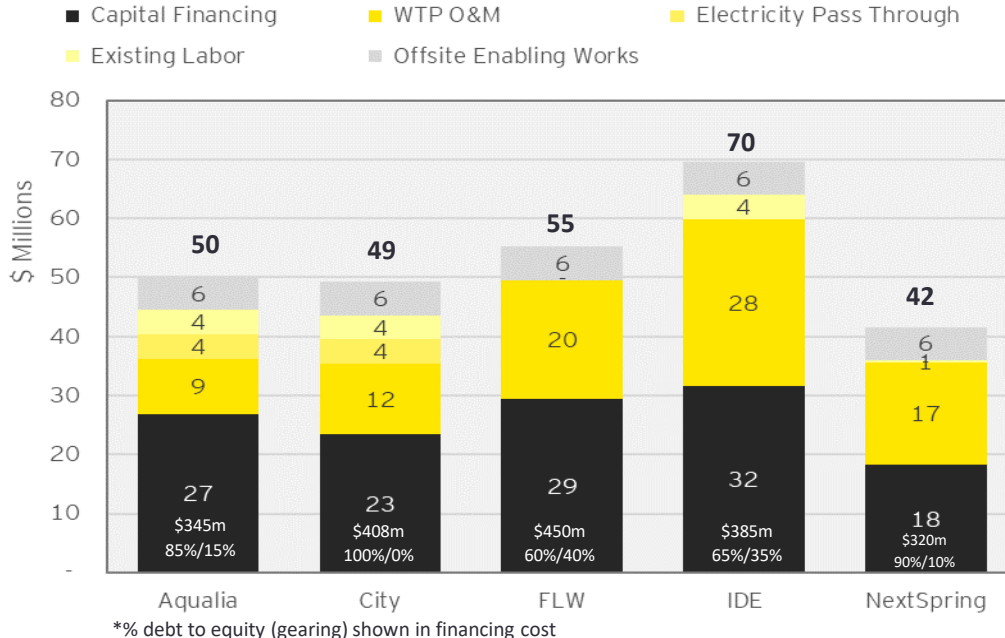
III. New WTP Evaluation Considerations

3. Financial Terms and Certainty

Summary – Cost Impacts

Each Proposal includes information on how the Proposer will charge the City (or rate payers as a proxy for the City, used interchangeably) for the design, build, financing, operation and maintenance of the New WTP. The costs are typically unified in a single payment stream to be met by the City (an “Availability Payment” or “AP”), which will have fixed and variable components.

Each Proposer has also made differing assumptions about how it would treat the cost of staff retained by the City and the costs of power consumption – these have therefore been added to the Proposer’s AP, where required. Also, each of the Proposals would require that the City undertake enabling work elsewhere in the water system to permit the New WTP to function and this has been added to the Proposer figures. In absolute terms, a like for like comparison of the single year AP, and breakdown into its component parts for each Proposer, is shown below and further analysis is contained on p. 22. The cost of each Proposal over the contract period is shown on the following page:



Key notes:

- The FLW Team provided costs for the entire water system concession – this analysis extracts its assumptions for the WTP and converts those to an AP equivalent. This AP figure also reflects the removal of the \$70m contingency from the capex in order to show a like for like comparison with the other Proposers and the City. Section IV addresses the FLW Team’s full water concession impacts.
- All of the cost assumptions are based on a differential level of design development (p.22 for the financial impact). As such, all Proposals will potentially be subject to change during the Interim Agreement Period.
- However, the IDE Team has guaranteed its capex and O&M pricing (subject to confirmation of ground conditions) whereas none of the other Proposers has.

III. New WTP Evaluation Considerations

3. Financial Terms and Certainty

Summary – Cost Certainty

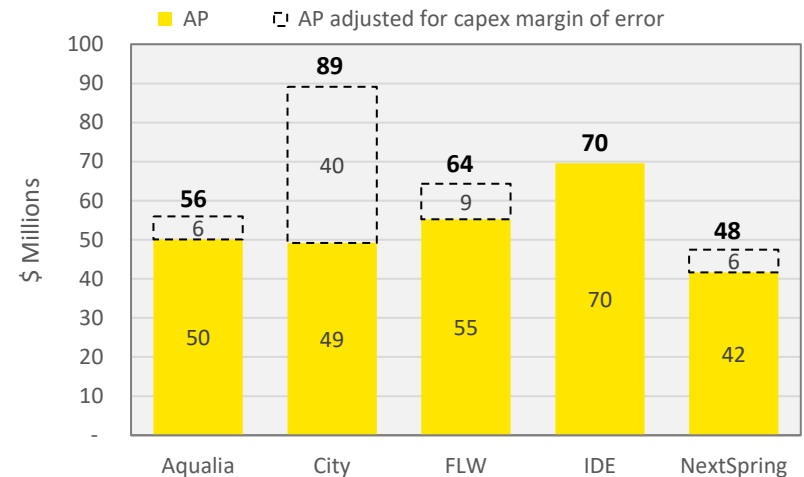
All of the Proposers have assumed a progressive development approach if they are selected as the Preferred Proposer for further negotiation. This additional negotiation phase (generally using the Interim Agreement approach identified in the P3 Regulation) would be structured to enable the City and Preferred Proposer to finalize the terms of a Comprehensive Agreement with fixed price, schedule and commercial terms.

However, the Proposers have undertaken differing levels of design development / cost estimation to arrive at their capex prices and have differential margins of error attached. These margins of error provide an indication, although not certainty, of how much the price may alter during an Interim Agreement / negotiation period. For the City, maintenance costs are a percentage of capex and so are subject to the same margin of error as the New WTP capital costs. The chart below and right shows the AP figures from the previous page but with an illustration of how much higher they could be based on the margin of error assumed in the level of design development as provided by the Proposers. The key drivers of the cost differences are set out on the following pages.

Level of Cost Certainty

	Aqualia	City	FLW	IDE	NextSpring
Level of Estimate	Class 3	Class 5	Class 4	Class 3	Class 4
Percentage Design	20%	2%	15%	30%	15%
Margin of Error*	20%	100%	35%	n/a – price guarantee	35%
Baseline Capex (\$YOE)	\$345m	\$408m	\$450m	\$385m	\$320m
Capex with MOE (\$YOE)	\$414m	\$816m	\$608m	n/a – price guarantee	\$432m

Adjusted AP for CapEx Margin of Error (2027)*



*The FLW AP figure reflects the removal of a \$70m contingency from the capex in order to show a like for like comparison with the other Proposers and the City

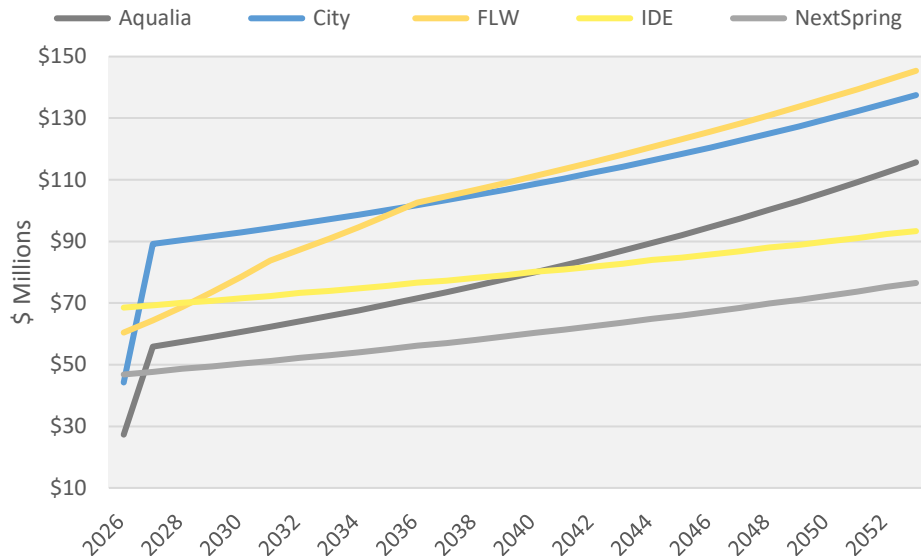
III. New WTP Evaluation Considerations

3. Financial Terms and Certainty

Summary – Differential Inflation

All of the Proposers have provided an indication of how the City's payments would increase over time. The IDE Team and the NextSpring Team have proposed a fixed index of 1% and 1.5% p.a. respectively. The Aqualia Team and the FLW Team would apply a CPI measure to the payments from the City / rate payers and this would not be capped.

The chart in the bottom left sets out how the City's AP, as described on p.22, could be impacted where CPI increased by 3% per annum for the duration of the contract (based on the City's planning rate of inflation) and each Proposer applied its proposed inflation approach. The table in the bottom right provides an indication, on a net present value basis (using a 6% discount rate), of how this may relatively impact the City over a 30-year time period. This amount would differ depending on the actual profile of CPI over the course of the contract period. **These figures are based on the AP adjusted for margin of error (except for IDE) described on the previous page. The FLW estimate is based on an estimated separation of revenue requirements between the WTP and distribution system components of the Proposal**



NPV of AP Payment*	
Aqualia+	\$1,007m (CPI on AP, 20% Capex MOE)
City	\$1,048m (CPI on O&M, 100% Capex and Opex MOE)
FLW+	\$1,346m (CPI on O&M, 35% Capex MOE)
IDE	\$1,016m (price guarantee – fixed 1% on AP, no MOE)
NextSpring+	\$786m (fixed 1.5% on AP, 35% Capex MOE)

*6% City discount rate is assumed for the Net Present Value ("NPV") for the respective operating period of each proposal. For comparative purposes, the NPV has been calculated on 30 years of operations.

+Inflation rate and costs are not guaranteed by the Proposers

III. New WTP Evaluation Considerations

3. Financial Terms and Certainty

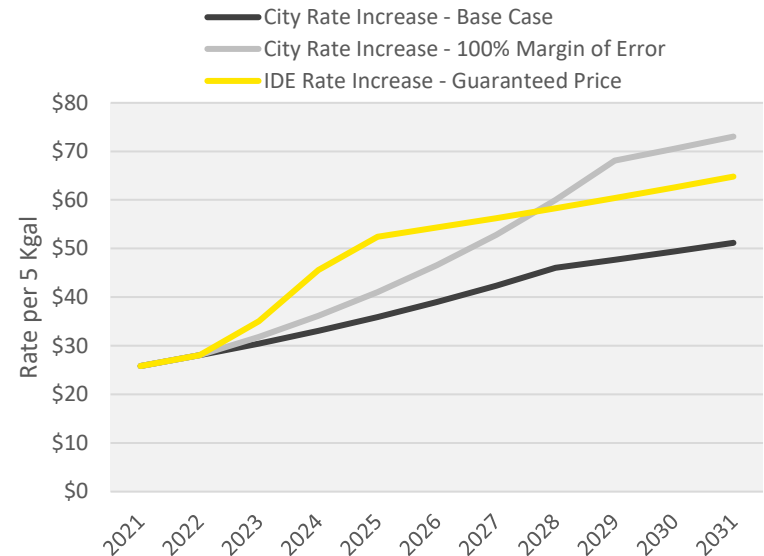
Summary – Potential Rate Impacts

As the Proposers have undertaken differing levels of design development / cost estimation to arrive at their prices, the AP figures provided have differential levels of certainty attached which have been factored into the calculation of the potential cost to the City of each Proposal option.

However, the cost of the New WTP will, ultimately, be borne by the City water rate payers and the adjacent chart provides an indication of how the rate payers may be impacted by various Proposal options. The chart shows the City's current rate estimate (base case); the City's estimate adjusted for margin of error; and the IDE Team as a further example from the Proposers.

The chart shows the potential impact on water rates over the City's rate model 10-year planning horizon, as calculated by the City's advisor, Stantec, for the following scenarios:

- The City's base costing with no margin of error. This produces the annual rate increase of 8.6% from 2023 through 2029 and 3.6% in 2030 and 2031, as agreed by the City in October 2021.
- The City's base costing adjusted for margin of error. The base costing is subject to a maximum 100% margin of error, as identified in the Carollo Report. Should outturn capital and related costs be at this level, it is estimated that this would result in an annual rate increase of 13.5% from 2023 through 2029 and a 3.6% increase, thereafter. This result is slightly greater than the rate increases implied by the adjusted FLW Proposal, discussed in greater detail on page 27.
- The IDE Team's Proposal. Other things remaining equal, the IDE Team's Proposal is estimated to result in an annual rate increase of 25% in 2023, 30% in 2024, 15% in 2025, and 3.6% annually, thereafter. This higher increase in rates between 2023-25 and lower rate increase between 2025 and 2030 compared to the City's adjusted estimate is a function of the shape of the AP payment obligation proposed by the IDE Team.



- It should be noted, however, that in NPV terms the City's adjusted estimate and the IDE Team's Proposal are broadly equivalent, and the City does have discretion to adjust rates on a profile different from that implied by the AP obligation, providing it can manage the cashflow implications of a number of years of revenue / cost mismatch.
- The Aqualia and NextSpring Team proposals have not been subject to rate modelling but are anticipated to be similar to the City's base costing rate impacts in the early years of the project

IV. Water System Concession Considerations

Commercial Value and Technical Impacts

Opportunities for Value Enhancement

Risk Area	Proposal Position
Integrated Approach	The FLW Team will assume the rehabilitation, operation and maintenance of the entire water system. This can enable the FLW Team to allocate resources where required across the entire system to improve service delivery and apply efficiencies. It also reduces the risks of interface between FLW Team and City elements of the water system. The FLW Team has assumed a higher level of investment in the Water System than the City's plan ~\$39 million average p.a. (\$YOE) compared to ~\$20 million average p.a. (\$YOE), respectively.
Achievement of Water Quality Targets	<p>The Proposal undertakes to meet water quality and other targets reflected in the Carollo Report. Clarification with the FLW Team has indicated that the FLW Team would be willing to guarantee this water quality at the tap (not just upon leaving the New WTP) when Water System rehabilitation works have been completed.</p> <p>However, at this stage the Proposal includes little detail or certainty as to how this will be achieved and the proposed budget allocation for rehabilitation works is not linked to any specific performance outcome. The City will need to carefully consider the proposer's planned approach to delivering on these technical goals as part of the Interim Agreement period.</p>
Billing and Collection	The FLW Team would assume the risks associated with calculating and issuing bills and collecting revenues from rate payers.
Overall Risk Transfer	The benefits of transferring these risks for the New WTP will be extended to rehabilitation, operation and maintenance of the whole water system. Where project costs are higher than anticipated the FLW Team would be limited in its ability to recover such increases from rate payers (mainly due to adverse actions by the City or force majeure). See p.34 for more details on rate setting approach.
Innovation and Efficiency	The FLW Team will have the opportunity and incentive to implement efficiency measures across the Water System and innovative approaches to leak detection, other predictive maintenance and implementation of new technologies to improve water quality and serve rate payers over the concession period.

IV. Water System Concession Considerations

Commercial Value and Technical Impacts

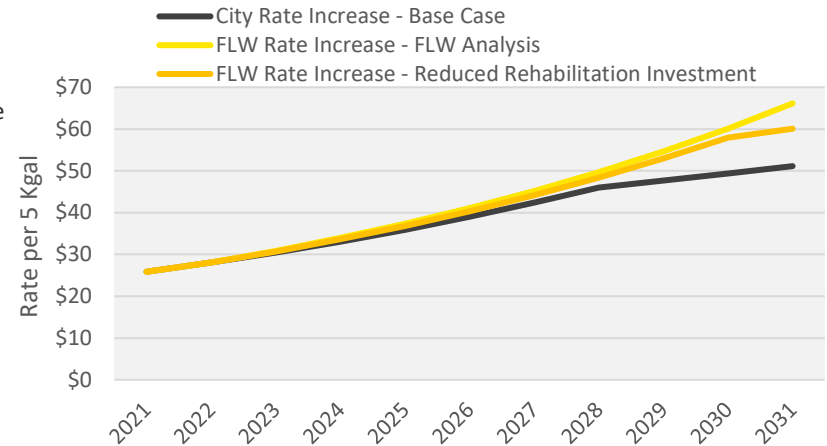
Risk Area	Proposal Position
Interface with Sewer System	The current operations, maintenance and funding of the water system is closely connected to that of the sewer system. The Proposal does not indicate how the FLW Team will approach this issue or provide any indication of the costs of doing so. The FLW Team has undertaken limited diligence of the existing water system in preparing its Proposal, including addressing this interface issue. As part of an Interim Agreement period, this would need to be addressed, particularly the annual cross-subsidy between the Water System and sewer system.
Rate Setting	The City will retain rate setting authority but the calculation of rates would be determined by a mechanism contained in the Comprehensive Agreement. The rate mechanism will be designed to ensure that the FLW Team can achieve its required revenue path and, if demand for water decreases, the rates of the remaining rate payers would increase accordingly. If the City decided not to pass on the calculated rate increases to rate payers, it would need to pay the FLW Team the equivalent amount.
Debt defeasance	The FLW Team proposes to pay the City an upfront sum of ~\$235 million (nominal) that it believes the City could use to defease its existing Water System debt. However, the FLW Team has not had access to the City's rate model in order to understand the feasibility of this approach and separate advice should be sought from the City's bond counsel and advisors on the debt defeasance aspects of the Proposal.

IV. Evaluation Considerations

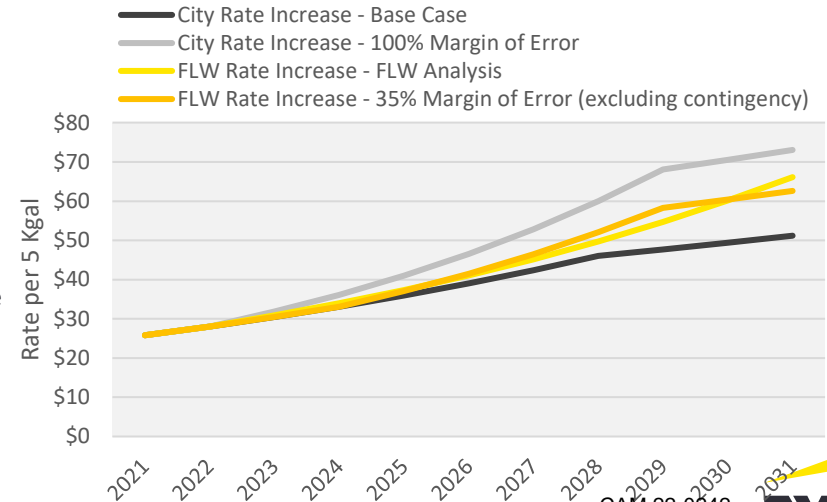
Financial Impacts

Summary - Rate Increase Sensitivities

- ▶ The FLW Team is proposing to manage the entire water system so it is appropriate to compare the City's expected annual rate increases with the impact on rates that may result from the FLW Team Proposal. Each rate increase percentage shown on this page includes a real increase plus the City's 3% inflation estimate, providing the nominal increase. The financial analysis indicates that, based on the FLW Team's proposed cost structure, the FLW Team would require a ~10% nominal annual rate increase in 2022 until 2031 followed by a 3.6% increase.
- ▶ However, this rate increase is based upon twice as much annual investment in the water system as the City estimates and equally the comparison doesn't reflect the different levels of design development. The adjacent charts reflect the following scenarios:
 - ▶ Rehabilitation investment: The FLW Team is proposing to invest ~\$39 million p.a. (\$YOE average) into rehabilitating the water system. This is double the amount allocated by the City. When the FLW Team investment level is reduced to the same as the City, there is a small drop in the FLW Team's expected rate increase from ~10% to ~9.5% (orange line in chart). The reduction impact is minimized because the FLW Team is planning to finance the first seven years of rehabilitation costs over 30 years whereas the City is assuming its ~\$20 million (\$YOE average) is funded directly from water rates each year.
 - ▶ New WTP cost: The FLW Team has undertaken around 15% design development which results in a potential 35% margin of error on its capex costs for the New WTP. The City's New WTP capex costs are based on 2% design development resulting in a potentially 100% margin of error (per the Carollo Report). When the cost inputs are adjusted for this margin of error the required City rate increase would potentially move from 8.6% to ~13.5% for the next seven years dropping to 3.6% thereafter. Likewise, the FLW Team rate could increase from ~10% to 12% starting in 2025 for four years until it returns to 3.6% annually in 2030.



Potential 10-year Rate Increases: FLW MOE



V. Next Steps

City Decision Points

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