

**REPORT TO SAANICH PENINSULA WATER COMMISSION
MEETING OF THURSDAY, MAY 15, 2025**

SUBJECT **Main No. 4 Upgrade and Bear Hill Trunk Extension – Tariffs Update**

ISSUE SUMMARY

To update the Saanich Peninsula Water Commission (SPWC) on the Bear Hill Trunk Extension project and advise on CRD staff's approach to dealing with United States of America/Canada tariff impacts on this capital project.

BACKGROUND

The Bear Hill Trunk Extension Project is being delivered as part of Saanich Peninsula Water Supply Capital Project 21-05 and will extend the existing water trunk main to Dean Park Lower Water Tank from its current terminus at East Saanich Road and Wallace Drive. Once completed, this project will provide a secondary water feed that greatly improves water resiliency to the Saanich Peninsula. Providing this additional redundancy will also allow the CRD to co-deliver the replacement of a segment of Regional Water Supply (RWS) Main No. 4 from Island View Rd and Lochside Drive to Central Saanich Road and Mt Newton Cross Road. A more detailed overview of the delivery of this project and the cost sharing between SPWC, RWS, District of Central Saanich and District of North Saanich was outlined in the October 17, 2024 SPWC Meeting. A schematic of the two project components has been attached as Appendix A.

Recent trade disputes with the United States of America (USA) have created market uncertainty and price escalation on certain materials. Of particular significance to this project are the 25% counter-tariffs that the Government of Canada has placed on iron and steel pipe materials, of which the vast majority is procured from the USA. In response, CRD has widened the specifications to allow materials from other markets, subject to demonstrating quality standards are met; however, there is still a high likelihood that American-made pipe could remain the most cost competitive option. To try and mitigate against Contractors passing on all the cost uncertainty risk with their bid submissions, CRD have worked with external legal counsel to utilize a Construction Request for Proposals (RFP) template in lieu of a standard form Tender, which will give staff greater flexibility in evaluating submissions, negotiating on pricing, and require Contractors to stipulate their plans for mitigating the effect of tariffs. Additionally, the CRD has implemented risk-sharing contract language to demonstrate to bidders that they will not bear all the cost risk associated with potential future changes in tariffs, with a regime that generally includes:

- If a Retaliatory Tariff Change in Law occurs after the bid submission date:
 - the Contractor must use reasonable efforts to mitigate any costs or delays resulting from a "Retaliatory Tariff Change in Law";
 - the Contractor can suggest substitute goods for the Owner's approval;
 - the Contract Price will be adjusted (both up and down) to reflect any increase or decrease in actual costs related to a Retaliatory Tariffs (without mark-up for overhead or profit); and
 - if substitute goods are approved by the Owner, there is a regime to capture the increased cost (excluding any tariffs) of the substitute good and any schedule delay.

- Any adjustments to the Contract Price or Contract Time pursuant to this new regime will be made via a Change Order.
- Contractor will not be entitled to any adjustment to the Contract price arising out of general market escalation that are not specifically a result of changes in retaliatory tariffs.

Further, the Government of Canada has announced a program that purchasers of goods, which are otherwise not available domestically or through foreign markets other than the USA, may seek reimbursement of the amounts paid for a retaliatory tariff. If pipe must be purchased from the USA and a retaliatory tariff paid, CRD staff will submit a request under this program and the proposed contract language requires the successful proponent to participate as needed by CRD in this process.

CONCLUSION

The above will not eliminate the cost escalation and price uncertainty related to current trade disputes, however it shares risk in an equitable way. In general commercial contracts, CRD as the “owner” would pay import duties and fees in any event, and not pass those prices on to vendors. It also encourages vendors to look to foreign or non-USA markets (with appropriate quality standards), if “best value” pricing is there. Despite the increased uncertainty, staff believe it is in the best interest of the CRD to proceed with this critical infrastructure project, as the costs of further delay are expected to exceed the costs currently expected from tariffs. The availability of the reimbursement program is helpful, but CRD cannot guarantee the Government of Canada will reimburse the retaliatory tariffs, and CRD is looking to commercially reasonable compromises in its contract terms to ensure successful capital project delivery and maintain the confidence of the vendor community.

Subject to delays in the procurement period, CRD endeavor to provide an update at the July Commission Meeting with recommendations following close of the Construction Procurement process.

RECOMMENDATION

There is no recommendation. This report is for information only.

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ATTACHMENT(S)

Appendix A: SPWS/RWS Transmission Main Project Coordination Schematic