

SCHEDULE 10

INDEX FACTOR

1. GENERAL

1.1 Capitalized Terms

Capitalized terms used in this Schedule have the definitions as set out in the Agreement to Design, Build, Finance and Operate Evan-Thomas Water and Wastewater Treatment Facilities Upgrade, Kananaskis Country, Alberta (the “**DBFO Agreement**”) between Her Majesty the Queen in right of Alberta and the Contractor, as defined therein, unless expressed otherwise.

1.2 DBFO Agreement Reference

This Schedule is referenced in sections 1.3, 10.1, 10.2, and 11.7 of the DBFO Agreement.

1.3 Section References

Unless otherwise provided, references to section numbers are references to sections in this Schedule.

2. ADDITIONAL DEFINITIONS

These additional capitalized terms used in this Schedule have the following definitions:

“**Fiscal Year**” means the twelve-month period beginning on April 1 of a year and ending on March 31 of the following year; and

“**Operations and Maintenance Payment**” means the component of the O&M Payment paid to the Contractor for performing O&M in relation to the Infrastructure as specified in Appendix 1, as attached and forming part of Schedule 14 (Payment Schedule).

3. SPECIFIC PAYMENTS AND ADJUSTMENTS SUBJECT TO INFLATION

In order to account for the impact of inflation or deflation during the Construction Period and the Operating Period, a number of payments and payment adjustments, as specified in sections 10.1 and 10.2 of the DBFO Agreement, will be subject to an inflation adjustment. Payments and payment adjustments that will be increased or decreased by this inflation adjustment include:

**SCHEDULE 10 — DBFO AGREEMENT
EXECUTION VERSION**

- (a) Operations and Maintenance Payments;
- (b) Renewal Payments; and
- (c) All applicable Payment Adjustments.

4. THE INDEX FACTOR

The inflation adjustment for the DBFO Agreement will be determined based on the Index Factor, which is calculated using the operations, maintenance and renewal price index (the “**O&M Index**”) set out in Appendix 1 to this Schedule 10. The O&M Index will be prepared annually during the Construction Period and the Operating Period on a calendar year basis by the Province for the purposes of the DBFO Agreement.

5. O&M INDEX CALCULATION

5.1 O&M Index Indices

The O&M Index will be calculated by the Province based on a weighted combination of a number of inflation indices. The indices and the method for calculation of the O&M Index are described in Appendix 1 to this Schedule 10.

5.2 Replacing Indices

During the Construction Period or the Operating Period, if any of the indices or data used in the calculation of the O&M Index: (a) cease to exist; (b) are determined on a basis that is different than they were determined as of the Execution of the DBFO Agreement; or (c) no longer reflect, measure or represent what they were intended to reflect, measure or represent, the Province and the Contractor shall endeavour to agree upon replacements for the indices or data, failing which the matter shall be referred to the Dispute Resolution Procedure, with full authority thereunder to determine replacements for the indices or data.

5.3 Altering the Weighting of Inflation Areas within the O&M Index

The Province may at any time during the Operating Period, or on the request of the Contractor no more frequently than once every three years, consult with an independent advisor to determine whether alteration to the weighting of the constituent inflation areas within the O&M Index (manpower, consumer goods, construction, and chemicals) is required to better reflect the impact of inflation or deflation upon the water/wastewater facilities maintenance industry in Alberta (a “**Weighting Alteration**”). Should the Province determine that a Weighting Alteration is appropriate and implement or offer to

**SCHEDULE 10 — DBFO AGREEMENT
EXECUTION VERSION**

implement the Weighting Alteration, then the Contractor may at its option, to be exercised within 30 days of the Province's offer to it, accept or decline in writing the Weighting Alteration. If the Contractor accepts the Weighting Alteration, then this Schedule shall be amended accordingly.

5.4 Timing of O&M Index Calculation

The Province shall calculate the O&M Index, and subsequently the Index Factor, each year after the published data required for the calculations are available for the upcoming Fiscal Year. Once the Province calculates the O&M Index, it will be used in the calculation of the Index Factor as specified in Section 6, to be applied to Operation and Maintenance Payments and Renewal Payments to be made to the Contractor in the upcoming Fiscal Year, and to the Payment Adjustments that may be applied to the Contractor in the upcoming Fiscal Year.

6. INDEX FACTOR AND INFLATION ADJUSTMENT

Payment amounts in Schedule 14 (Payment Schedule) that are indicated as being subject to an inflation adjustment in accordance with this Schedule and any adjustments as specified in sections 10.1 and 10.2 of the DBFO Agreement, will be multiplied by the Index Factor to arrive at the inflation adjusted values.

For amounts payable in each month of the Fiscal Year “T” starting April 1 of “Year T”, the applicable Index Factor will be determined as follows:

$$\text{Index Factor}_{(\text{Fiscal Year T})} = \frac{\text{O\&M Index}_{(T-1)}}{\text{O\&M Index}_{(2011)}}$$

For example, for amounts payable in the 12 months from April 2017 to March 2018, the applicable Index Factor will be calculated by dividing the O&M Index value for 2016 by the O&M Index value for 2011.

Appendix 2 to this Schedule 10 illustrates how the Index Factor will be calculated and applied. The illustration is based on an assumption of Availability on July 2, 2014.

**SCHEDULE 10 — DBFO AGREEMENT
EXECUTION VERSION**

**APPENDIX 1
O&M INDEX CALCULATION**

The O&M Index is calculated by the Province based on a weighted combination of the following inflation areas:

Inflation Area (Weight)	Indices Used in Each Inflation Area
Manpower (40%)	<p>An average of the following two indices:</p> <ul style="list-style-type: none"> ▪ The Alberta Union of Provincial Employees (“AUPE”) Local 104 Published Hourly Salary, for Maintenance Service Worker II at the Top Level (Not Including Benefits). <p>This index is calculated using hourly rates posted on the Provincial database for September of a given year</p> <ul style="list-style-type: none"> ▪ Statistics Canada Catalogue No. 72-002-X Employment, Earnings, and Hours, (Table 6), North American Industry Classification System (NAICS) – Repair and Maintenance [811] Average Hourly Earnings, Employees Paid by the Hour (excluding overtime) (Canada). <p>This index is calculated using hourly rates for the month of August in a given year</p>
Consumer Goods (45%)	<p>Statistics Canada Catalogue No. 62-001-X, The Consumer Price Index (Alberta), All Items (excluding food and energy).</p> <p>This index shall be determined based on annual values calculated by adding the monthly values listed in the Table for January to December of a given year and dividing by 12</p>
Construction (10%)	<ul style="list-style-type: none"> ▪ Statistics Canada Catalogue No. 62-007-X (Table 327-0043), (2002=100), Non-Residential Building Construction Price Index, Calgary. <p>This index shall be determined based on annual values calculated by adding the quarterly values listed in the Table of a given year and dividing by 4</p>
Chemicals (5%)	<p>Statistics Canada Catalogue No. 62-011-X, Industrial Price Index, Inorganic industrial chemicals.</p> <p>This index shall be determined based on annual values calculated by adding the monthly values listed in the Table for January to December of a given year and dividing by 12</p>

The following table illustrates the calculation of the O&M Index. The base year for the O&M Index is 2005 and the value is set to be 1.000.

CALCULATION OF O&M INDEX

(a) MANPOWER

	2005	2006	2007	2008	2009	2010
(i) AUPE Local 04 hourly salary (top of a Maintenance Service 2 Worker)	\$20.87	\$21.50	\$22.55	\$23.64	\$24.65	\$24.55
(ii) North American Industry Classification System (NAICS)=Repair and maintenance [811] Hourly Rate	\$15.60	\$16.25	\$16.92	\$17.52	\$18.97	\$20.93
<i>Calculated Indexes</i>						
(i) Alberta Union of Provincial Employees, Local 04	1.000	1.030	1.081	1.133	1.181	1.176
(ii) North American Industry Classification System Repair and maintenance [811]	1.000	1.042	1.085	1.123	1.216	1.342
MANPOWER INDEX (Base Year 2005)	1.000	1.036	1.083	1.128	1.199	1.259

(b) CONSUMER GOODS

<i>Statistics Canada All Items (excluding Food and Energy)</i>	2005	2006	2007	2008	2009	2010
Alberta	106.1	112.0	117.3	119.3	120.1	120.1
CONSUMER GOODS INDEX (Base Year 2005)	1.000	1.056	1.106	1.124	1.132	1.132

(c) CONSTRUCTION COSTS (Table 327-0043)

<i>Statistics Canada Non-Residential</i>	2005	2006	2007	2008	2009	2010
Calgary	117.6	132.7	156.1	177.5	163.9	160.3
CONSTRUCTION COSTS INDEX (Base Year 2005)	1.000	1.128	1.327	1.509	1.394	1.363

(d) CHEMICALS COSTS

	2005	2006	2007	2008	2009	2010
Statistics Canada Inorganic industrial chemicals	117.6	129.7	167.7	168.3	155.0	153.2
CHEMICALS COSTS INDEX (Base Year 2005)	1.000	1.113	1.439	1.445	1.330	1.315

(e) O&M INDEX

<i>Weighting Factors</i>	2005	2006	2007	2008	2009	2010
MANPOWER (40%)	0.40	0.414	0.433	0.451	0.479	0.504
CONSUMER GOODS (45%)	0.45	0.475	0.498	0.506	0.509	0.509
CONSTRUCTION COSTS (10%)	0.10	0.113	0.133	0.151	0.139	0.136
CHEMICALS COSTS (5%)	0.05	0.056	0.072	0.072	0.067	0.066
O&M INDEX (Base Year 2005)	1.00	1.058	1.135	1.180	1.195	1.215

ESCALATION ADJUSTMENT FACTOR:

EFFECTIVE ON:

1.058	1.073	1.040	1.018	1.017
April 07	April 08	April 09	April 10	April 11

**SCHEDULE 10 — DBFO AGREEMENT
EXECUTION VERSION**

**APPENDIX 2
ILLUSTRATION OF CALCULATION
AND APPLICATION OF INDEX FACTOR**

*Illustrative O&M Index and Index Factor based on
fictitious data for Price Indices*

O&M Price Index		Index Factor	
Year	Value	Fiscal Year	Value
2010	1.215		
2011	1.252		
2012	1.289	2013/14	1.000
2013	1.328	2014/15	1.030
2014	1.368	2015/16	1.061
2015	1.409	2016/17	1.093

*Illustrative Application of Index Factor to Operations and Maintenance
Payment based on fictitious data for Price Indices*

Operations and Maintenance Payment for each month in Constant 2012 \$	Index Factor Applicable	Amount Payable after Inflation Adjustment	
Aug. 2015	\$ 100,000	1.061	\$106,100
Sept. 2015	\$ 100,000	1.061	\$106,100
Oct. 2015	\$ 100,000	1.061	\$106,100
Nov. 2015	\$ 100,000	1.061	\$106,100
Dec. 2015	\$ 100,000	1.061	\$106,100
Jan. 2016	\$ 100,000	1.061	\$106,100
Feb. 2016	\$ 100,000	1.061	\$106,100
Mar. 2016	\$ 100,000	1.061	\$106,100
April 2016	\$ 100,000	1.093	\$109,300
May 2016	\$ 100,000	1.093	\$109,300
June 2016	\$ 100,000	1.093	\$109,300
July 2016	\$ 100,000	1.093	\$109,300