

<b>TO:</b>	<b>CHAIR AND MEMBERS BUILT AND NATURAL ENVIRONMENT COMMITTEE MEETING ON AUGUST 15, 2011</b>
<b>FROM:</b>	<b>JOHN BRAAM, P. Eng. DIRECTOR OF WATER AND CITY ENGINEER</b>
<b>SUBJECT:</b>	<b>WATER, SANITARY AND STORM RATE STRUCTURE REVIEW – FIXED RATE FOR WATER AND SANITARY CHARGES</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Director of Water and City Engineer, for the City of London the following actions **BE TAKEN**:

- a) Administration **BE DIRECTED** to proceed with a proposal for a fixed rate component to the charges for water and sanitary servicing which is consistent with fixed costs related to billing and capital renewal;
- b) Administration **BE DIRECTED** to inform stakeholders on the need for the proposed changes to the rates, the rationale for the change, and the potential impact on customers;
- c) Administration **BE DIRECTED** to hold a public meeting before Committee in the fall of 2011 for the purpose of public input and if appropriate, report back to Council on a by-law to authorize a structural change to a fixed component to the water and sanitary rates for implementation with the 2012 budget.

It **BEING NOTED**, the structural change will be revenue neutral and no additional revenues will be realized in the 2012 budget year.

It **BEING FURTHER NOTED**, this is an interim measure and subsequent changes to the rate structures, as previously presented, will be brought before Committee and Council in 2012.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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The reports noted below can be found at:

<http://www.london.ca/d.aspx?s=/Meetings/Default/meetingpackages.htm>

- Council Proceedings 14<sup>th</sup> Meeting, July 26, 2010 – page 30;  
<http://council.london.ca/meetings/Archives/Reports%20and%20Minutes/Council%20Minutes/Council%20Minutes%202010/2010-07-26%20Minutes/Council%20Minutes.pdf>
- Presentation by Administration, London Economic Development Committee and Industry representatives from AB In Bev (Labatt) and Casco at July 19<sup>th</sup> meeting of ETC;  
<http://council.london.ca/Meetings/Archives/Reports%20and%20Minutes/Environment%20and%20Transportation%20Committee%20Reports/ETC%20Reports%202010/2010-07-19%20Report/Item%2014.pdf>
- Water, Sanitary and Storm Rate Structure Review – Update on Implementation Timing and Consultation Process, July 19, 2010, Environment and Transportation Committee, Agenda Item # 26a, deferred from June 21, 2010;  
<http://council.london.ca/meetings/Archives/Agendas/Environment%20and%20Transportation%20Committee%20Agendas/ETC%20Agendas%202010/2010-07-19%20Agenda/Item%2026.pdf>
- Council Proceedings 15<sup>th</sup> Meeting, July 27, 2009 – Item 285, 14<sup>th</sup> Report of the Board of Control, Clause #9, as amended;
- Water, Sanitary and Storm Rate Structure Review – Update on Implementation Timing, July 20, 2009, Environment and Transportation Committee, Agenda Item # 5;
- Sewer Surcharge of Water Used to Water Lawns, Flower Beds and Swimming Pools, January 12, 2009 – 2<sup>nd</sup> Report of the Environment and Transportation Committee, Item #19 and Agenda Item #17;
- Council Proceedings 15<sup>th</sup> Meeting, July 21, 2008 – Item 241, 22<sup>nd</sup> Report of the Board of Control, Clause #26, as amended;
- Water, Sanitary and Storm Rate Structure Review – Revisions to Current Structure, July 16, 2008 – 22<sup>nd</sup> Report of the Board of Control, Item #26 and Agenda Item #33;
- Water, Sanitary and Storm Rate Structure Review – Update on Concerns coming out of Consultation Process, May 28, 2008 – 17<sup>th</sup> Report of the Board of Control, Item #20 and

Agenda Item #24;

- Water, Sanitary and Storm Rate Structure Review – Update Report, May 7, 2008, Board of Control, Agenda Item # 7;
- Water, Sanitary and Storm Rate Structure Review – Update on Concerns coming out of Consultation Process, November 14, 2007 – 31<sup>st</sup> Report of the Board of Control, Item #30 and Agenda Item #5;
- Water, Sanitary and Storm Rate Structure Review – Update on Consultation Process, August 8, 2007, Board of Control, Agenda Item # 25(a) and R. Jawniuk et al – Petition re: Storm Sewer Charges – Selkirk Street and Braesyde Avenue, Agenda Item # 25(b);
- Erosion and Sediment Control Requirements and Practices for Construction Sites to Ensure Water Quality Protection for Open Watercourses, June 18, 2007, Joint Environment and Transportation Committee and Planning Committee, Agenda Item #12;
- Several previous reports were referenced in the August 8, 2007 Board of Control Report.

## BACKGROUND

### Purpose

Administration is seeking Council's direction in introducing stability to rate setting for the water and sanitary utilities by including a larger fixed charge component reflective of the capital needed to address life cycle infrastructure renewal. Water and wastewater rates are comprised of both fixed and variable components within the rate structure. The inclusion of a more representative fixed rate component will ensure the utilities are less susceptible to revenue fluctuation associated with a rate structure that is principally developed on pay what you use unit rates.

### Background

In 2004, Administration began a review of the water, sanitary and storm rate structures, in an effort to simplify the structure and improve fairness. Since then, the review has undergone several iterations in response to requests by the City's elected officials and our stakeholders. While the process undertaken was well received and the most recently suggested rate structures are recognized as improving the fairness and equity, the current economic conditions have lead Council to avoid changes which might adversely affect employment retention and our competitive ability to attract new businesses. The following resolutions were passed by Council on July 26, 2010.

14. That, notwithstanding the recommendation of the General Manager of Environmental & Engineering Services and City Engineer, the following actions be taken with respect to the proposed new water, sanitary, storm drainage rates:

- a) **NO ACTION BE TAKEN** to implement the proposed new water, sanitary, storm drainage rates at this time;
- b) consideration of the proposed water, sanitary, storm drainage rates **BE DEFERRED** in order for all information to be brought back within one year's time so that the Municipal Council can make an informed decision with respect to the rates;
- c) the Civic Administration **BE REQUESTED** to investigate whether there might be a simpler model for water, sanitary and storm drainage rates; and
- d) the Civic Administration **BE REQUESTED** to separate the information pertaining to high volume and industrial users, when reporting back on the rates;

it being noted that presentations were heard from the following with respect to the matter:

P. McNally, General Manager of Environmental and Engineering Services  
S. Glickman, London Economic Development Corporation;  
P. White, London Economic Development Corporation;  
P. Hogendoorn, Chair, London Region Manufacturing Council;  
S. Durnin, Labatt; and  
P. Choquette, Casco

Over the past few years, while we have been attempting to have the new rate model adopted, the conservation efforts of our customers have continued as they recognize that they have ultimate control of how much they pay for water service and sanitary treatment by simply reducing their consumption. The resulting impact on water and sewer revenues has been significant both in London and many other municipalities in North America. Numerous municipalities have altered their rate structures by increasing the portion of their bill that is fixed month to month to improve revenue stability, one of the 10 council adopted principles

that our rate structure is premised on. The recently published BMA Municipal Study 2010 has identified that of the 83 municipalities surveyed, 77 percent include a fixed rate from 1% to 88% of a typical monthly bill. London is currently at the low end of the scale with fixed water meter charge of 1.7% and no sanitary fixed charge. There is however a minimum charge of \$5 per month if water consumption is lower than 3 cubic metres per month.

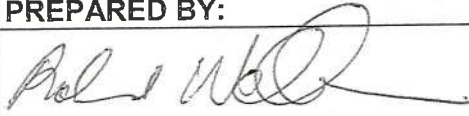



The examination of the Water Financial Plan and the Wastewater Financial Plan suggests that a fixed rate that returns a range of 30% to 50% of the annual revenue collected by the water and wastewater utilities would provide the financial stability required. Annual fixed infrastructure costs would be offset by the revenue collected in the fixed rate portion of the structure and the operating and variable costs would be covered by the block rate component. By removing a portion of the consumption based revenue fluctuation, the rate increases net of reductions due to conservation will yield more stable revenue required in the Financial Plans of both utilities.

The proposed rate structure suggests eliminating the minimum charge, but increasing the fixed rate component for water and sanitary. Administration is recommending that this position be reviewed in light of the declining revenues and adopt a fixed base component charge for water and sanitary that would cover a portion of the capital cost requirements to support pay-as-you-go financing for system renewal. This is proposed as an interim step for implementation in 2012, following a thorough analysis of fixed charges versus volumetric charges. The implementation of new fixed charges would be revenue neutral, thereby not impacting business budget setting in the short term.

The full rate structure review would be brought back in 2012 to address earlier concerns on the rate structure for the various consumer groups and for Council review for implementation consideration tentatively scheduled for 2013. This would provide an additional year to gauge impact of whether the economic conditions are improving for businesses, thereby allowing them to accommodate a slight increase to ensure an equitable cost sharing between consumer groups.

**Acknowledgements**

This report was prepared by Roland Welker, Division Manager of Water Engineering.

<b>PREPARED BY:</b>	<b>RECOMMENDED BY:</b>
	
<b>ROLAND WELKER, P. ENG. MANAGER, WATER ENGINEERING</b>	<b>JOHN BRAAM, P.ENG. DIRECTOR OF WATER &amp; CITY ENGINEER</b>
<b>RECOMMENDED BY:</b>	<b>CONCURRED BY:</b>
	
<b>RON STANDISH, P. ENG. DIRECTOR, WASTEWATER AND TREATMENT</b>	<b>PAT McNALLY, P.ENG. EXECUTIVE DIRECTOR, PLANNING, ENVIRONMENTAL &amp; ENGINEERING SERVICES</b>

August 5, 2011

- Cc: S. Glickman, London Economic Development  
M. Henderson, Corporate Management  
M. Hayward, City Treasurer & CFO  
J. Fleming, Planning  
G. Macartney, London Chamber of Commerce  
Jason Senese, Manager of Administrative Services, PEES