
DATE: September 24, 2012

REPORT TITLE: **UTILITY RATE STRUCTURE PROJECT RECOMMENDED APPROACH**

FROM: Dan Labrecque, Commissioner of Public Works

RECOMMENDATION

That the water and wastewater utility rate structure currently in place continue to be utilized;

And further, that subsequent utility rate structure reviews be aligned with regular updates of the Region's Water and Wastewater Master Plan.

REPORT HIGHLIGHTS

- As part of the Term of Council Priority (TOCP) #3: reduce per capita water consumption, the Water and Wastewater rate structure has been under review for the last several months.
- The review not only focused on the appropriateness of the rate but also ensured that the range of potential future structures was identified prior to obtaining a replacement billing system.
- Based on analysis performed and feedback received from Regional Council, the preferred approach is to remain with the current structure (fully variable).
- Confirmation of this direction will enable the Region of Peel to undertake the implementation of a replacement billing application. Criteria for selection of an application will include flexibility to utilize a variety of utility rate structures.
- Regular review of the water and wastewater rates structure, such as master plan updates, to ensure the needs of the Region and its customers are met would be beneficial.

DISCUSSION

1. Background

The Utility Rate Structure Review is a key stream of work undertaken as part of Public Works' Term of Council Priority (TOCP) #3: reduce per capita water consumption.

In June of 2012, Regional Council received a report which provided information in response to requests from Council at the October 13, 2011 meeting, provided a summary of various rate structure options and impacts, and sought input from Regional Council on next steps (Resolution 2012-813).

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Regional Councillors have provided feedback since that time which has been assimilated into the recommendations in this report.

The intent of this report is to recommend next steps after considering Council feedback in conjunction with the rate structure options reviewed including the impacts on customers.

2. Feedback and Other Considerations

The Region of Peel as an organization fulfills many roles in regards to the overall water and wastewater system. Amongst other things, it ensures water quality, recovers the cost of operations through the utility rates and promotes and protects the overall environment in the region. Therefore, the organization considered the environmental, customer, and financial aspects throughout the Utility Rate Structure Review.

The following is a summary of each of these aspects:

Impact on the Environment

One of the reasons for reviewing a possible change to the billing structure is to further promote the conservation of water which aligns with Term of Council Priority #3: "Reduce per capita consumption". Reducing the use of this natural resource has readily understandable environmental benefits. As well, further financial benefits can accrue by utilizing existing and planned infrastructure more efficiently.

As noted in various reports that supported the Region's Water Efficiency Plan, declines in consumption continue to be experienced through both changes in building practices and enhanced customer awareness of the importance of water conservation. Additionally, the current rate structure promotes efficient use of water as customers are billed for what is used.

Given these experiences, it is not anticipated that changing how water is billed will have a material impact on consumer behaviour.

Impact on the Customers

All water and wastewater rate structure models presented to date have indicated there will be a significant number of customers noting major changes to their user fees. Possible rate structures do not impact the amount of money collected but instead shift the amount paid from one customer segment to another similar to what occurred with the introduction of market value assessment. As such, engaging the public in a comprehensive public consultation process would be critical. As well, it is anticipated that some form of transitioning plan for more vulnerable customer segments will be needed if any change to the billing structure is implemented.

The costs of an extended process, including further delays in undertaking the necessary replacement of the current billing application, are not seen as providing appreciable benefit when reviewed holistically with all other considerations.

Impact on Finances

Another objective of reviewing the billing structure brought forward to Council was mitigating the volatility in revenue that Peel is required to raise to support the user pay program.

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As Council is aware, a large component of water and wastewater costs are fixed whereas the billing structure is fully variable as it is based on consumption. One of the benefits of the current structure is that it is an appropriate way of promoting conservation. Customers are charged entirely dependent upon their usage. The fully variable approach also acts as a further incentive for users to maintain internal and external plumbing thereby avoiding additional costs as a result of malfunctioning plumbing.

While some rate structure model scenarios indicate a decrease in revenue volatility, between "wet" and "dry" seasons, when considering the impacts on customers any reduced revenue volatility is not overly significant.

3. Next Steps

Based on the aspects discussed above, at this point in time, it is recommended that the current utility rate structure continue to be utilized. As well, replacement of the billing application may move forward keeping in mind the application should be flexible to accommodate a variety of structures.

It is also recommended that future reviews of the utility rate structure should be aligned with the regularly scheduled Water and Wastewater Master Plan updates which generally occur on a five year cycle. This will ensure Peel is continuously meeting the needs of both the Region and its customers in the context of current planning.

CONCLUSION

The Utility Rate Structure Review has had several benefits including providing a fuller understanding of potential future rate structures and impact considerations, as well as highlighting the need for a more coordinated approach to reviewing the water and wastewater systems from the environmental, customer, and financial lenses.

Discussions with the area hydro electric providers and other utilities will continue to determine if there are opportunities to share services. Updates will be provided to Regional Council as this work and replacement of the billing application progresses.

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