

---

# **Water Rate Re-Structuring**

Presentation to Executive Committee

May 28, 2007

# Council Direction ... to review Toronto's block rate water structure, consulting with all stakeholders

---

## Why Now?

- Ratepayers paying different rates
- Range getting bigger over time
- Opportunity to review customer needs
- Want to ensure that Toronto remains attractive for business

## Public Role:

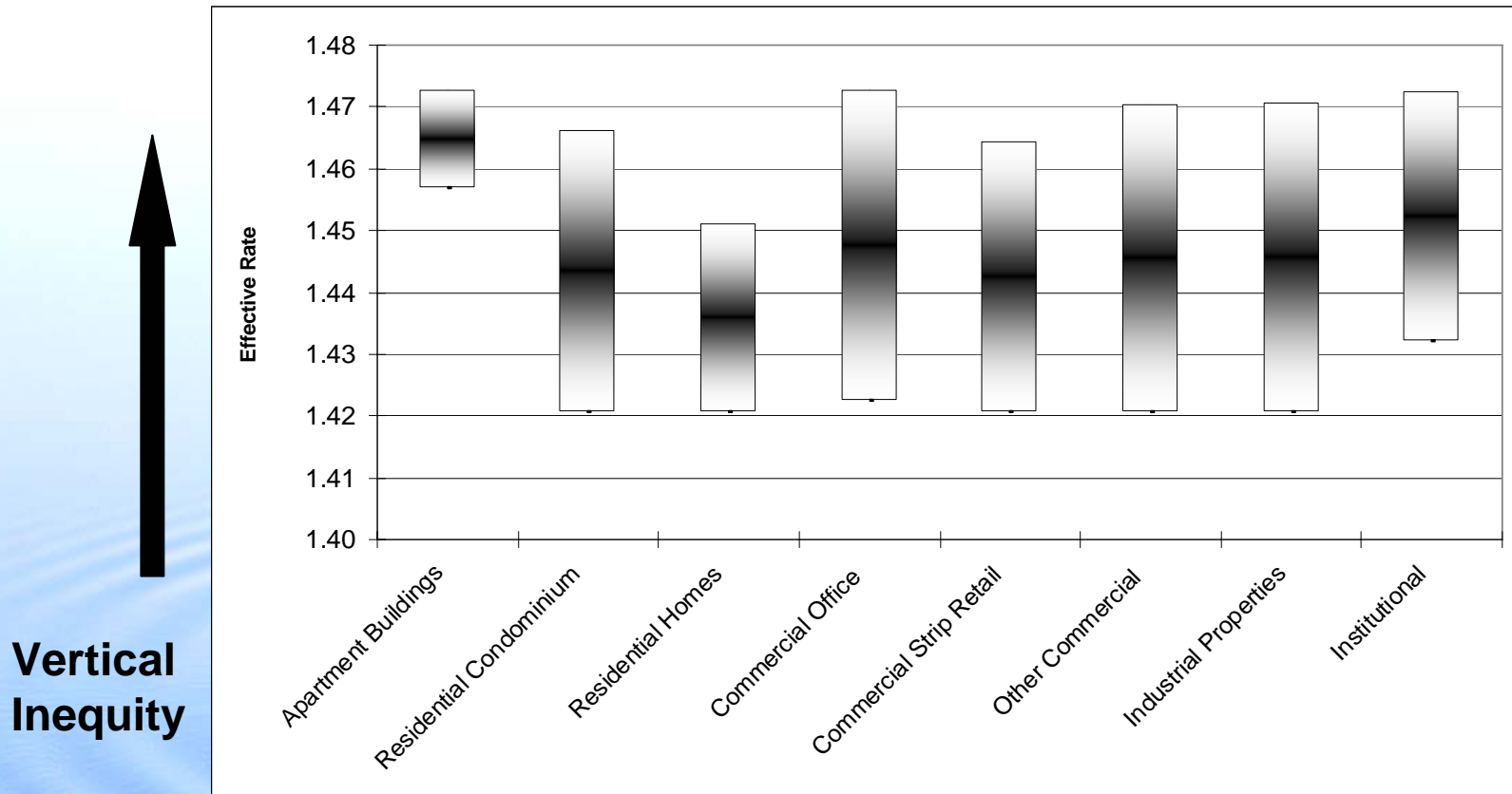
- To provide input into development of new rate structure

# Summary of Consultation Process

---

- Preliminary meetings held with key stakeholder and industry groups
  - 8 meetings, 27 representatives (e.g.. NGO's, TIN, TABIA, GTAA, TCHC, CFIB, TDSB, Hospitals, Ministry of Agriculture & Food)
- 5 Broader Public meetings— May 29, 31, June 1, 5
  - 550 letters to ratepayer/tenant groups
  - Ads in Toronto Star and Mirror/Guardian (including 8 community publications) - May 19 and May 26
  - Email to Councillors May 17th
  - Dedicated web site, phone line, email

# Inequity Between and Within Property Types based on current 7-block volume based structure



Horizontal Inequity

# Toronto's 3 Largest Process Water Users

- Consume almost 5 million m<sup>3</sup>/y among them:
  - Equivalent to annual water consumption of 20,000 households
  - They will pay about \$8 million for water in 2007 alone, which will double to \$16 million by 2013
  - More than 95% of their water consumption is critical to core processes and products (cleaning, flushing, mixing, filling, etc.)
  - Pay disproportionate share of overhead costs compared with other users (e.g.. billing)
- Together, they employ about 4,700 people
- All three continue to invest in major water conserving technologies and processes:
  - Sanofi has recently invested \$1.5 million in managing storm water runoff
  - Campbell's is investing to reduce its water consumption by 50%

# Guiding Principles

---

1. Encourage water efficiency
2. Provide equitable rates across sectors
3. Position City competitively
4. Ensure sustainability
5. Meet regulatory requirements
6. Keep simple and transparent

# Feedback from Preliminary Stakeholder Meetings

---

- Concern about inequity
- Appreciation of water efficiency incentive programs
- Concern about future water rate increases
- Concern about disproportionate bearing of certain costs by large industrial customers
- Suggested cost competitiveness/water pricing strategies for their particular sector
- General support of different/lower rate for manufacturing/process water uses
- Desire to encourage compliance with sewer discharge standards

# Rate Structure Options Considered

Option	
1	One volume rate - All classes
2	Three block volume rate - All classes
3	One volume rate - All classes - 2 <sup>nd</sup> block (lower) for Industrial process users

# Option 1 – One Volume Rate

## Example of Impacts to various users

- \$1.4541/m<sup>3</sup> rate would apply to all consumption

	<u>Current 7 Block Structure</u>	<u>One Rate</u>	<u>Impact</u>	
<b>Avg. Residential</b> (315 m <sup>3</sup> )	\$454	\$461	\$7	1.5%
<b>Medium Consumer</b> (250,000 m <sup>3</sup> )	\$365,236	\$363,525	\$(1,711)	-0.5%
<b>Large Consumer</b> (1,000,000 m <sup>3</sup> )	\$1,403,611	\$1,454,100	\$50,489	3.6%

- Advantage – simplicity, equity, transparency
- Disadvantage – no recognition of process needs and industrial economic competitiveness

# Option 2 – Three-Block Volume Rate Structure

---

- Lower rate at low volume block (e.g. seniors, single person households)
- Lower rate at high volume block (eg. to help high volume consumers)
- Higher rate at middle block

# Option 2 – Three-Block Volume Rate Structure (example of one variation)

*Example:*

<u>Consumption Block</u>	<u>Rate</u>	<u>Comment</u>
<240 m <sup>3</sup>	1.4206	Current low volume rate
240-240,000 m <sup>3</sup>	1.4705	Middle rate
>240,000 m <sup>3</sup>	1.3845	Current high volume rate

	<u>Current 7 Block Structure</u>	<u>Three Blocks</u>	<u>Impact</u>	
<b>Avg. Residential</b> (315 m <sup>3</sup> )	\$454.01	\$454.17	\$0.16	0.0%
<b>Medium Consumer</b> (250,000 m <sup>3</sup> )	\$365,236	\$367,110	\$1,874	0.5%
<b>Large Consumer</b> (1,000,000 m <sup>3</sup> )	\$1,403,611	\$1,405,485	\$1,874	0.1%

# Option 2 – Three-Block Volume Rate Structure

---

## Advantages

- simplification of current structure

## Disadvantages

- perpetuates horizontal and vertical inequity between properties
- no clear focus as to who is benefiting

# Option 3 – Single Rate all users + 2<sup>nd</sup> lower block for process water use

---

- All consumers pay basic volume rate
- 2<sup>nd</sup> lower block rate available for industrial tax class where water consumption > 6,000 m<sup>3</sup>/y (500 m<sup>3</sup>/mo)
  - (over 6,000 m<sup>3</sup> generally process related)
- Volume discount targeting industrial manufacturing/process uses, not domestic use (i.e.. small consumption < 6,000 m<sup>3</sup>/y would likely be domestic uses)

# Option 3 – Single Rate all users + 2<sup>nd</sup> lower block for process water use

## *Example of Impacts*

- Impacts at a 20% reduction for industrial process use > 6,000 m3:

	Current 7 Block Structure	Option 3	Impact	
Avg. Residential (315 m3)	\$454.02	\$467.38	\$13.36	2.9%
Small Retail 1,000 m3	\$1,457	\$1,474	\$17.40	1.2%
Industrial 100,000m3	\$146,241	\$118,195	(\$28,046)	-19.2%
Com. Or Multi Res 100,000m3	\$146,241	\$147,440	\$1,199	0.8%
Industrial 250,000m3	\$365,236	\$292,688	(\$72,548)	-19.9%
Large Industrial 1,000,000m3	\$1,403,611	\$1,165,152	(\$238,459)	-17.0%

# Option 3 – Single Rate all users + 2<sup>nd</sup> lower block for process water use

---

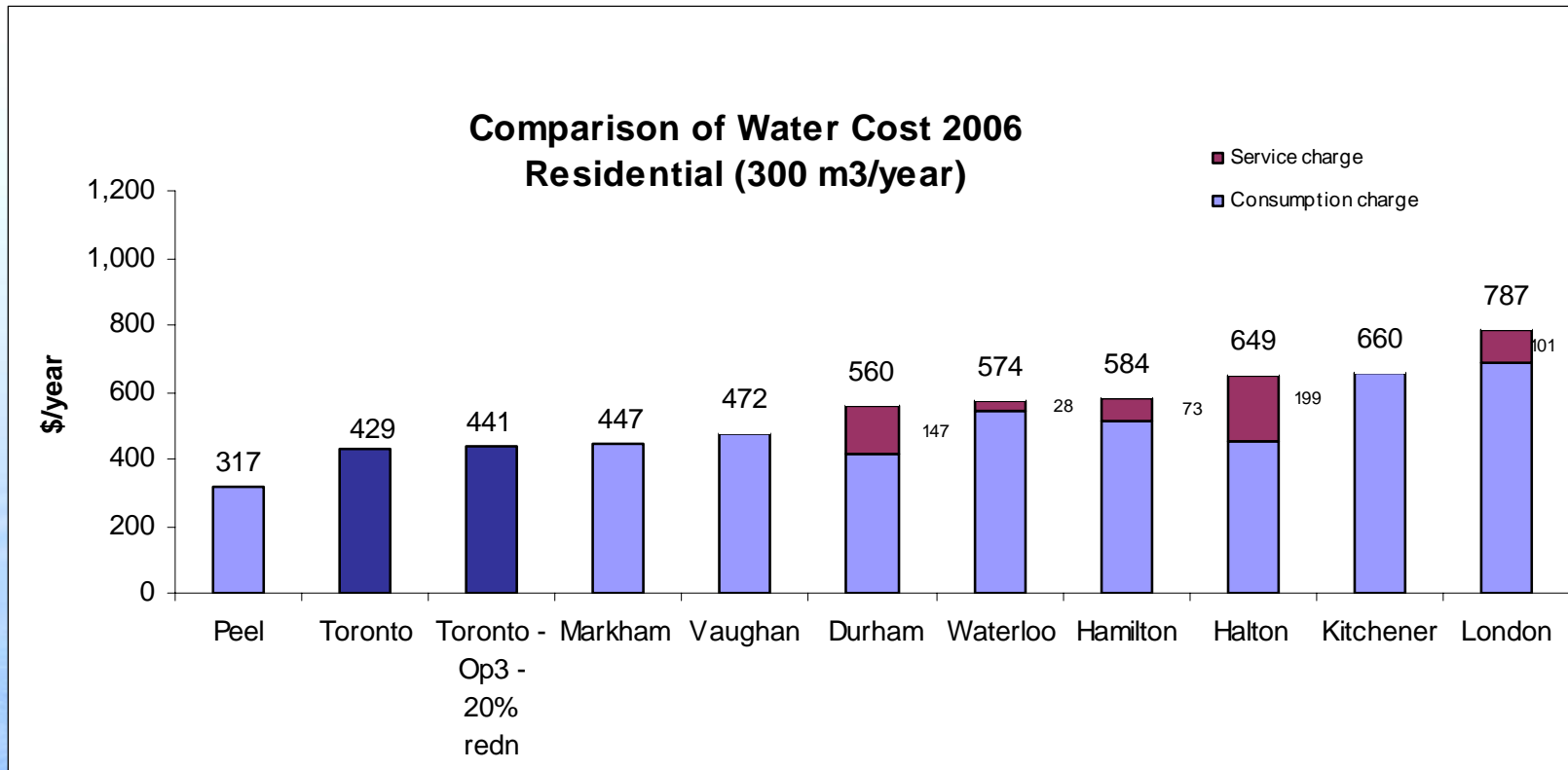
## Advantages:

- Fair and equitable for all consumers (Commercial, Industrial, Multi-Residential, and Residential) for domestic uses of water
- Simplicity, transparency
- Encourages/supports water efficiency initiatives
- Promotes economic competitiveness for industrial sector where water is significant cost input
- No significant impact on other users (approx. 1-3 cents/m<sup>3</sup>), while allowing 10-30% reduction for eligible process users

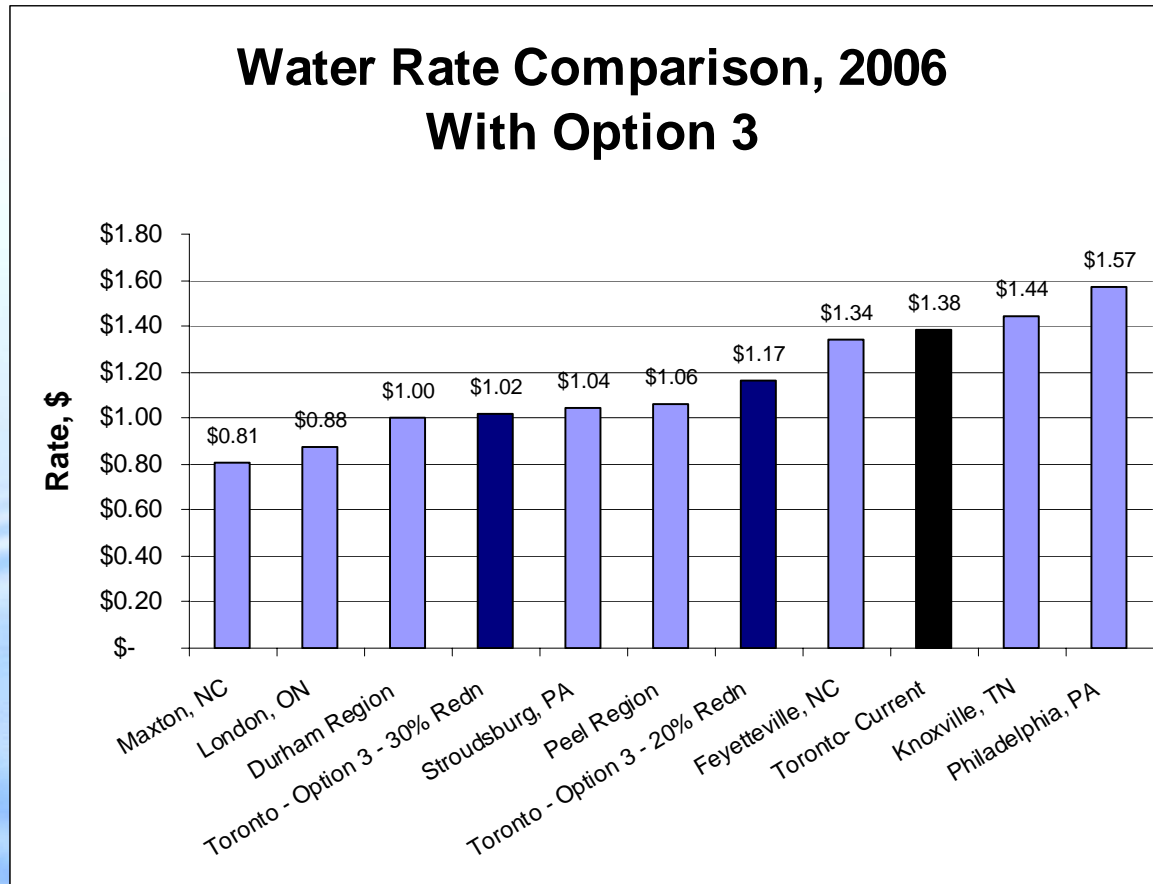
# Summary of Options and Comparison with Guiding Principles

	Description	Compliant with guiding principles
Option 1	One Volume Rate, all Classes	Yes – simple, transparent, equitable No – not competitive for high volume users
Option 2	3 Volume Rate Blocks, all Classes	No – not simple, transparent, equitable No – not competitive for high volume users
Option 3	One Volume Rate, all Classes; 2 <sup>nd</sup> rate for Industrial process uses over 6,000 m <sup>3</sup>	Yes – simple, transparent, equitable, competitive for process uses of water

# With Recommended Option 3 – Toronto's Residential Rate Still Amongst Lowest



# With Recommended Option 3 – Toronto's Industrial rate more competitive, not lowest



# Recommendations

---

1. Endorse in principle the use of water pricing as economic development tool
2. Endorse (i) a single domestic-use rate structure for all consumers; and (ii) second lower block process-use rate for industrial properties (applies to volumes consumed over 6,000 m<sup>3</sup>)
3. Second block process-use rate be initially set at 20% reduction from 1<sup>st</sup> block, and subsequently, one-third of annual increases apply until target of 30% reduction reached

# Recommendations

---

4. To qualify for the industrial process second block rate, users must be in compliance with City's sewer use by-law
5. Rebate on water billing for low income seniors and low income disabled persons –
  - same eligibility criteria as the City's property tax relief program
  - must be metered, with household consumption less than 300 m<sup>3</sup>/year

# Other Recommendations

---

## Recommendations 6-10

### Administrative and reporting on:

- Developing and implementing further water conservation programs under Water Efficiency Plan
- Further consultations with stakeholders to identify fixed cost elements of the water/wastewater program that could be assessed as a fixed rate charge on future water billing
- Investigating legal and financial implications of fixed term contracts with large water consumers



<b>Volume of water used or fraction thereof, calculated daily</b>	<b>Not paid before the due date</b>	<b>Paid on or before the due date</b>
	<b>\$/m<sup>3</sup></b>	<b>\$/m<sup>3</sup></b>
For the first 240 m <sup>3</sup> of water used per year	1.6569	1.5740
For the next 5,760 m <sup>3</sup> of water used per year	1.7126	1.6270
For the next 6,000 m <sup>3</sup> of water used per year	1.7267	1.6404
For the next 48,000 m <sup>3</sup> of water used per year	1.7097	1.6242
For the next 60,000 m <sup>3</sup> of water used per year	1.6969	1.6120
For the next 120,000 m <sup>3</sup> of water used per year	1.7111	1.6255
For any volume over 240,000 m <sup>3</sup> of water used per year	1.6148	1.5340