
Water Rate Structure Review

Public Meetings
May 29 – June 5, 2006

Presentation Overview

1. Why we are here and your role
2. Toronto Water overview
3. Toronto's water customer profile
4. Implications of current water pricing and comparison with other cities
5. Preliminary water rate pricing options
6. Next Steps

Purpose of Meeting

- Review Toronto's block rate water pricing structure
- Discuss other fees/charges/incentives affecting pricing

Why Now and Your Role

Why Now?

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

Your Role:

- To provide input into development of new pricing structure

Guiding Principles

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

Questions To Be Considered

- The principle of “Fee for Service”?
- Should there be different rates for different sectors (industrial, houses, commercial properties, apartments)?
- Should we separate fixed costs and indirect costs from volume basis?
- How important is keeping Toronto competitive with other cities?
- How will ‘Bill 175’ affect water rate?

Concerns for Business Competitiveness

- 100,000 less jobs in the city than 10 years ago
- Council adopted initiatives to retain businesses and attract businesses by:
 - Strengthening key industry clusters
 - Lowering tax rate for commercial and industrial sectors
 - Protecting industrial lands as employment areas

Toronto Water Overview

Toronto Water

- Delivers water and wastewater services to 2.4 million residents in Toronto and to portions of York and Peel Regions.
- Operates extensive water and wastewater infrastructure to deliver safe drinking water and to collect and treat wastewater
- Invests in the maintenance of the City's aging water and sewer infrastructure.
- Ensures that infrastructure development meets new Provincial legislative requirements and growing population demands.

Customer Profile

Customer Profile

- 71,000 Flat-Rate Accounts
- 387,000 Metered Accounts
- Water production 540 million M3
- \$610 million budget

Flat rate vs. Metered rate Residential Properties

- Semi-detached house

(1,150 sq.ft., 3 bedroom, 1 bathroom):

➤ Water use 164 M3/yr = \$233/yr vs. \$305 flat rate

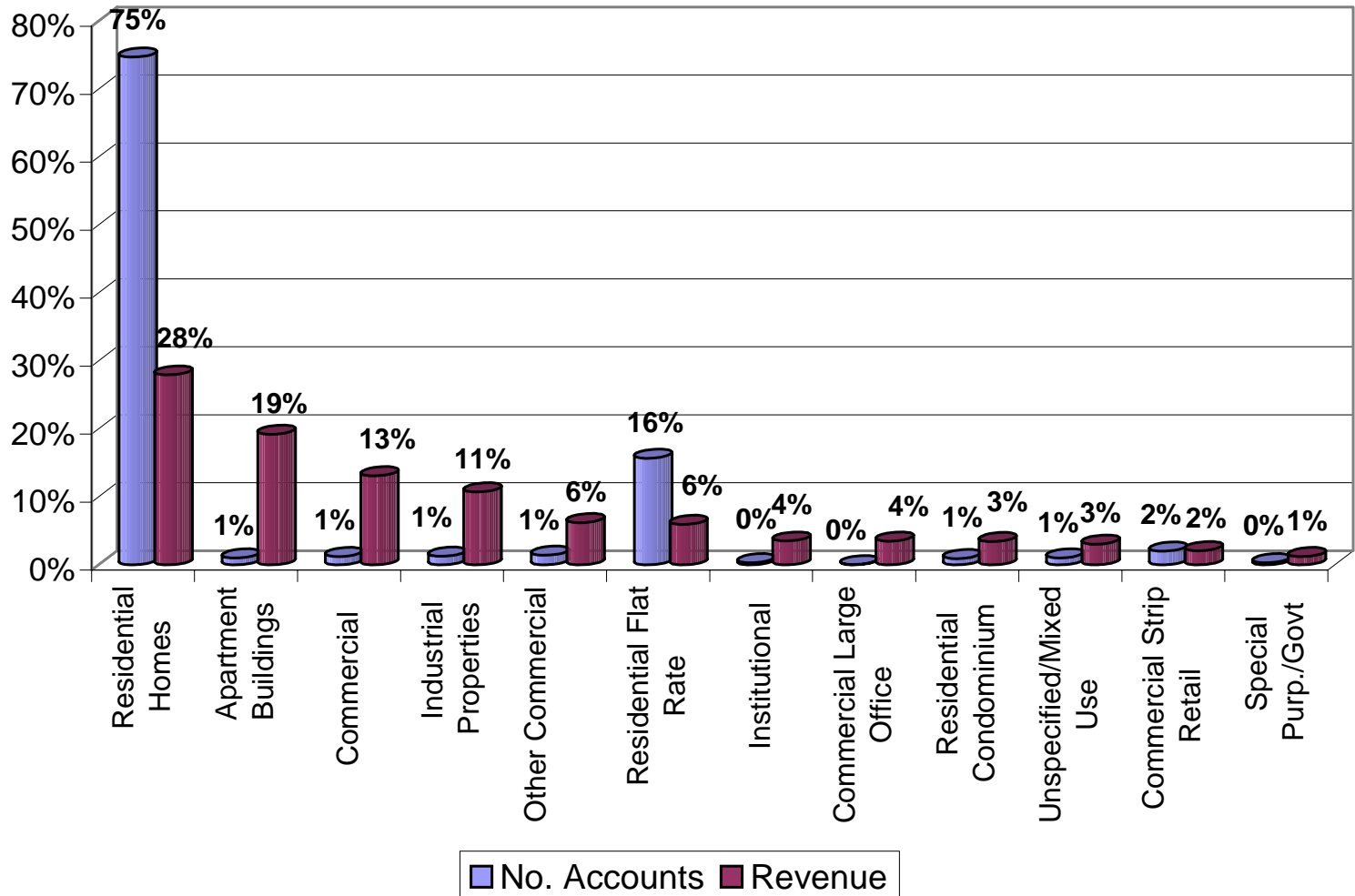
- Detached house

(1,550 sq.ft., 3 bedroom, 2 bathroom):

➤ Water use 252 M3/yr = \$359/yr vs. \$497 flat rate

- 30% - 38% 'cost premium' on flat rate accounts

Metered Accounts



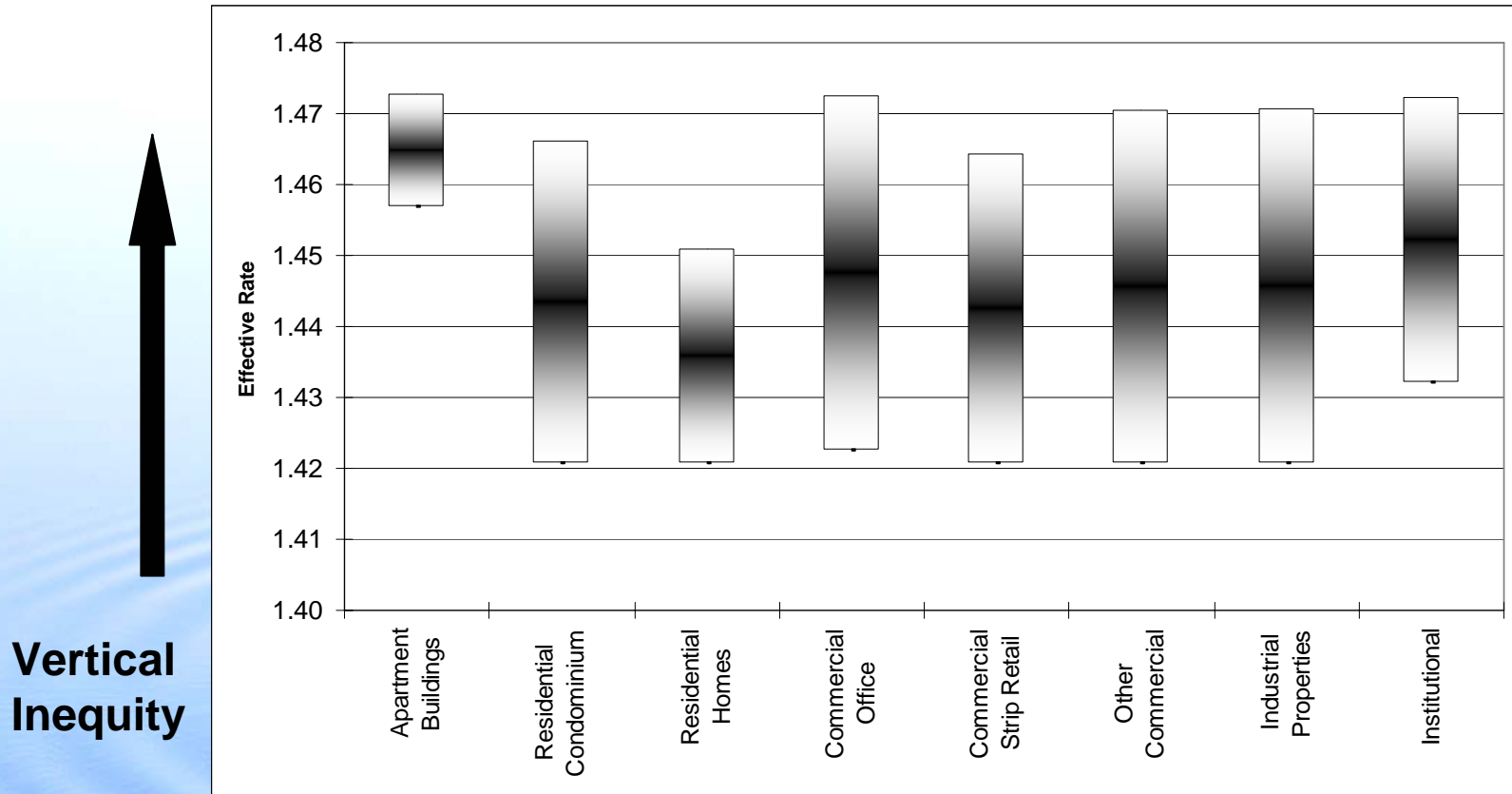
Current Pricing Implications

Current Pricing Implications

- Consumption based
- No recognition of 'sector'
- Block rate volume discount irrespective of 'class'

		<u>Price</u> \$/m ³	<u>% of</u> <u>customers</u>
block1	first 240 m ³	1.4206	36.7%
block2	next 5,760 m ³	1.4684	61.5%
block3	next 6,000 m ³	1.4805	0.7%
block4	next 48,000 m ³	1.4659	0.9%
block5	next 60,000 m ³	1.4549	0.2%
block6	next 120,000 m ³	1.4671	0.05%
block7	over 240,000	1.3845	<u>0.01%</u>
			100%

Inequity Between and Within Property Types

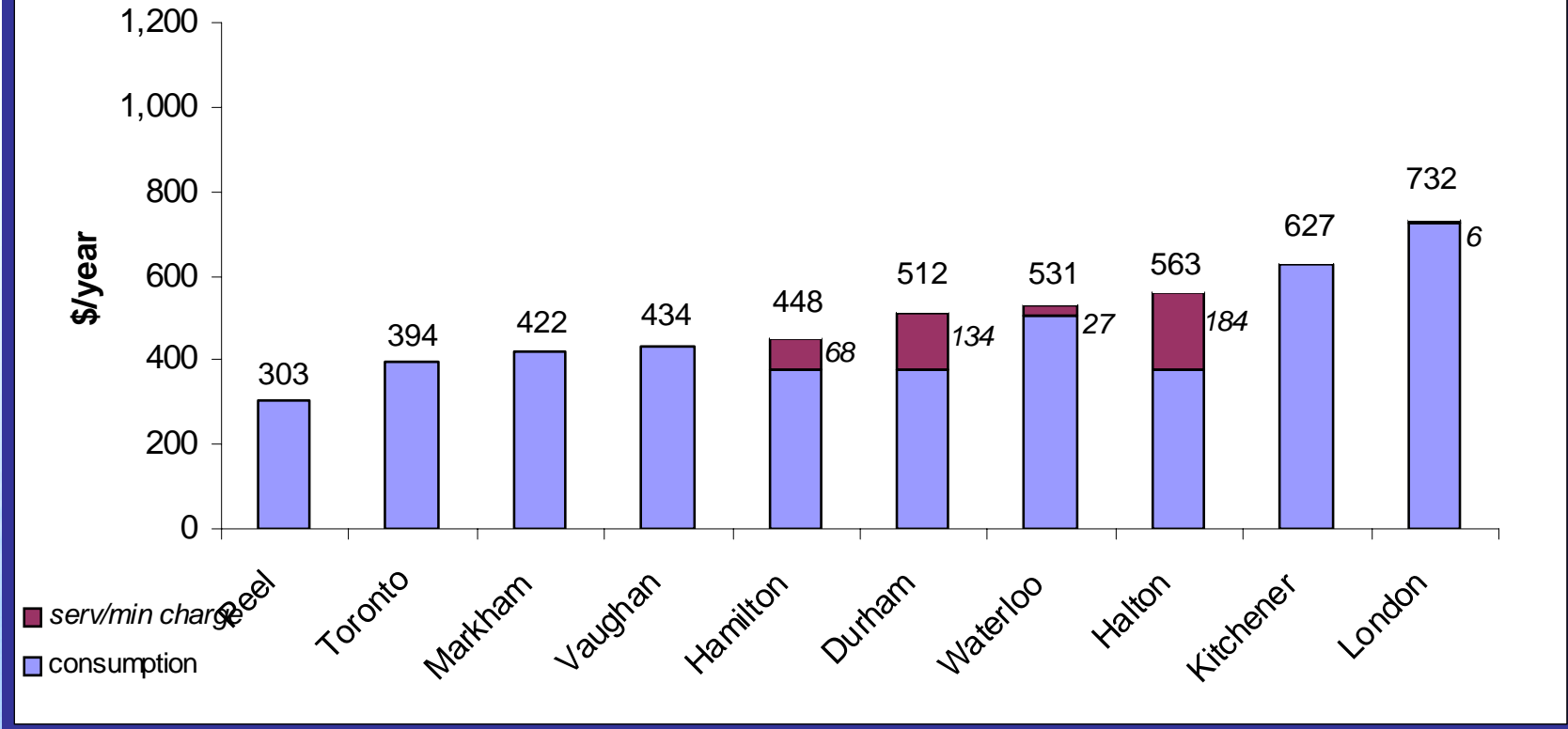


Horizontal Inequity

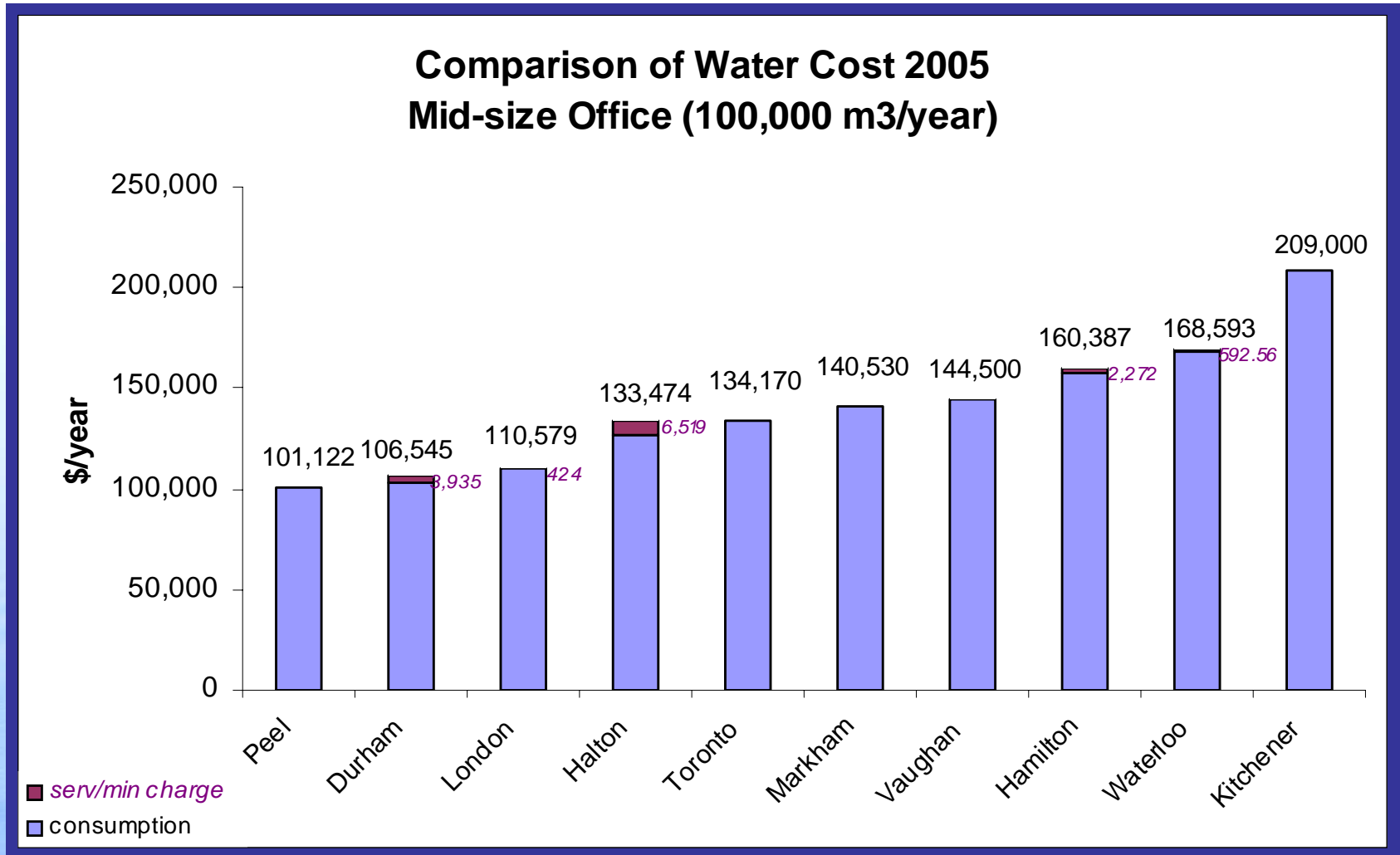


Comparison with Other Cities

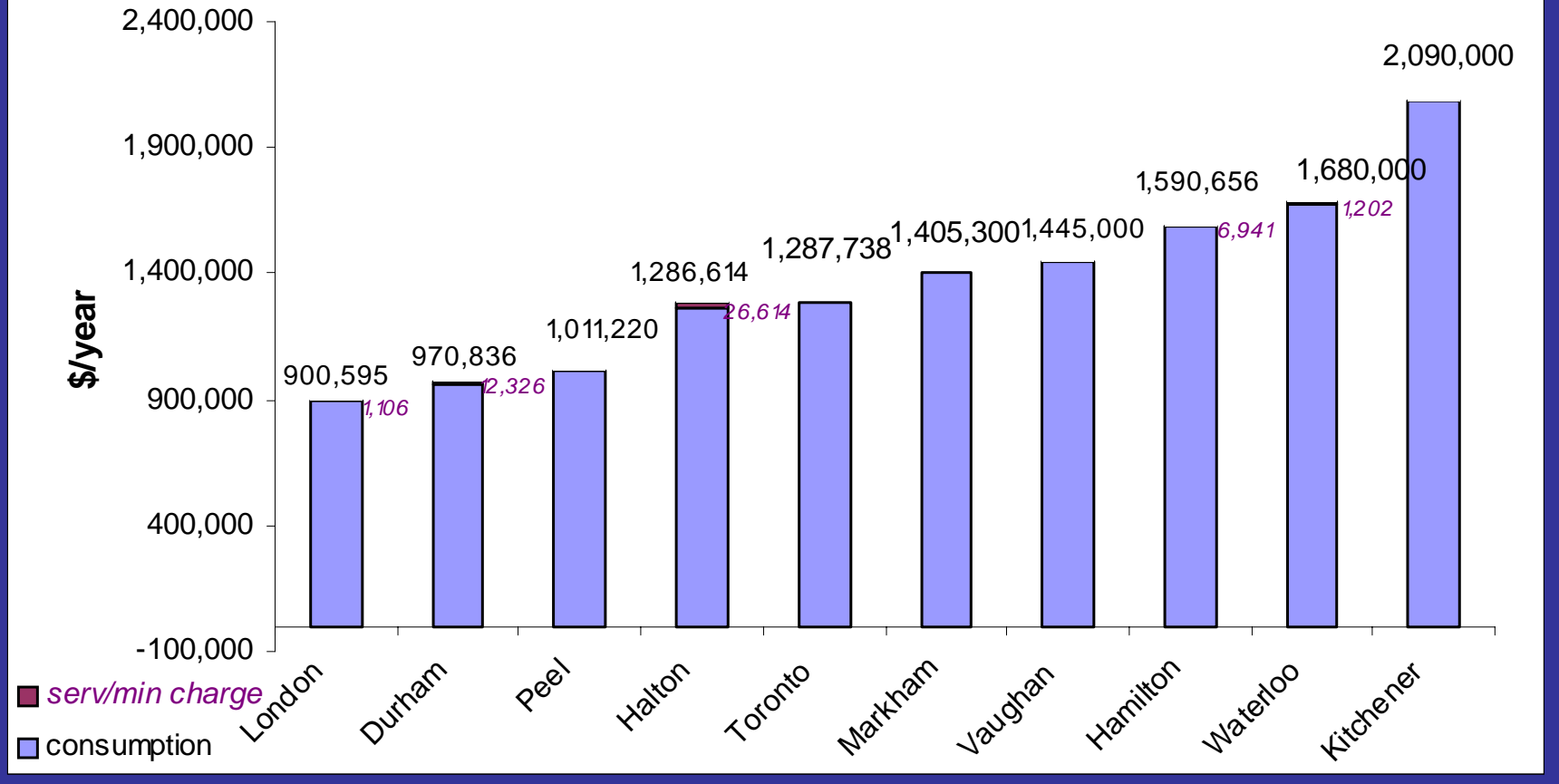
Comparison of Water Cost 2005 Residential (300 m³/year)



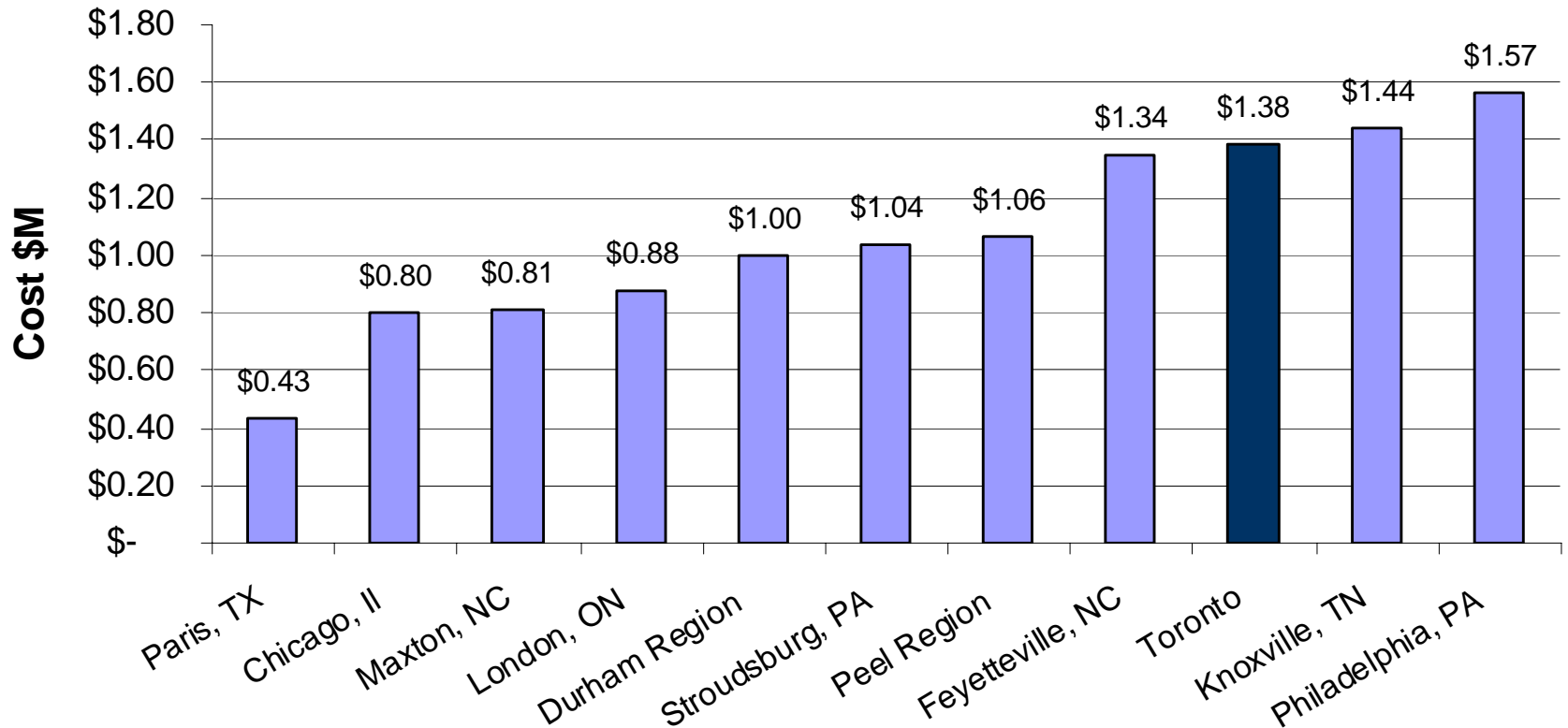
Comparison of Water Cost 2005 Mid-size Office (100,000 m³/year)



Comparison of Water Cost 2005 Large Industrial (1,000,000 m³/year)



North American Water Rate Comparison, Large Industrial 1,000,000m³, 2006



\$CDN equivalent cost, \$US converted at \$1.15 CDN

Feedback from Preliminary Stakeholder Meetings

- Concern about inequity
- Water efficiency incentive programs valued
- Concern about future water rate increases
- Concerned about disproportionate bearing of certain costs
- Suggested cost competitiveness/water pricing strategies for their particular sector

Options for Consideration in New Pricing Structure

- Separation of fixed/overhead costs from volume basis
- By accounts or by service (pipe) size
- By volume blocks (single or multiple)
- By customer sector

Alternatives to current structure

- a) Apply overhead costs to all accounts equally
- b) Apply overhead costs related to service size
- c) Apply utility charge (Wet Weather Flow Master Plan – WWFMP)

a) Apply to all accounts equally

- Example - allocate corporate overhead, meter reading/billing and WWFMP costs per account as separate charge from water rate
- Results in:
 - Lower volume water rate + separate fixed charge
 - higher cost and impact on residential water users
 - lower costs to large water users

b) Apply overhead costs related to service size

- Allocate corporate overhead, meter reading/billing and WWFMP based on pipe connection size (separate from water rate)
- Average residential pipe connection is 5/8" and large consumer connection range from 4" to 10"
- Results in:
 - lower water rate + fixed charge based on meter size
 - small increases in cost and impact on residential water users
 - lower costs to large water users

Customer Sectors

- Residential (houses/condominiums)
- Multi-unit Residential (small to large apartments)
- Commercial (small to large buildings)
- Industrial (small to large operations)
- Institutional (schools/hospitals)

Options based on Consumer Sectors

- General support of different/lower rate for manufacturing/process water uses
- Residential, Multi-unit residential, Commercial mostly domestic use of water
- Institution, except for possibly R&D, also mostly domestic use
- Larger volume industrial consumption generally reflection of manufacturing/process needs

Some options for consideration

Options:

- Option 1a: One volume rate (all sectors)
- Option 2a: Three different rates based on volume (all sectors)
- Option 3a: One volume rate (all sectors); lower rate for manufacturing/process uses
- Options 1b, 2b and 3b: Separate fixed charges

Some options for consideration

1a – One volume rate	1b – One volume rate + fixed charge
<p>\$1.4541 applies to all consumption</p> <p>Advantage: simple, fair, transparent</p> <p>Disadvantage: no recognition of process needs and industrial economic competitiveness</p>	<p>\$1.2503/m³ + fixed charge based on service size</p> <p>Advantage: fairer means of allocating city costs</p> <p>Disadvantage: same as 1a</p>
2a – 3 Block Volume Rate	2b – 3 Block Volume Rate + fixed charge
<ul style="list-style-type: none"> • Lower rate at lower volume • Lower rate at higher volume • Higher rate for average users 	<ul style="list-style-type: none"> • Lower rate at lower volume • Lower rate at higher volume • Higher rate for average users

Options for consideration

3a – One rate all users + lower block for Industrial users

- All users pay basic rate
- Lower block rate available for industrial sector

Advantages:

- Fair to residential users
- Encourages water efficiency
- Promotes economic competitiveness
- Small increase for most
- Highest decrease for large manufacturing/process users

3b – One rate all users + lower block for Industrial users + fixed charge

- All users pay basic rate
- Lower block rate available for industrial sector

Advantages:

- Fair to residential users
- Encourages water efficiency
- Promotes economic competitiveness
- Small increase for most
- Highest decrease for large manufacturing/process users

Summary

Options	Comparison with Guiding Principles
<u>Option 1:</u> One Volume Rate (all sectors)	<ul style="list-style-type: none">•Simple, transparent, equitable•Not competitive for high volume users
<u>Option 2:</u> 3 Volume Rate Blocks (all sectors)	<ul style="list-style-type: none">•Not simple, transparent or equitable•Not competitive for high volume users
<u>Option 3:</u> One Volume Rate (all sectors); lower rate for process water use over 6,000 m ³	<ul style="list-style-type: none">•Simple, transparent, equitable•Competitive for manufacturing/process users

Next Steps

- Consideration of stakeholder, public input, and peer review
- Written submission by June 15th
- Staff report and recommendations
- Works Committee on July 5, 2006
- Policy and Finance Committee on July 18, 2006
- Council consideration on July 25-27, 2006
- Committee and Council consideration

For Updates:

www.toronto.ca/finance/waterrates.htm

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