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## 2012 OPERATING BUDGET BRIEFING NOTE

### Cost assumptions for the projected revenue loss associated with eliminating some of the eligibility criteria for Block 2 rate customers

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#### Issue:

Budget Committee, at its meeting on November 10, 2011, recommended adoption of Toronto Water's 2012 Operating and Capital Budgets to the Executive Committee and requested the Deputy City Manager and Chief Financial Officer and the General Manager, Toronto Water, to provide a Briefing Note to the Executive Committee at its meeting on November 21, 2011, on the cost assumptions for the projected revenue loss associated with eliminating the eligibility criteria for Block 2 rate customers.

The Budget Committee Decision Document can be found at:

<http://app.toronto.ca/tmmis/viewPublishedReport.do?function=getDecisionDocumentReport&meetingId=5054>

#### Background:

- The City implemented a two block water rate structure in January 2008. The eligibility criteria for the lower Block 2 rate recommended in the staff report are that the property be in the Industrial Tax Class and its water consumption is more than 6,000 m<sup>3</sup> per year. In adopting that report, Executive Committee moved the additional eligibility criteria of:
  - (i) being in compliance with the City sewer-use by-law;
  - (ii) installation of effluent monitoring equipment accessible to City staff 24 hours a day; and,
  - (iii) submission of a water conservation plan satisfactory to the General Manager, Toronto Water.

Industries were given a 6 month grace period to comply with the above.

- During the initial 6 month phase, 349 industrial properties were eligible for the Block 2 rate. Approximately 60 companies remained on the Block 2 rate after the 6 month grace period, having demonstrated compliance with the Sewers Bylaw and submitted an acceptable conservation plan.
- As of August 2011, 64 industrial clients were receiving the Block 2 rate, a significant reduction from the initial intention of the program. An additional 18 clients were in the process of being re-instated with retroactive billing adjustments pending, and the total clients eligible would have been 80 at that time.

**Key Points:**

- Staff monitor Block 1 and Block 2 consumption, and revenue projections for future years are based on the anticipated water rates and observed trends in water consumption.
- The City does not budget for non-compliance with the eligibility criteria for the Block 2 rate. It is assumed that customers will be compliant and any non-compliance experienced throughout the year (in which a company is removed from the lower Block 2 rate and put in the higher Block 1 rate) would be unanticipated water revenue for the City.

**Compliance with City's Sewers By-law**

- During 2010, 24 industrial clients were temporarily excluded from Block 2 for a period of 2 or more months and returned to Block 1 rates for reasons of non-compliance with Sewers By-law. Because of the rigor of the various eligibility criteria, companies may come on and off the Block 2 rate at various times during the year. For comparison, as of July 1, 2011, 21 industrial clients were excluded from the Block 2 rate at that time.
- The loss of benefit to these industrial clients by being removed from the Block 2 rate was \$1.320 million in 2010. If compliance rate associated with the Sewers By-law observed in 2010 were to be repeated in 2012, the corresponding annual loss for the industries would be \$1.674 million, as shown in the following table. As previously noted, the City does not budget for unanticipated water revenue arising from non-compliance.

**Annual Revenue Impact based on 2010 Sewers By-law non-compliance**

24 Industrial Customers returned to Block 1 rate for non compliance with the Sewers By-law for 2 or more months	2010 Total Consumption, m3	2010 Consumption on Block 1 rate above 6,000 m3 (non compliance)	Difference Block 1 - Block 2, \$	Loss of Benefit from non-compliance, \$
2010 impact	6,064,263	2,242,074	\$ 0.5890	\$ 1,320,582
2012 projected impact if at 2010 consumption and compliance level	6,064,263	2,242,074	\$ 0.7470	\$ 1,674,740

**Compliance with Water Conservation Plan Requirements**

- Companies receiving the Block 2 rate are currently required to submit an Annual Progress Report by July 1<sup>st</sup> to continue to receive Block 2 rate. Companies wishing to enter the industrial process water user program need to submit an initial Water Conservation Plan.

- In July 2011, 106 companies submitted an Annual Progress Report. Twenty-one companies were excluded for non-compliance with the Sewers By-law as previously noted, and five companies did not or were late in submitting their Annual Progress Report, leaving a total of 80 companies eligible to receive the Block 2 rate from the 106 applicants.
- As there are approximately 350 potentially eligible industrial customer (and only 106 who have currently applied), removing the requirement to "apply" by submitting an initial Water Conservation Plan or through the Annual Reports would allow an estimated 240 additional customers to receive the Block 2 rate. Many of these companies have never previously applied because their consumption over 6,000 m<sup>3</sup> is not significant. Staff estimate that there could be an impact to 2012 water revenue in the range of \$2 - \$3 million from making these customers eligible.

**Conclusion:**

- The original intent of the Block 2 rate was to promote economic competitiveness for industrial water users. However, the current eligibility criteria have made it difficult for industrial users to benefit from the reduced water rates and the complex administration has resulted in significant administrative burden on City staff. Furthermore, the existing penalties for offences under the Sewers By-law are already significant and achieve the objective of deterrence, and industries as a matter of economic competitiveness have already implemented various water conservation measures. As such, it is recommended that Council amend the eligibility criteria for the Block 2 water rate by removing these requirements.
- The proposed changes to the eligibility criteria for Block 2 rate would allow staff to focus monitoring efforts on customers that pose a higher risk to the environment.
- If the recommendations are adopted, staff will be contacting the industrial clients on file to verify they meet the eligibility criteria in order to be placed on the Block 2 rate for their eligible consumption.
- Staff will continue to monitor Block 2 consumption, and changes in consumption trends and Block 2 take up will be reported as part of the annual water rate and budget setting process.

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