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April 27, 2016

## **CORPORATE SERVICES REPORT – FINANCIAL SERVICES – 2016-20**

TO: Mayor Tony Van Bynen and Members of Council  
SUBJECT: Deferred Implementation of Tiered Water Rates  
ORIGIN: Director, Financial Services/Treasurer

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### **RECOMMENDATION**

**THAT Corporate Services Report - Financial Services – 2016-20 dated April 27, 2016 regarding Deferred Implementation of Tiered Water Rates be received and the following recommendation be adopted:**

**THAT staff be directed to report back to Council on the implementation of the phase-in of the tiered fixed rate structure in 2017.**

### **COMMENTS**

#### **Purpose**

This report is to update Council on the implementation of a tiered fixed rate structure, which is being recommended to be deferred until 2017.

#### **Budget Impact**

Forgoing the implementation of the tiered rate structure in July will reduce projected revenue for 2016 by 1% or \$290,000. This can be covered through the rate stabilization fund.

#### **Summary**

Although customers with large water meters tend to consume significantly more water on average, there is variation of consumption levels between customers with meters of the same size. Further analysis is required to ensure that the introduction of the rate structure does not adversely impact certain customers.

## BACKGROUND

Financial services report 2015-53 directed staff to report back to Council on the implementation of the phase-in of a tiered fixed rate structure.

The report recommended that the Town adopt a tiered fixed rate structure on July 1, 2016 where customers with larger meters pay a higher fixed rate. The *American Water Works Association* has established a standard factor of what customers should be charged relative to the residential sized meter.

**Table 1: Standardized Meter Equivalency Factor**

Meter Size	5/8"	2"	3"	4"
Equivalency Factor	1	8	15	25

There is economic reasoning as to why customers with large meters should bear a greater portion of the fixed cost. Larger meters are more expensive to maintain and replace and require a greater amount of standby capacity to accommodate consumption at peak times.

True costing of the fixed charge for large meters will result in lower increases to the volumetric rate. This new structure will make water and wastewater relatively more affordable for residential and small business customers in subsequent years.

### ***Analysis and Options***

An inventory of the larger water meters was performed over the past few months. With this new information, staff was able to compare 2015 consumption levels to meter size to determine a correlation.

It was found that the average consumption level is correlated with meter size. That is the larger the meter, the higher the average consumption level. The average customer with a 2" consumed 23 times more than the average residential customer. The average 3" customer consumed 34 times more than the average residential customer. The average 4" customer consumed 113 times more than the average residential customer.

Despite this correlation, it was found that there was great variation between customers with the same meter size. Table 2 breaks down consumption by consumption level decile for 2", 3" and 4" customers.

**Table 2: Annual Consumption in Cubic Meters by Consumption Decile and Meter Size**

	2"	3"	4"
10%	327	405	1,812
20%	561	951	3,725
30%	900	2,029	4,348
40%	1,347	3,562	5,799
50%	1,812	5,697	6,686
60%	2,523	8,547	12,922
70%	3,973	9,648	13,821
80%	6,206	11,184	20,887
90%	10,910	13,449	27,705
100%	87,386	36,289	186,745
Number of users	273	38	25

To put this into context, the average resident (5/8" meter) uses 200 cubic meters of water per year.

The consequence of this variation is that different customers will experience the proposed rate structure very differently. For example, a customer in the bottom decile of the 2" customers would see an 80% increase in their water and wastewater bill due to the fixed rate change, while the top decile would see a 0.4% increase.

**Due to this variation, staff recommends engaging in further review for a phase-in strategy to ensure that customers are not subject to substantial increases.**

Potential strategies include:

- not applying a higher fixed rate to low level water consumers even though they have a larger meter;
- applying a variable fixed rate where a portion of their rate is based on historical consumption levels;
- applying a lower meter equivalency factor to ensure low level consumers are not subject to larger increases.

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## BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

This report links to Newmarket's key strategic direction in being Well Managed through fiscal responsibility.

## CONSULTATION

Not applicable to this report.

## HUMAN RESOURCES CONSIDERATIONS

Not applicable to this report.

## BUDGET IMPACT

Forgoing the implementation of the tiered rate structure in July will reduce projected revenue by 1% or \$290,000. This can be covered through the rate stabilization fund.

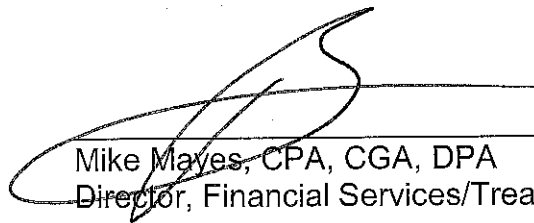
## CONTACT

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