REPORT OF THE

STANDING POLICY COMMITTEE ON PUBLIC WORKS

DATED JANUARY 11, 2000

On motion of Councillor Angus, the Report of the Standing Policy Committee on Public Works dated January 11, 2000, was considered.

Moved by Councillor Angus,
That the Consent Agenda, Clauses 1,2 and 4, be adopted.

Carried.

Approval for the Utilization of Surplus Funds for the Repair/Upgrading of the Perimeter Road Station
File WS-9 (Vol. 2)

306 - 1. The Standing Policy Committee on Public Works has been advised that between 1986 and 1994, funds in the amount of $46.44 million were approved in the Capital Estimates for the West End Water Pollution Control Centre (WEWPCC) Expansion Project.

All wastewater collected from the communities of Charleswood, Tuxedo and parts of St. James-Assiniboia are transported to the WEWPCC by the Perimeter Road Pumping Station, which is located at Wilkes Avenue and the Perimeter Highway. The Perimeter Road Pumping Station, which can be considered the raw sewage pumps for this treatment plant, is an integral component for ensuring the proper operation of the collection and conveyance systems in the City's west end to avoid basement flooding and discharges of untreated sewage to the Assiniboine River. It is essential, therefore, that the pumps at the Perimeter Road Station be maintained and upgraded.

Repairs/upgrading are required at the Perimeter Road Station to enhance the reliability of the largest pump. This pump is 11 years old, electrically driven, and has a variable frequency drive (VFD). The pump acts as a second duty pump and primarily operates to pump wet weather flows to the WEWPCC. Because of the age of the pumping unit, the VFD employs out-of-date technology and is unreliable. Replacement circuit boards and general electrical components are unavailable making it necessary to obtain custom fabricated parts, if available, which are extremely costly and require the pump to be out of service for significant periods of time. Long interruptions of service have already been experienced and are expected to continue. With the pump out of service, the existing remaining pumps at the Perimeter Road Station cannot handle the wet weather flows, and the wastewater collection system is forced to overflow to the river. It is therefore proposed that the existing outdated Variable Frequency Drive for Pump No. 1 at the Perimeter Road Station be replaced with a reliable, low maintenance magnetic coupling drive.

Funds have not been included for this project in the Capital Estimates. The transfer of surplus cash flowed funds is being requested to permit the works to be carried out this winter in time for spring and summer wet weather flow periods. Sufficient funds are available as a result of a surplus from the West End Water Pollution Control Centre Expansion (WEWPCC) Project. It is proposed that these unused funds be used to cover the funding for the Perimeter Road Station repair/upgrade.

The financial status of the WEWPCC Project is as follows:

Authorized Capital		$ 46,440,000.00
Amount of Previous Awards or Expenditures	$ 43,887,472.00	
Amount Required for Uncompleted Projects	$ 2,300,000.00	
Total Estimated Cost	$ 46,187,472.00	$ 46,187,472.00
Estimated Surplus		$ 252,528.00

The funds proposed for utilization were included in the Cash Flow Projections in the Capital Project Summary for the period ending November 1, 1999, and are from the Sewer Utilities Retained Earnings and, therefore, are not debt financed.

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A financial impact statement for the utilization of funds for this project has been prepared in accordance with the recommendation contained in a report dated November 18, 1997, submitted to and concurred in by the Standing Committee on Fiscal Issues on November 24, 1997, a copy of which is on file in the office of the City Clerk.

The Standing Policy Committee on Public Works recommends:

I. That a new capital project for the upgrading and repairs to the Perimeter Road Pumping Station be approved at a cost of $200,000.00.

II. That surplus cash flow forecasted funds in the amount of $200,000.00 be transferred to the Perimeter Road Station Upgrading and Repair Project from the WEWPCC Expansion Project, Account No. 44 118xxx 51xx040701 funds.

III. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

Adopted by consent.

Approval for a Change to the 2000 Annual Capital Estimates and 2001 to 2005 Five-Year Capital Forecast to Facilitate the Construction of the Fort-Garry Interceptor-McGillivray/Kenaston Extension
Files FC (2000) and FC-1 (2001-2005)
[c/r DASSF 539/99]

307 - 2. Council, at its meeting held on December 16, 1999, approved the 2000 Annual Capital Estimates and 2001 to 2005 Five-Year Capital Forecast. Included in the year 2003 of the Five-Year Forecast are funds in the amount of $1,620,000.00 for the engineering design and construction of an extension to the Fort Garry Interceptor Sewer from its present terminus at McGillivray Boulevard and Dovercourt Drive. The extension is to proceed westerly along McGillivray Boulevard and then northerly along Kenaston Boulevard to provide regional wastewater servicing for projected development west of Kenaston Boulevard.

In connection therewith, the Standing Policy Committee on Property and Development at its meeting held on January 4, 2000, considered the recommendations of the Assiniboia Community Committee in the matter of a proposed plan of subdivision for land located on the west side of Kenaston Boulevard opposite Rothwell Road, together with proposed servicing agreement conditions as recommended by the Administrative Coordinating Group. The said Standing Policy Committee also considered the recommendations of the Standing Committee on Fiscal Issues with respect to the proposed servicing agreement conditions numbered 2 and 3 contained therein, as well as a report from the Chief Financial Officer and subsequent communications from the Land Development Administrator.

Following its deliberations, the Standing Policy Committee Property and Development concurred in part with the recommendations of both the Assiniboia Community Committee and Standing Committee on Fiscal Issues, and approved the proposed plan of subdivision for the land located on the west side of Kenaston Boulevard opposite Rothwell Road, subject to the Developer entering into a servicing agreement containing the following conditions, namely:

1. That the Developer shall, at no expense to the City, construct a 300mm watermain loop in Kenaston Boulevard from the existing terminus in Kenaston Boulevard to the watermain in Lowson Crescent at Rothwell Road to serve the proposed subdivision.

2. That the Developer shall, at no expense to the City, construct wastewater sewers from the proposed subdivision to the interceptor (Fort-Garry Interceptor-McGillivray/Kenaston Extension) to be constructed by the City as determined by and to the satisfaction of the Director of Water and Waste. The City will register a caveat against Lots 2, 3, 4 and 5 stipulating that occupancy permits shall not be issued on these lots until such time as wastewater sewer service is available.

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3. a) That the Developer shall pay the share of the cost of land drainage trunk facilities (TSR) attributable to Lots 1 to 5 as determined by the Director of Water and Waste. The 1999 rate therefore is $10,500.00 per acre.

   b) That the Developer shall construct land drainage facilities required to service the proposed subdivision as determined by and to the satisfaction of the Director of Water and Waste. The cost of land drainage facilities constructed that will form part of the regional land drainage system will be credited against the TSR referred to in a) above.

   c) That the Developer shall sell approximately 18 acres of land within the area identified as 'Lake' for stormwater retention purposes. The cost of the land shall be credited against the TSR referred to in a) above.

   d) That the balance (± 20 acres) of the area identified as ' Lake' shall be conveyed to the City in part to satisfy the public open space dedication requirement and in part in exchange for surplus City lands within the public rights-of-way abutting proposed Lots 4 and 5 in accordance with terms and conditions to be approved by the Standing Policy Committee on Property and Development.

4. That the water, wastewater and land drainage services within the proposed subdivision shall be private and shall be the joint responsibility of all the present and future property owners. The Developer shall execute a joint servicing agreement which shall obligate all present and future owners of the proposed lots to be jointly responsible for the proper use, maintenance, repair and replacement of the water, wastewater and land drainage facilities.

5. a) That access to the proposed subdivision shall be restricted to the following locations:
      i) the existing approach to the Lehigh Cement plant,
      ii) opposite Rothwell Road, and
      iii) off the public right-of-way located along the south limit of the proposed subdivision.

   b) That the Developer shall enter into a subdivision agreement to provide for a cross-access agreement, to the satisfaction of the Director of Public Works, for access for Lot 1 over Lot 3, Lot 2 over Lots 1 and 3, Lot 3 over Lots 4 and 5, and Lot 5 over Lot 4. The Developer shall ensure that the appropriate agreement is executed and registered against the title of each affected lot to guarantee that vehicular access to development is available.

6. a) That the Developer shall, at no expense to the City, construct a northbound left turn storage lane at the intersection of Kenaston Boulevard and Rothwell Road as determined by and to the satisfaction of the Director of Public Works.

   b) That the Developer shall pay 25% of the cost of installing traffic control signals when warranted at the intersection of Kenaston Boulevard and Rothwell Road all as determined by the Director of Public Works.

7. That the Developer shall be responsible to control and to initiate clean-up of litter and refuse from the contractors and builders for this development, both on-site and off-site, during the installation of services and construction of buildings, until substantial completion of all construction. The clean-up of litter and refuse shall be done on a regular basis as determined by the Director of Public Works. This shall include initiating action and assuming any costs in remedying the situation to the satisfaction of the Director of Public Works.

8. That the Developer shall pay the full cost of engineering services provided by or on behalf of the City in accordance with the construction of services required to serve the proposed subdivision.

9. That the Developer shall pay $15,000.00 to defray the City's administration and related costs associated with the preparation and implementation of the servicing agreement.

In order to facilitate the construction of the Fort Garry Interceptor-McGillivray/Kenaston Extension, the said Committee requested that the Standing Policy Committee on Public Works insert $3.4 million into the 2000 Capital Estimates, which is estimated to be the current cost of constructing the 1050/1200mm (42"/48") interceptor, and delete the $1.62 million as provided in the 2003 Capital Forecast, which estimate is an error.

Report of the Standing Policy Committee on Public Works dated January 11, 2000

The Standing Policy Committee on Public Works concurred in the request of the Standing Policy Committee on Property and Development and therefore recommends:

I. That funds in the amount of $3,400,000.00 be inserted in the 2000 Annual Capital Estimates for the engineering design and construction of the Fort Garry Interceptor-McGillivray/ Kenaston Extension.

II. That funds in the amount of $1,620,000.00 included in the year 2003 of the Five-Year Capital Forecast for the Fort Garry Interceptor-McGillivray Kenaston Extension be deleted.

III. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related thereto.

Adopted by consent.

Evaluation of Alternative Roadway Networks Connecting the Provencher Bridge and Main Street
File SB-13 (Vol. 3)

308 - ***Note: Clause 3 has been laid over by the Executive Policy Committee.***

Laid over by the Executive Policy Committee

Pre-Paid Parking Permit Cards
File ST-2 (Vol. 22)

309 - 4. The City of Winnipeg Parking Meter By-law No. 6547/95 currently provides for the issuance of a card, sticker or certificate at a specific annual fee to specific individuals/entities to enable parking at a meter without having to insert coinage while involved in the conduct of business. Such an option is available to those employed by the municipal, provincial and federal governments, First Nations Chiefs, and for those operating vehicles belonging to a privately or publicly held utility. In addition, vehicles clearly identified as belonging to MTS NetCom Inc. may be parked at a meter without insertion of coinage and without the display of a card, sticker or certificate, subject to payment of an annual corporate waiver in an amount as specified by By-law.

Parking Cards are issued to individuals/entities that fulfill the current criteria on a per request basis. The cards expire at the end of February of each year and may be renewed for a subsequent year. Excluding those issued to City employees, approximately 200 cards are issued annually, representing a revenue of approximately $55,000.00, which is approximately 3% of the $2,000,000.00 in coinage that is collected from parking meters annually.

In a letter to the Public Works Department dated October 5, 1999, Mr. Kenneth W. Jones, C.M.A., Business Analyst, Winnipeg Community and Long Term Care Authority, advised that, in 1998, the Winnipeg Community and Long Term Care Authority Inc. (WCA) was formed under The Regional Health Authorities Act with a mandate to integrate Winnipeg's community-based health care system. As part of such a program, City of Winnipeg Public Health Nurses became employees of the WCA in 1999. Previously, as employees of the City of Winnipeg, these nurses were issued Parking Permit Cards which they could use at parking meters during work hours while performing their duties. The currently issued cards expire on February 28, 2000. Inasmuch as, in Mr. Jones' opinion, it is more cost-effective and efficient from an administrative standpoint to pay an annual flat fee for these cards rather than to incur the cost of individual reimbursements on a per use basis, Mr. Jones has requested that the care givers continue to be issued Parking Permit Cards. Mr. Jones estimates the demand to be in the order of 35 to 50 cards annually.

The Public Works Department has no objection to allowing former City of Winnipeg Public Health Nurses that are now employed by the Winnipeg Community and Long Term Care Authority to have the option of using annual pre-paid Parking Permit Cards as a means of payment for the use of parking meters. Nor does the Department object to having such a payment option available to any other member of the public, irrespective of whether they are involved in the conduct of a business such as the provision of health care, or otherwise. Inasmuch as the current Parking Card

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Permit fee is intended to reflect the loss of meter coinage revenue associated with the use of such cards, no net change in parking meter revenue is anticipated. Simply, an alternate option of payment for use of a parking meter is being made available to the general public.

The proposed program is not anticipated to initially result in a significant increase in demand for this type of service, and can be implemented with existing resources. The requirement for additional resources will be reviewed if, or when, the need arises. Consequently, there is no identifiable financial impact associated with this proposal at this time.

The Standing Policy Committee on Public Works recommends:

I. That Annual Pre-Paid Parking Permit Cards, at the currently approved fee, be made available to the general public, including businesses, couriers, etc., as an alternative to the insertion of coinage at a parking meter, and that Section 10 (b) of the City of Winnipeg Parking Meter By-law No. 6547/95 be amended to reflect such an option.

II. That the City Solicitor/Manager of Legal Services be instructed to prepare the necessary amending by-law for submission directly to Council for approval.

III. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related thereto.

Adopted by consent.

REPORT OF THE

STANDING POLICY COMMITTEE ON PUBLIC WORKS

DATED JANUARY 18, 2000

On motion of Councillor Angus, the Report of the Standing Policy Committee on Public Works, dated January 18, 2000, was considered.

Water and Sewer Rate Structure Review
File WW-2.3 (Vol. 14)

310 - 1. The Standing Policy Committee on Public Works has been advised that in 1994, the former Waterworks, Waste and Disposal Department commissioned a comprehensive Water Cost-of-Service study which recommended a uniform rate structure based on cost-of-service by customer class. It was determined that more consultation with the multi-family and large water users was required. Implementation of the recommended rate structure has not yet been approved by City Council.

Furthermore, at its meeting held on May 27, 1996, Council adopted the Report of the Executive Policy Committee entitled "Proposed Relocation and Expansion of the J.M. Schneider Plant". In its report, the Executive Policy Committee recommended:

> "*That as part of the City's economic development strategy, a policy review of industrial sewer rates be undertaken with the view to achieve a targeted sewer rate for large volume users of $3.00/1,000 gallons (1996 dollars) by incrementally reducing the 1997 rate of $4.592/1,000 gallons (per current Winnipeg City Council policy) to said target, adjusted for inflation, over the five year period, from 1998 to 2002, and that the detailed implications of this policy direction be presented to the Committee on Works and Operations.*"

In response to Council's resolution, the former Committee on Works and Operations, at its meeting held on July 9, 1996, approved $150,000.00 for a comprehensive Sewer Rate Cost-of-Service study and an update of the 1994 Water Rate Cost-of-Service study to be prepared by a qualified consultant. The purpose of the study was to:

- Develop adequate, defensible rates consistent with community values;
- Evaluate cost-of-service as a foundation for rate policy development;
- Address business development/retention rate policies;
- Address concern over use of metered water use as a basis for sewer volume billings;
- Enhance the foundation for public involvement in, and acceptance of, utility decision making.

The study was to involve the public through the formation of a Sewer Rate Advisory Committee (SRAC) that would work toward consensus through the development of informed judgements. The Water and Waste Department ultimately awarded the consulting contract to CH2M Gore & Storrie (CG & S) in October of 1996, and the study was completed in September of 1997. This report is directed at fulfilling this obligation.

It is important to note that the financial analysis contained herein is based on the 1997 water and sewer rates inasmuch as the rate structure review was completed in 1998. All references to rates are based on 1997 rates and costs.

For ease of reference, the discussion of water and sewer rate structures is organized as follows:

A. Cost-of-Service Methodology
B. Rate Structures
C. Results - Cost-of-Service by Customer Class Rate Structure
D. Economic Incentive Rates (Competitive Rate Issue)
E. A Competitive Sewer Rate for Our Large Industries
F. Recommended Alternative
G. Summer Sewer Charge
H. Financial Impact

Report of the Standing Policy Committee on Public Works dated January 18, 2000

A. Cost-of-Service Methodology

The City's 1997 water and sewer rate structures are outlined in Table 1.

Table 1
City of Winnipeg
1997 Water and Sewer Rates
Rates in $ per hcf (hundred cubic feet) of water consumption

1997 Existing Water Rates (2000 rate)

Volume of Consumption	**Rate**
Block 1: 0-96 hcf	$2.10 per hcf ($2.70)
Block 2: 96-960 hcf	$1.72 per hcf ($2.22)
Block 3: greater than 960 hcf	$1.33 per hcf ($1.74)
Fixed quarterly charge (5/8" meter) (note 1)	$9.80 every 3 months

1997 Existing Sewer Rates (2000 rate)

Volume of Consumption	**Rate**
All consumption levels	$2.83 per hcf ($2.78)
Fixed quarterly charge (5/8" meter) (note 1)	$2.30 every 3 months

Note:

1) Fixed quarterly charges:	Water	$ 9.80
	Sewer	$ 2.30
	Total	$12.10

Quarterly charges range from $12.10 for a 5/8" meter to $356.68 for a 10" meter.

The existing *declining block structure* for water provides a lower price to customers who use a lot of water. On the other hand, the sewer rate structure is uniform. The City also has an industrial waste surcharge program where industries with high sewer strength are charged a surcharge on the sewer rate. The declining block rate water rate structure has been a common methodology to recognize that large users as a group typically have a low peak demand to average demand ratio as explained below.

Cost-of-Service Analysis is a methodology for rate setting that is generally accepted in the industry and recommended by industry associations such as the American Waterworks Association (AWWA), Water Environment Federation and the U.S. Environmental Protection Agency. Cost-of-Service is also accepted by Public Utility Boards and Commissions. Cost-of-Service rates by customer class are used by Winnipeg and Manitoba Hydro and are based on similar cost causation factors (peaking, volume, etc).

While it is not possible to determine the cost-of-service and rates for each customer, the cost-of- service can be reasonably estimated for groups or classes of customers. The objective is that each group pay its "proportionate share" of the costs. Cost-of-Service allocates utility costs to different customer classes based on *cost causation factors*.

In the Water Utility, the cost causation factors are *volume* (how much water is used) and *peak demands* (maximum day and maximum hour). All customers pay the same average cost per unit of volume and per unit of peak capacity. While the average cost per unit volume is easily understood, the cost of peak capacity needs more explanation. Those customers that cause the need to build and operate infrastructure to accommodate a high peak usage should pay their appropriate share of the additional capital or operating cost to have the capacity to meet peak demand.

For example, residential customers, as a group, have a high peaking factor from 7:00 a.m. to 8:00 a.m. as people prepare for work. The Utility has to build a larger system to accommodate that "peak demand requirement". Thus, residential customers have a higher water peaking factor than commercial and industrial customers, who, as a group, typically use water on a more continuous basis throughout the day. Accordingly, the rate for residential customers (as a group) would be higher than for commercial customers (as a group) or industrial customers (as a group).

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In the Sewer Utility, the cost causation factors are *volume and sewage strength.* All customers pay the same average cost per unit of volume and the same average cost per unit of sewage strength. Typically, commercial and industrial customers will have higher strength sewage than residential customers and therefore higher sewer rates. Peaking factors are not normally considered in sewer utility costs because peak flows are more a result of wet weather than of water use.

CG & S has reviewed the costs of the Utility in detail and has allocated all costs to cost causation factors and to classes of customers using standard approaches.

B. Rate Structures

Within the cost-of-service framework, the Utility must allocate costs to customers. The number, types of classes and the rates form a rate structure. Rate structures are designed to achieve a balance among these competing goals:

- Fairness/equity
- Simplicity
- Customer acceptance
- Cost of implementation
- Competitiveness
- Conservation incentive

As explained, rates based on cost-of-service charge more to those customer classes who, as a group, cause the Utilities to incur more cost. In economic theory, pricing policies based on cost-of-service encourage the optimal use of infrastructure and resources. Over the long-term they result in lower, more competitive rates, since municipalities can avoid the costly construction of additional infrastructure.

Within a customer class the rates are normally uniform. Declining block rates are one way to recover costs from residential, commercial and industrial users under a single rate schedule. Inclining block rates can be used when conservation is absolutely critical but do not relate to the cost-of-service principle. The cost-of-service rate structure developed by CG & S used a uniform rate for each customer class consistent with industry practice.
CG & S has defined the classes and the rates to be charged for a cost-of-service rate structure.

C. Results - Cost-of-Service by Customer Class Rate Structure

A movement toward full Cost-of-Service Rates by Customer Class would result in a significantly different rate structure as shown in Table 2. Under this model, changes to the volume rates and the fixed quarterly charge are recommended.

Table 2
City of Winnipeg
Water and Sewer Cost-of-Service Rates (1997 Base)
Rates in $ per hcf (hundred cubic feet) of water consumption

Water Cost-of-Service Uniform Rates

Customer Class	Rate
Single-Family	$ 1.77 per hcf
Multi-Family Residential	$ 1.68 per hcf
Commercial	$ 1.69 per hcf
Large Volume	$ 1.51 per hcf
Seasonal	$ 2.28 per hcf
Fixed quarterly charges (5/8" meter)	$15.89

Sewer Cost-of-Service Uniform Rates

Customer Class	Rate
Single-Family Residential	$ 2.64 per hcf
Multi-Family Residential	$ 2.64 per hcf
Light Commercial	$ 2.64 per hcf
General Commercial	$ 3.15 per hcf
Industrial Strength (not including surcharge)	$ 3.15 per hcf
Fixed quarterly charges	$ 6.30

Note: Compare to Existing Rate Structure (1997)
Water Block 1, 2, 3 = $2.10, $1.72, $1.33 per hcf
Sewer = $2.83 per hcf

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Table 3 outlines the shift in cost responsibility between customer classes when a movement is made to a Cost-of-Service by Customer Class rate structure.

Table 3
City of Winnipeg
Comparison of Revenue Responsibility by Customer Class
Current Rates vs. Cost-of Service (1997 Base)
(000's)

Water Rates

Customer Class	Current Rates	Cost-of-Service	Difference	Percent Difference
Single-Family	$29,695.00	$28,299.00	($1,396.00)	(4.7)%
Multi-Family	$13,259.00	$15,247.00	$1,988.00	15.0 %
Commercial	$ 7,420.00	$ 6,438.00	($982.00)	(13.2)%
Large Volume	$ 6,701.00	$ 7,072.00	$371.00	5.5 %
Seasonal	$ 380.00	$ 438.00	$58.00	15.3 %
Other	$ 160.00	$ 121.00	($39.00)	(24.4)%
Total	$57,615.00	$57,615.00		

Sewer Rates

Customer Class	Current Rates	Cost-of-Service	Difference	Percent Difference
Single-Family	$33,431.00	$32,916.00	($ 515.00)	(1.5)%
Multi-Family	$19,669.00	$18,162.00	($1,507.00)	(7.7)%
Light Commercial	$ 6,839.00	$ 6,286.00	($ 553.00)	(8.1)%
General Commercial	$14,234.00	$15,585.00	$ 1,351.00	9.5 %
Septage**	$ 40.00	$ 628.00	$ 588.00	1470.0 %
High-Strength	$ 4,995.00	$ 5,630.00	$ 635.00	12.7 %
Total	$79,208.00	$79,207.00		

** The calculated percentage increase in revenue responsibility is 1470 percent. However, forthcoming changes in methods used to estimate septage haulers' loads, as well as potential revisions to charges, will result in changes to allocated costs and cost-of-service based adjustments.

CG & S's analysis indicates that:

- The single-family residential class would pay less for water (-4.7%) and less for sewer (-1.5%).
- The multi-family residential class could pay more for water (+15.0%) and less for sewer (-7.7%).
- The light commercial class would pay less for water (-13.2%) and less for sewer (-8.1%).
- Large volume industrial customers would pay more for water (+5.5%) and more for sewer (+9.5%).

Customers are billed for the fixed quarterly charge for metering and billing and for the volume used which is variable for each customer. Accordingly, each individual customer is affected somewhat differently depending on the volume used and the fixed quarterly charge impact. For example, depending on use, a residential customer could save 6.3% or pay 8.0% more. Large commercial users could pay 10.7% to 11.2% more in total water and sewer bills. Typical bill impacts to various types of customers when cost-of-service rates are applied using a uniform volume rate structure are as outlined in Table 4, identified as Appendix "A" hereto.

The Sewer Rate Advisory Committee (SRAC) concluded that:

> "*Cost-of-Service analysis, using established methodologies, should be used as a foundation for evaluation of utility rate options.*"

However, the SRAC did not endorse an immediate movement to uniform Cost-of-Service rates by customer class. They concluded that the shift in revenue responsibility, on top of the recent increases in rates, was not desirable. In other words, stability is an important community value. The SRAC felt that some movement could be made once combined water and sewer rate increases had been reduced to below inflation. This is projected to occur in 2001. CG & S endorsed a more immediate movement to uniform Cost-of-Service rates by customer class in the Sewer Utility.

The Water and Waste Department concurs with the SRAC's recommendation to defer any movement to uniform Cost-of-Service rates by customer class until combined system-wide water and sewer increases have been eliminated since:

- it better reflects the community's position;
- it is more sensitive to the economic environment and concerns over Winnipeg's competitiveness with respect to commercial development;
- it provides an opportunity to collect more data on customer classes in terms of peaking factors (water) and sewage strength (sewer).

While it is recommended that there be no immediate change in rate structures, in the long term a move to cost-of-service rates is recommended. The Water and Waste Department believes that this would be possible for the 2002 rate year. The time would also allow the City to collect more data on customer classes in terms of peaking factor (water) and sewage strength (sewer). The time also provides for assessment of the financial impact of cost reduction initiatives, future water treatment costs and future environmental costs.

D. Economic Incentive Rates (Competitive Rate Issue)

The issue of the use of Economic Incentive Rates arose when J.M. Schneider Inc. was looking at locating a hog processing plant in Winnipeg in 1996. The City made a commitment to look at a sewer rate of $3.00 per thousand gallons, which was 33% less than the rate at that time. The results of the study indicate that rather than a 33% reduction, sewer rates for large volume high strength users would rise by 9.5%.

The concern was and is that sewer rates in Winnipeg are significantly higher than in Calgary. The argument for an Economic Incentive or Competitive Rate is that attracting a major new industry is good for the community and the citizens in the community. Accordingly, the residents of the community may be willing to offer a lower rate for the industry, even if the residents pay more than their "proportionate share". In addition, attracting a major customer for the Utility, even with an economic incentive rate, can lower the share of fixed costs being paid by existing customers. This is especially true where there is excess capacity (as currently exists in Winnipeg). It may not be true in the long-term, where marginal costs to increase capacity are high (as in Winnipeg, for example, if a second aqueduct was required).

Comparisons of Winnipeg's rates (both existing and cost-of-service) to other municipalities in western Canada, Manitoba and the northern U.S. indicate that Winnipeg's residential combined water and sewer bills fall within the median range, as shown in Figures 1, 2 and 3 identified as Appendices "B", "C" and "D" hereto. Commercial and industrial bills are at the high end of the range. This is particularly true for the sewer portion of the bill. This illustrates why Winnipeg's sewer rates are viewed as "not competitive". An explanation as to why different cities have different rates is provided in Appendix "E" hereto.

As previously stated, the attraction of a major customer, where capacity is available, reduces the share of fixed costs that is borne by the existing customers. Even sales at a subsidized rate of $3.00 per thousand gallons far exceeds the variable costs and would benefit existing customers. The dilemma is that the subsidized customers pay less than their "fair share" of the costs-of-service.

In public utilities, whether they be water, sewer or hydro, rate structures have always been based on cost and on the premise that every customer in a class pays the same rate. This approach has been supported by Public Utility Commissions because it does not discriminate between customers.

If a customer is given a lower rate for any reason, there is, in effect, a shift of that customer's fair share of cost responsibility to other customers. CG & S did analyse this shift for four alternate economic incentive scenarios. These scenarios involved fixing the volume rate applicable to the selected users at $1.87 per hundred cubic feet ($3.00 per thousand gallons) and retaining the existing industrial surcharges. The results are summarized in the following table:

Report of the Standing Policy Committee on Public Works dated January 18, 2000

Table 5 Shift in Revenue Responsibility			
Alternative	**Average Annual Shift in Proportionate Share[1]**	**Volume Rate Impact to Other Classes [2]**	**Percent Change in Other Classes Rates**
Schneider, Phase 1	$ 120,000.00	$0.00 - $0.01	0.2%
Schneider, Phase 1 & 2	$ 429,000.00	$0.01 - $0.02	0.5%
Meat Processors (not including Schneider expansions)	$ 619,000.00	$0.02 - $0.03	0.8%
Top 20 Sewer Users	$2,523,000.00	$0.09 - $0.13	3.4%

[1] Shift in revenue is calculated from the Cost-of-Service revenue responsibilities by customer class
[2] Volume rate is measured in hundred cubic feet. Ranges are due to differences in volume rate impacts across customer classes.

These results indicate that the shift to other ratepayers is less than 1% under the first three alternatives. If the economic incentive rate was given to the top 20 sewer users, rates to other customer classes would have to be raised by an average of 3.4% to recover $2,500,000.00 in revenue every year.

Each community must decide on the merits of using economic incentive rates. The SRAC does not support the use of utility rates as a vehicle for providing economic development incentives, per the following quote:

> "*The SRAC does not endorse any use of economic development incentives through wastewater and water utility rates. However, if the City chooses to pursue this objective, any incentive should be taken from the General Revenue Fund transfer.*"

CG & S reached similar conclusions on this issue:

> "*These incentives effect a policy of price discrimination against current users, cloud the role of the City's utilities, and impose unnecessary administrative and public communications problems. Moreover, economic development rates raise a plethora of policy questions related to eligibility, period in effect, and the redistribution of cost responsibilities to other users that may be avoided by implementation of cost-based rates. For the City of Winnipeg in particular, economic development rates for specific commercial and industrial users will exacerbate the City's existing rate subsidies to these users.*
>
> *However, if utility rate subsidies are viewed as an indispensable tool in the City of Winnipeg's efforts to attract and retain commercial and industrial users, several practices are recommended. First, the City should avoid extension of preferential rates on an ad hoc basis to a single user or group of users. For the utility, this form of incentive imposes unnecessary randomness in rate making and revenue forecasting that is difficult to administer. Perhaps more importantly, similarly situated ratepayers will rightfully question the equity of such preferential rates.*
> *Instead, economic development or business retention incentives should be implemented under certain well defined circumstances. Specifically, economic development rates should be extended to a selected class or sub-group of customers whose eligibility is well defined and aligned with the City's economic development initiatives. Such rates should not represent a permanent embedded subsidy of one class of customers by all other customer classes. Rather, if provided at all, economic development incentives should be extended for a fixed and limited period of time, preferably consistent with a reasonable manufacturing start-up or re-tooling period. Finally, economic development incentives should be provided in exchange for well defined community benefits (e.g. local employment opportunities or support service contracting) as opposed to a general agreement to locate in the City. These provisions will ensure that the distortion of price signals imposed by economic development incentives is temporary and counter-balanced by demonstrable community benefits.*"

While water and sewer rates are only one of many comparative cost factors that businesses study when relocating, they are, of course, most important for wet industries that either use a lot of water, generate a lot of sewage, or both.

E. A Competitive Sewer Rate for Our Large Industries

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An alternative proposal is that large industries satisfying the guidelines be given a discount on sewer rates. The following guidelines would apply:

1. The industry must contribute to the wealth of the community. Exports (out of the City) must account for at least 25% of revenues.

2. The industry must be one that, in the opinion of the Director of Water and Waste, could reasonably locate (in the case of a new industry) in another competitive city or could have reasonably located (in the case of an existing industry) in another city but had already chosen Winnipeg.

3. Discounts would apply to industries that use over $100,000.00 in sewer services annually.

4. The discount would be 30% of the charges over $100,000.00.

5. Discounts would apply to sewer volume charges and sewer strength surcharges.

The 30% is chosen for two reasons:

- It brings Winnipeg large volume sewer rates into a competitive range with other major competing cities in western Canada (per Figure 3 identified as Appendix “D” hereto).

- It was the order of magnitude of discount that was passed in the resolution of City Council in May of 1997.

The above conditions are intended to target large users who are manufacturing (exporters) as opposed to institutions and/or service providers. These users are the target group because they represent economic development in Winnipeg with significant multiplier effects in the economy. Hospitals and universities who are large users would not be provided the economic incentive discount. Large customers who generally fit the criteria would be invited by the Water and Waste Department to apply for the discount. Water rates are not included because it is believed that the existing declining block rate structure does result in competitive water rates for large users.

The administration of this proposal would be relatively straight forward. Industries would be contacted and/or would apply for the discount. They would provide a statement of sales to ensure that the 25% exports out of the City was met.

Justification

1. The City of Winnipeg is committed to economic development and in particular the attraction of non-service based industries that build wealth.

2. Winnipeg sewer rates and sewer surcharge rates are not competitive for large industrial users, many who may spend over $100,000.00 per year on these services.

3. Winnipeg has excess water supply and wastewater capacity that is not being utilized.

4. The attraction and/or retention of these kind of industries will result in contributions to fixed cost of the water and sewer utilities that will keep sewer and water rates for citizens lower than they would be otherwise.

The duration of the discount is also important. The fundamental justification is to provide competitive sewer rates. Accordingly, the discount should be phased out once rates are competitive. The financial plan for the Sewer Utility has seen a shift from debt financing to cash financing of the capital program. It is expected that this strategy will assist the Utility in having competitive rates at some time in the future. It is proposed that this discount policy would be reviewed after five years with a view to discontinuing the discount when Winnipeg sewer rates are more competitive.

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Impact

1. There are 10 to 15 existing users who would benefit from this policy. They spend an approximate total of $4,500,000.00 annually on sewer and surcharge services. The discount policy would result in approximately $1.0 million being shifted from these customers. This would result in a theoretical increase in sewer rates of about 1.3% or an overall increase in water and sewer rates of 0.8% in water and sewer bills.

2. It is very important to note that this is a theoretical increase only. If this policy is successful in retaining these customers and attracting new customers, the rates for everyone will actually decrease as a result of increased revenue and greater contribution to fixed costs. To the extent that the policy is successful in retaining these customers or attracting new customers, there may be an offsetting benefit to other customers. For example, if Phase 2 of the J.M. Schneider plant proceeded, the benefit to existing customers is estimated at close to $1,000,000.00.

F. Recommended Alternative

There are two main alternatives for City Council with respect to sewer rates as discussed above. They are:

1. Cost-of-Service Rates
2. Discount for Large Sewer Users

The following Table shows an evaluation of the two approaches for Winnipeg.

Table 6
Comparison of Alternative Rates for Large Users

Cost-of-Service Sewer Rates	**Discount for Large Sewer Users**
• Winnipeg sewer rates for large users are not competitive with other Western Canada and Manitoba locations. • Cost-of-service would support an increase in sewer charges to large users of about 9.5%.	• 30% discount on sewer charges over $100,000.00. • Affects 10-15 existing users who spend about $4.5 million on sewer services. • Discount cost about $1 million per year without JMS, about $1.5 million with JMS.
Justification	**Justification**
1. A “Purist” Approach. 2. Everyone pays their fare share of the costs. 3. Typical rate making strategy used by utilities and approved by Public Utilities Board. 4. The SRAC supported this option as did the consultant.	1. A “Practical” Approach. 2. Winnipeg sewer rates are not competitive for large industrial users. 3. Winnipeg has excess capacity that is not being utilized. 4. The attraction/retention of these industries will result in additional contributions to fixed costs.
Do this	**Do this**
If you believe that fairness is most important albeit at some risk of losing large sewer customers.	If you believe that a practical approach to competitive rates to attract and retain industry is important.

Discounts for large volume purchasers are very common in business for the same reason as shown here. The contribution to fixed costs makes it attractive for the business to provide the discount.

The Water and Waste Department supports the discount as described above. The Department believes that it must play a role in attracting and retaining industries important for economic development. In addition, it is financially better for the remainder of the customers for the large volume industries to use the excess system capacity and in effect lower the average cost of sewer service for all customers.

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G. Summer Sewer Charge

Implementing a summer sewer charge based on winter water consumption (winter month averaging) was included in the terms of reference for both the consultant and the SRAC. A separate report on this was considered by Council at its meeting held on April 28, 1999. The recommendation contained in the administrative report was to implement a summer sewer charge in 2002. This was the earliest date possible since the policy change required data collection with the new customer billing system. The recommendation of the Standing Policy Committee on Public Works was that the matter be deferred until this report on the water and sewer rate structure was considered. Council adopted the recommendation of the Standing Policy Committee. The Water and Waste Department will reintroduce its recommendation in 2001.

H. Financial Impact

The Water and Waste Department sets rates based on a ten year financial plan. It is not expected that changes in the rate structure would materially impact revenues. The discount for large sewer users may have a maximum impact of about $1,000,000.00 dollars per year in revenues or less if it is successful in attracting or retaining other industries.

The Director of Water and Waste, in his report dated December 23, 1999, recommended as follows:

1. That a Council Seminar be arranged to allow a full discussion of water and sewer rate making processes and structures.

2. That Council approve in principle the cost-of-service rate structure but that no change be made to the existing City of Winnipeg water and sewer rate structures at this time.

3. That the Water and Waste Department report on cost-of-service rates for the 2002 rate year. This enables:

    a) Collection of more cost causation data on customer classes in terms of peaking factors (water) and sewage strength (sewer).

    b) Assessment of the impact of cost reduction initiatives, future water treatment costs and future environmental costs.

4. That, effective July 1, 2000, a discount sewer rate be provided in support of economic development for large users in accordance with the following guidelines:

    a) The industry must contribute to the wealth of the community. Exports (out of the City) must account for at least 25% of revenues.

    b) The industry must be one that, in the opinion of the Director of Water and Waste, could reasonably locate (in the case of a new industry) in another competitive city or could have reasonably located (in the case of an existing industry) in another city but had already chosen Winnipeg.

    c) Discounts would apply to industries that use over $100,000.00 in sewer services annually.

    d) The discount would be 30% of the charges over $100,000.00.

    e) Discounts would apply to sewer volume charges and sewer strength surcharges.

5. That the Administration be directed to prepare the by-law amendment required to implement recommendation 4. above.

6. That the discount policy be reviewed after five years (in 2004) with a view to phasing it out if Winnipeg sewer rates are competitive at that time.

At a Special Meeting held on January 18, 2000, the Standing Policy Committee on Public Works considered the afore-noted administrative recommendations, together with the City of Winnipeg Executive Summary Report, Wastewater and Water Rate Study prepared by CG & S dated September 1997, and the Sewer Rate Advisory Committee (SRAC) Report contained therein.

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Committee also received a presentation on the Water and Sewer Rate Structure Review by the Director of Water and Waste, together with representations from members of Council in attendance, as well as various members of the Sewer Rate Advisory Committee (SRAC), and otherwise.

Pursuant thereto, the Standing Policy Committee on Public Works recommends:

I. That Council approve in principle the cost-of-service rate structure but that no change be made to the existing City of Winnipeg water and sewer rate structures at this time, and subject to a water and sewer rate freeze until receipt of a report on cost-of-service rates for the 2002 rate year.

II. That the Water and Waste Department report on cost-of-service rates for the 2002 rate year. This enables:

A. Collection of more cost causation data on customer classes in terms of peaking factors (water) and sewage strength (sewer).

B. Assessment of the impact of cost reduction initiatives, future water treatment costs and future environmental costs.

III. That the Water and Waste Department also provide a report on how the recommendations of the Sewer Rate Advisory Committee (SRAC) can be implemented, for consideration by the Standing Policy Committee on Public Works.

IV. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related thereto.

A copy of the documents referred to in the above clause are on file in the office of the City Clerk.

The Executive Policy Committee concurs in part in the recommendation of the Standing Policy Committee on Public Works and recommends as follows:

I. That the Water and Waste Department report on cost-of-service rates for the 2002 rate year. This enables:

a) Collection of more cost causation data on customer classes in terms of peaking factors (water) and sewage strength (sewer).

b) Assessment of the impact of cost reduction initiatives, future water treatment costs and future environmental costs.

II. That, effective July 1, 2000, a discount sewer rate be provided in support of economic development for large users in accordance with the following guidelines:

a) The industry must contribute to the wealth of the community. Exports (out of the City) must account for at least 25% of revenues.

b) The industry must be one that, in the opinion of the Director of Water and Waste, could reasonably locate (in the case of a new industry) in another competitive city or could have reasonably located (in the case of an existing industry) in another city but had already chosen Winnipeg.

c) Discounts would apply to industries that use over $100,000.00 in sewer services annually.

d) The discount would be 30% of the charges over $100,000.00.

e) Discounts would apply to sewer volume charges and sewer strength surcharges.

f) The City will not approve any rate increases for the residential consumer or any other user.

III. That the Administration be directed to prepare the by-law amendment required to implement recommendation IV. above.

Report of the Standing Policy Committee on Public Works dated January 18, 2000

IV. That the discount policy be reviewed after five years (in 2004) with a view to phasing it out if Winnipeg sewer rates are competitive at that time.

Moved by Councillor Angus,
Adoption of the clause.

In amendment,

Moved by Councillor Eadie,
That the recommendation of the Executive Policy Committee be adopted.

The Speaker called the Deputy Speaker, Councillor Lazarenko, to the Chair and left the Chamber.

Council recessed at 11:58 a.m., and reconvened at 1:38 p.m., same members present, the Deputy Speaker, Councillor Lazarenko, in the Chair.

Councillors Angus, Lubosch, O'Shaughnessy and Vandal entered the meeting after Council had reconvened.

The Speaker resumed the Chair.

The recommendation proposed by the Executive Policy Committee was put.

The Speaker called for the yeas and nays, which were as follows:-

Yea: Councillors Lazarenko, Angus, Clement, De Smedt, Gerbasi, Lubosch, Prystanski, Deputy Mayor Thomas, Vandal, Eadie, His Worship Mayor Murray and Councillor O'Shaughnessy. 12

Nay: Councillors Golden, Smith and Timm-Rudolph. 3

and the recommendation proposed by the Executive Policy Committee was declared carried.

STANDING POLICY COMMITTEE ON PUBLIC WORKS

QUESTION PERIOD

311 - Councillor Prystanski questioned if the Public Works Department could be asked to review their snow clearing policy to ensure that small businesses owners who have already cleared their storefronts do not have their walkways filled again when the snowplow goes by.

Councillor Angus replied in the affirmative.