Agenda - Executive Policy Committee - November 29, 2006

Report - Standing Policy Committee on Infrastructure Renewal and Public Works - November 21, 2006

Item No. 2 2007 Water and Sewer Utility Rates
File WW-2.3

STANDING COMMITTEE RECOMMENDATION:

On November 21, 2006, the Standing Policy Committee on Infrastructure Renewal and Public Works concurred in the administrative recommendation, as amended, and submits the following to Council:

1. Effective January 1, 2007, the water rates, based on water used, be increased as follows:

   to $3.15 from $2.75 per 100 cu. ft. from 0 - 9,600 cu. ft./quarter (Block 1)
   to $2.67 from $2.27 per 100 cu. ft. from 9,601 - 96,000 cu. ft./quarter (Block 2)
   to $2.19 from $1.79 per 100 cu. ft. over 96,001 cu. ft./quarter (Block 3)

   which includes 40.6 cents per 100 cubic feet for the Water Treatment Reserve for 2007 (40.6 cents in 2006).

2. Effective January 1, 2007, the sewer rates based on water used, be increased to $4.46 from $3.87 per 100 cubic feet, which includes 31.3 cents per 100 cubic feet for the Environmental Projects Reserve (31.3 cents in 2006), subject to the City of Winnipeg entering into a cost-sharing agreement with the Province of Manitoba and the Government of Canada with each level of government contributing an equal share.

3. The additional fees and charges as outlined on Appendix "G" and contained in the report from the Director of Water and Waste, dated November 16, 2006, be approved effective January 1, 2007.

4. That the City Solicitor/Manager of Legal Services be requested to prepare the necessary by-law in accordance with the foregoing and submit same directly to Council by December 6, 2006.

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

Agenda - Executive Policy Committee - November 29, 2006

Report - Standing Policy Committee on Infrastructure Renewal and Public Works - November 21, 2006

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On November 21, 2006, the Standing Policy Committee on Infrastructure Renewal and Public Works concurred in the administrative recommendation, as amended, namely:

- That administrative recommendation 2., be concurred in with the following amendment, namely:

  That the words "subject to the City of Winnipeg entering into a cost-sharing agreement with the Province of Manitoba and the Government of Canada with each level of government contributing an equal share." be inserted after the words "(31.3 cents in 2006)"

and submitted the matter to the Executive Policy Committee and Council.

RE: 2007 WATER AND SEWER UTILITY RATES

FOR SUBMISSION TO: Standing Policy Committee on Infrastructure Renewal and Public Works

ORIGINAL REPORT SIGNED BY: Director of Water and Waste Department

REPORT DATE: November 16, 2006

RECOMMENDATION:

It is recommended that

1. Effective January 1, 2007 the water rates, based on water used, be increased as follows:

   to $3.15 from $2.75 per 100 cu. ft. from 0 - 9,600 cu. ft./quarter (Block 1)
   to $2.67 from $2.27 per 100 cu. ft. from 9,601 - 96,000 cu. ft./quarter (Block 2)
   to $2.19 from $1.79 per 100 cu. ft. over 96,001 cu. ft./quarter (Block 3)

   which includes 40.6 cents per 100 cubic feet for the Water Treatment Reserve for 2007 (40.6 cents in 2006).

2. Effective January 1, 2007 the sewer rates, based on water used, be increased to $4.46 from $3.87 per 100 cubic feet, which includes 31.3 cents per 100 cubic feet for the Environmental Projects Reserve (31.3 cents in 2006).

3. The additional fees and charges as outlined on Appendix G be approved effective January 1, 2007.

4. The City Solicitor be instructed to prepare the necessary By-Laws for submission to Council at the December 6, 2006 meeting.

Report Summary

Key Issues:

- The Department is recommending an increase in the water and sewer rates in 2007. A typical residential customer will see an annual increase to the utility bill of $83.17, from $611.07 in 2006 to $694.24 in 2007 (an impact of 13.6%).

- In November 2005, Council approved a 2006 combined rate increase (water and sewer) of 7%. Council was provided projections that would see combined rate increases of 10.6% in 2007. The rate increases were driven by an aggressive

capital construction plan for $900 million in wastewater improvements mandated by the Province and construction of the new water treatment plant.

- Since 2005, capital construction costs have risen by approximately 30%. For example the cost of the water treatment plant is now expected to be $300 million rather than $227 million budgeted.

- The capital cost projections for the wastewater improvement program have increased from $900 million to $1.3 billion and are likely to increase further.

- For comparison, the combined water (Block 1) and sewer rate of $7.61 per 100 cubic feet is the equivalent of $12.22 per 1,000 gallons or $2.69 per 1,000 liters (3.72 liters per penny).

Implications of the Recommendation(s):

General Implications

( ) None

(X) For the organization overall and/or for other departments

(X) For the community and/or organizations external to the City

( ) Involves a multi-year contract

Comment(s):

- A typical residential customer will see an annual increase to the utility bill of $83.17, from $611.07 in 2006 to $694.24 in 2007.
- Costs for the wastewater program could be much higher as detailed cost estimates have not yet been prepared for the SEWPCC or NEWPCC Biological Nutrient Removal, Biosolids, or Combined Sewer Overflow Mitigation programs.

Policy Implications

(X) No

( ) Yes

Comment(s):

Regulatory Implications

() None

( ) Eliminates or reduces regulatory impact

(X) Proposes regulatory impact

Comment(s): Three new fees are proposed as part of a longer term plan to have full cost of service recovery for all miscellaneous services provided by the Water and Sewer utilities

Environmental Implications

( ) No

(X) Yes

Comment(s): Includes improvement in the City's water and wastewater systems.

Human Resources Implications

(X) No

( ) Yes

Comment(s):

Financial Implications

(X) Within approved current and/or capital budget

( ) Current and/or capital budget adjustment required

Comment(s):

Report

REASON FOR THE REPORT:

Changes to the Water and Sewer rates require Council approval in the form of a by-law.

HISTORY:

See Appendix A for the history of Water and Sewer rates for the past ten years.

2003 On November 19, Executive Policy Committee (EPC) directed the administration to work with the Province of Manitoba to propose a work schedule and financing plan.

2004 On June 16, City Council concurred with the recommendation of the EPC.
1. *That the administrative report dated June 3, 2004, with respect to the work schedule and financing plan for the Sewer Utility, be received as information.*
2. *That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing*.

2004 On November 24, City Council approved an increase in the sewer rate and fixed quarterly charges for 2005.

2005 On November 23, 2005, City Council approved an increase in the sewer rate, over-strength wastewater surcharge rates for Biochemical Oxygen Demand (BOD) and Total Suspended Solids (TSS), and additional fees and charges for 2006.

DISCUSSION:

The Department continues to recommend an increase in the utility rates over the next ten years, to support capital projects and operating costs for facilities that are mandated by the Province of Manitoba under the Environmental Act licenses. With the recent escalation in the cost of capital construction the proposed rate increases are higher than previously projected. Discussions with the local construction industry indicate that the high level of activity is driving a period of high inflation that will continue for at least another five years. Construction firms are reaching capacity creating price escalation.

Steps are being taken to mitigate the impact of the escalation:

- The Department has attempted to minimize the impact to customers by extending the length of long term debt. The 2006 and previous year rate plans were conservative in carrying 20 year debt. For facilities with the life span of

those currently under construction, 30 year debt is acceptable and will reduce annual debt servicing costs.
- A portion of debt was pre-funded to take advantage of historical low interest rates.
- To reduce the demand on the construction industry, the completion date of the Water Treatment Plant project was extended from 2007 to 2008.

The timing of wastewater projects has not been extended, as any delay in these projects would mean not meeting the terms of the Environmental Licenses and would subject the City to penalties under the Manitoba Environment Act.

The Department will continue monitoring market conditions to determine project delivery methods that will minimize cost impact.

Projected future cost figures in this report include escalation to 2006. The Department has not tried to anticipate escalation beyond basic inflation. In the current climate, even with revised cost estimates, until tenders are issued and bids awarded the risk of additional cost increases remains high.

Water Rate

Water rates are proposed to increase effective January 1, 2007.
- $3.15 from $2.75 per 100 cu. ft. from 0 - 9,600 cu. ft./quarter (Block 1)
- $2.67 from $2.27 per 100 cu. ft. from 9,601 - 96,000 cu. ft./quarter (Block 2)
- $2.19 from $1.79 per 100 cu. ft. over 96,001 cu. ft./quarter (Block 3)

This includes 40.6 cents per 100 cubic feet for the Water Treatment Reserve for 2007 (40.6 cents in 2006).

The proposed water rate increase is higher than previously anticipated for 2007 and 2008 as a result of a $70 million dollar increase in the cost of constructing the water treatment plant. However, the forecasted water rate for 2009 onward remains in line with previous years' projections.

Sewer Rate

In 2007, the Department is proposing that the sewer rate increase from $3.87 to 4.46 per 100 cubic feet. The sewer rate increases for 2007 to 2010 remain in line with previous year's projections. The increases are in part necessary to fund the implementation and operation of the expanded wastewater facilities and programs resulting from sewage treatment plant licensing requirements. In addition, the sewer rate will support 100% of the land drainage program costs by the year 2008. Funding requirements for future years' are forecast to be above previous years' estimates. These increases are primarily the result of increased capital costs of the wastewater capital projects.

The sewer utility rate projections continue to reflect increasing costs due to the following variables:

Escalating Capital Costs: The capital cost forecast has increased by 63% over last year's forecast for the same 10 year period. The increase consists of:

- Escalation to 2006
- General inflation beyond 2006
- Design evolution
- New projects

Market factors driving the escalation are:

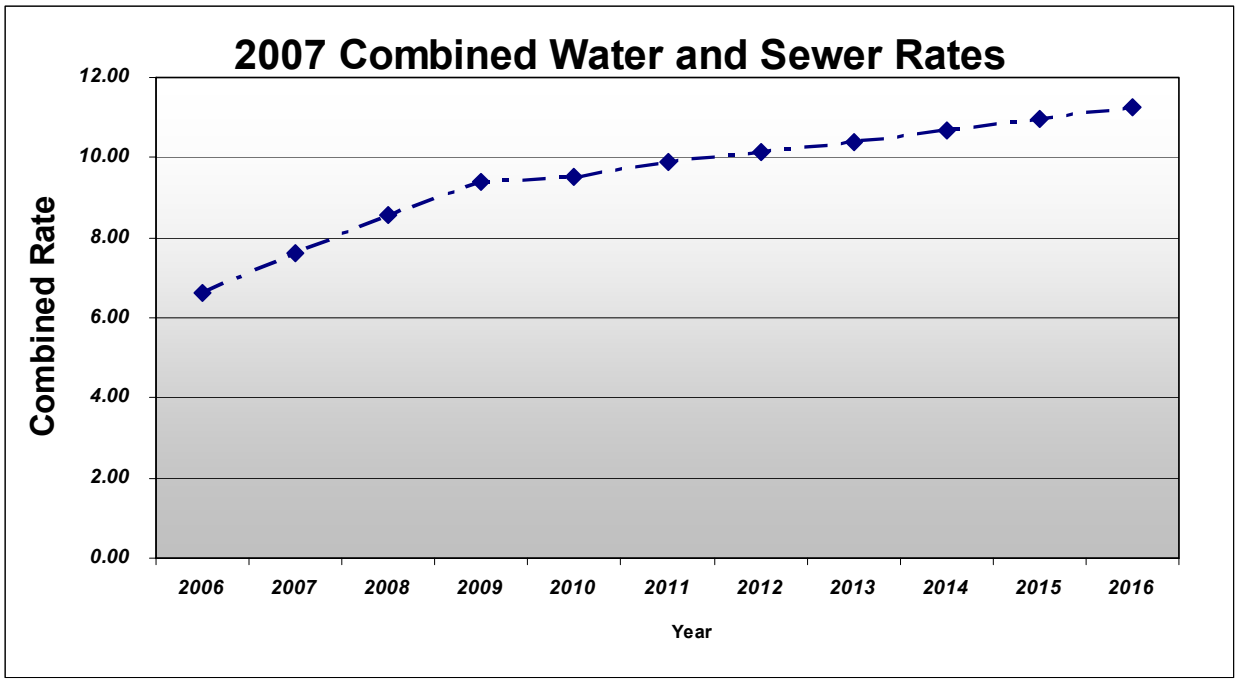
- An active construction market in Manitoba and across Western Canada
- A labour shortage
- An increase in the cost of fuel and material resources

The volatility has not only escalated current costs but made it difficult to anticipate future capital costs. Two major projects, Combined Sewer Overflow Control (CSO) and Biosolids Management are still in the conceptual engineering stages creating uncertainty in the budget numbers. Until costs have been scoped and budgets refined the risk of capital costs escalating remains high.

Federal/Provincial Funding: $50 million in funding under a federal-provincial infrastructure program is expected to be provided to the City of Winnipeg for wastewater system improvements. The Department is anticipating that the agreement will be finalized in 2006 and has included these funds in the sewer utility rate model. This funding will be distributed as eligible costs are incurred, over a 5 year period (2007, 2009 and 2010), reducing the impact of future years' rate increases.

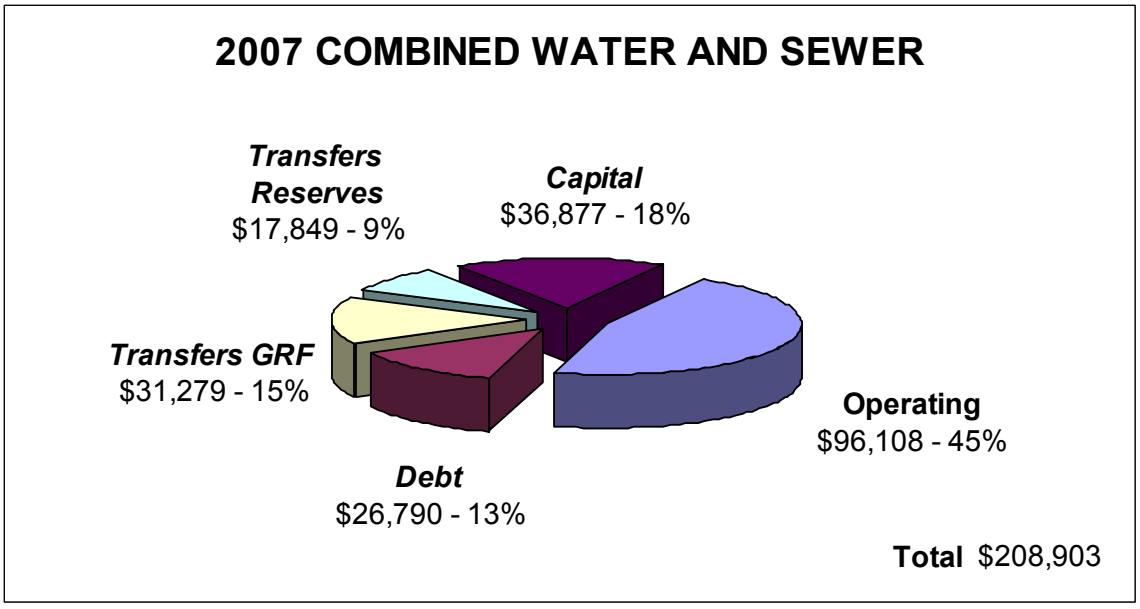
Combined Water and Sewer Rates

The 2007 water and sewer rate model projects increases to the combined water and sewer rate up to year 2011 at which point it is anticipated that the combined rate will be subject to only small inflationary increases.



The combined water and sewer rate is proposed to increase in 2007, from $6.62 to $7.61 per 100 cubic feet. Individually the water rate increases from $2.75 to $3.15 while the sewer rate increases from $3.87 to $4.46 per 100 cubic feet. The total financial impact on a typical residential customer is an annual increase to the utility bill of $83.17, from $611.07 to $694.24.

For 2007, the following represents the major cost categories contributing to the water and sewer rates. Total costs are forecast at $209 million, including $37 million for cash funded capital projects.



Fixed Quarterly Charge (FQC)

The FQC recovers the cost of meter reading, customer billing, accounts administration, and customer service centre support. Costs associated with the meter installation and maintenance are also recovered from the quarterly charge. A review of the cost allocation to the FQC was completed in 2004. Increased costs associated with customer accounts and meters necessitated a rate change in 2005 in order to recover the fixed cost of these services. No change is recommended for 2007 in FQC.

Reserves

The Department has established reserves to fund and plan for large and complex capital projects.

Water Treatment Plant Reserve: This reserve will fund a portion of the cost of a Water Treatment program. Total cost of the water treatment plant is now estimated at $298.2 million, an increase of $70.9 million from 2006. This increase has been submitted for approval as part of the 2007-2012 capital budget process. Contributions to the reserve were originally scheduled to stop as of 2007 they have now been extended one year, to 2008, to correspond with the amended project deadline. Debt financing requirements are projected to increase from $109.2 million to $164.2 million. The following table summarizes the timing of capital expenditures and financing plans.

Water Treatment Plant Financing Schedule $000s
(actual to year ending December 31, 2005)

Year	Capital Expenditure	Project Funding				Balance	
		Volume Rate [1]	Retained Earnings	Debt	Total	Debt	Reserve
to 2003	4,144	82,092		-	82,092	-	77,948
2004	7,346	14,204		-	14,204	-	84,806
2005	23,936	12,810		-	12,810	-	73,680
2006	94,309	11,963		60,000	71,963	60,000	51,334
2007	111,820	10,127	2,800	48,000	60,927	108,000	-
2008	56,645	-		56,204	56,204	164,204	-
2009	-	-		-	-		-
Total	**298,200**	**131,196**	**2,800**	**164,204**	**298,200**		

[1] Includes Interest

Environmental Projects Reserve: The Environmental Projects Reserve will support the wastewater treatment improvement program as directed by Manitoba Conservation. Federal/Provincial funding of $50 million over five years has been incorporated into the financing plan. In addition, under this rate plan, the Department will require borrowing authority for up to $617.1 million in order to fully fund the improvements over the next 10 years.

Sewer Utility
Environmental Projects and Financing Schedule $000s

Year	Annual Capital Expenditure [2]	Project Financing				Balance	
		Volume Rate [1]	Fed/Prov	Debt	Total	Debt	Reserve
to 2003	**13,043**	**52,218**			**52,218**		**39,175**
2004	**2,440**	**13,095**			**13,095**		**49,830**
2005	**12,465**	**14,971**			**14,971**		**52,336**
2006	**43,893**	**9,688**	**-**	**-**	**9,688**	**-**	**18,131**
2007	**43,601**	**7,722**	**18,397**	**-**	**26,119**	**-**	**-**
2008	**26,164**	**7,727**	**-**	**18,000**	**25,727**	**18,000**	**-**
2009	**81,837**	**11,536**	**17,391**	**53,000**	**81,927**	**71,000**	**-**
2010	**115,871**	**12,356**	**14,212**	**89,000**	**115,568**	**160,000**	**-**
2011	**168,403**	**20,150**		**148,500**	**168,650**	**308,500**	**-**
2012	**197,443**	**21,651**		**176,000**	**197,651**	**484,500**	**-**
2013	**91,560**	**21,643**		**69,500**	**91,143**	**554,000**	**-**
2014	**84,744**	**21,654**		**63,100**	**84,754**	**617,100**	**-**
2015	**14,218**	**21,690**		**-**	**21,690**	**617,100**	**7,472**
2016	**14,857**	**21,693**		**-**	**21,693**	**617,100**	**14,308**
2017	38,256	22,000		1,948	23,948	**619,048**	**-**
2018	38,312	22,500		15,812	38,312	**634,860**	**-**
2019	36,988	23,000		13,988	36,988	**648,848**	**-**
2020	34,852	23,500		11,352	34,852	**660,200**	**-**
2021	31,346	24,000		7,346	31,346	**667,546**	**-**
2022	25,269	24,500		769	25,269	**668,315**	**-**
2023	25,285	25,000		285	25,285	**668,600**	**-**
2024	25,119	25,500		-	25,500	**668,600**	**381**
2025	26,095	26,000		-	26,000	**668,600**	**286**
2026	26,088	26,000		-	26,000	**668,600**	**198**
2027	25,880	26,500		-	26,500	**668,600**	**818**
2028	26,948	26,500		-	26,500	**668,600**	**370**
2029	26,916	27,000		-	27,000	**668,600**	**454**
2030	26,664	27,000		-	27,000	**668,600**	**790**
Total to 2016	**910,539**	**257,796**	**50,000**	**617,100**	**924,896**	**617,100**	**14,308**
Total to 2030	**1,324,557**	**606,796**	**50,000**	**668,600**	**1,325,396**	**668,600**	**790**

[1] Includes Interest
[2] Future costs are in 2006 dollars
[3] Includes Inflation

Transfers to the General Revenue Fund

In 2007, the water and sewer utilities' transfers to the General Revenue Fund (GRF) are estimated at $31.3 million ($27.1 million for 2006) or 18.2% of volume sales.

Transfers to the GRF include a percent of the utilities' base sales, subsidization of the tax-supported programs for fire hydrant maintenance and land drainage, plus deficit avoidance contributions to general mill-rate programs.

Transfers to Capital Program

The utilities continue to employ a pay-as-you-go policy for ongoing infrastructure renewal programs. In 2007, the water utility will cash finance an estimated capital program of $11.9 million, not including the Water Treatment Plant Reserve. The cash financed sewer capital program in 2007 is estimated at $25.0 million, not including the Environmental Projects Reserve.

Schedule of Fees & Charges (Appendix G)

The sewer and water by-law, Schedules A and B, contain a number of fees and charges which have not been reviewed for several years. In 2005 the Department began a review of these fees and charges, implementing graduated increases toward cost of service recovery. The proposed increases are part of a longer term plan to have full cost of service recovery for all miscellaneous services provided by the Water and Sewer utilities. These fees are listed in Appendix G.

New Fees:
Appendix G also contains three new fees.

- Appointment Fee: Currently appointments for services such as meter maintenance, inspection or installation are no charge to the customer. However, customers schedule appointments with Water Services then miss, or in the case of construction are not prepared for, these scheduled appointments. In certain cases multiple appointments may be missed and rescheduled. These missed appointments result not only in financial and time losses to the department, but deprive other customers of more timely service. This new fee would apply to the second and any additional appointments and be added to the customers quarterly water billing.

  The recommended appointment fee is

Field	- First appointment; waive
	- Second and each additional appointment; $50.00
Inspection	- First appointment; waive
	- Second and each additional appointment; $20.00

- Overstrength Wastewater Discharge Annual License Renewal: Section 46.3 of Sewer by-law 7070/97 states *"an annual licence fee, as listed in Schedule "A", has been paid. All Overstrength Wastewater Discharge Licences are issued for a maximum of one calendar year and are renewable annually on January 1st;"*

  The recommended fee is $50.00

- Wastewater Disposal Vehicle License Annual Renewal Fee: Section 70 of Sewer by-law 7070/97 states: *"Any person requiring a Wastewater Disposal Vehicle Licence under Section 69 shall make application to the Sewer Utility on such form prescribed by the Sewer Utility, on an annual basis, and pay the appropriate fee as listed in Schedule "A".*

  The recommended fee is $50.00

A cost benefit analysis on both the Overstrength Discharge and Wastewater Vehicle licenses has determined that there is no valued added in issuing a complete new license each year as is being done now. The Department would like to implement a renewal fee for each license which would be less costly for the customer and simplify the annual renewal process.

Financial Projection Risks

The detailed financial projections and rate plans are contained in Appendices B (Water) and C (Sewer). There are several variables that can affect the financial projection and resulting water and sewer rates.

1. Consumption. Consumption is forecast to remain relatively constant over the next ten years. Consumption projections are based on a five year historical average and incorporate the assumptions found in the 2003 Water Treatment Plant Capacity Assessment report including marginal population growth offset by increased conservation and efficiencies for water usage. If actual consumption is less than plan, this could cause a rate increase (conversely, actual consumption greater than plan could effect a rate decrease). See Appendix D for six year history.

2. Frontage levy. Anticipated frontage levy funding of $9 million per annum for the water main and wastewater sewer renewal programs. Any reduction in frontage levy would require an increase in rates to maintain utility infrastructure as per the planned work schedule.

3. Working capital position. The utilities target to maintain a minimum combined working capital position of 11% of the combined water and sewer sales on an annual basis. The purpose of the working capital reserve is to provide medium-term stability and the ability to absorb losses in any given year when consumption falls short of anticipated levels and/or unforeseen emergency funds are required. The working capital reserve is comprised of current assets (cash and accounts receivable) net of current liabilities (current accounts payable), cash or near cash items that can readily absorb unexpected fluctuations. Note that there is currently a significant negative working capital in the sewer utility as shown in Appendix C.

4. Rate structure. The 2007 rate model does not contemplate any major changes to the existing rate structure. The Department will report on a cost-of-service rate

model along with the effects of winter cost averaging for summer consumption once the implementation of a new billing system is complete.

5. Capital Investment. Capital investment is based upon the Department's best estimate of improvements that are required. Many items can influence the capital program expenditures, including escalation in market price, the introduction of new technology and availability of consultant and contractor resources. Recent tenders confirm these risks as the latest estimates reflect increasing costs.

6. Economic development. The City's economic climate can have significant impact on the utilities' financial plan. The addition or deletion of a major customer could effect a change in rates due to the consumption and sales revenue associated with the utilities' large volume users.

7. New legislation. Environmental and public health concerns are driving more stringent standards in the water and wastewater industry. The Environment Act Licenses for the three water pollution control centers require huge increases in capital and operating costs. The further introduction of new legislation could cause increased rates through the operating and capital costs associated with compliance.

8. Market Forces. The construction and consulting community are operating at or near capacity.

The Water and Sewer Utilities adhere to a set of operating principles that can be found in Appendix E. Appendix F illustrates the impact of the rate strategy on various sample customers.

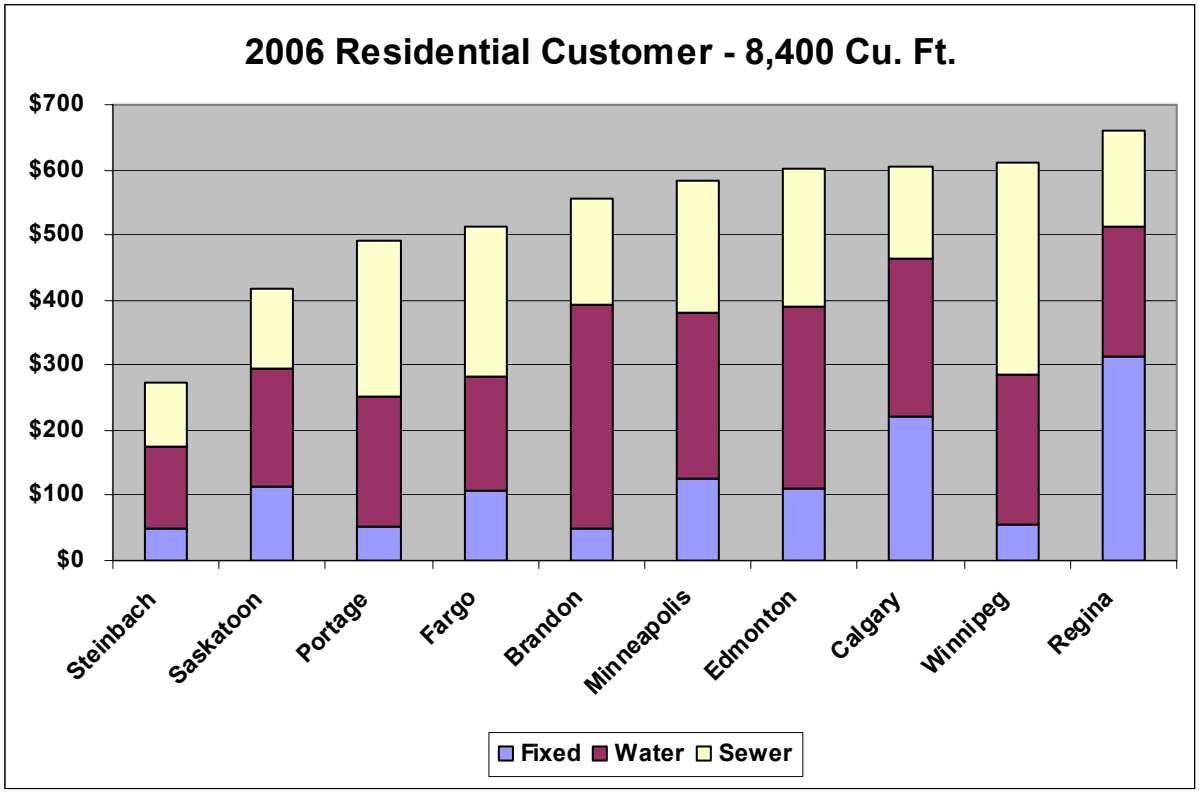
Competitiveness

In 2006 (after the last rate increase) Winnipeg's combined water and sewer rate, although on the high side, remains competitive to other cities of similar size. Rates have increased across the majority of other cities surveyed. There has been a move in several cities to increase fixed charges, or replace variable rates with fixed charges. The following tables illustrate costs for residential customers (Block 1 rates, consumption of 8,400 cubic feet), commercial customers (Block 1 and 2 rates, consumption of 56,000 cubic feet) and large users (Block 1, 2 and 3 rates, consumption of 8,987,000 cubic feet) each in 2006 rates.

Residential Customers

	Winnipeg	Regina	Saskatoon	Calgary	Edmonton	PLAP	Brandon	Steinbach	Fargo [1]	Minneapolis [1]
Fixed	55.00	312.00	114.00	220.68	110.64	52.36	50.00	50.00	107.79	126.72
Water	231.00	202.18	181.26	242.45	277.96	198.82	342.52	125.05	174.42	253.44
Sewer	325.08	146.28	123.52	140.43	213.05	239.64	161.75	97.84	229.39	203.14
Total 2006	$611.08	$660.47	$418.78	$603.57	$601.66	$490.82	$554.27	$272.89	$511.60	$583.29
Total 2005	570.76	631.86	386.54	575.19	586.81	461.57	522.34	272.89	469.15	593.94
Variance	$40.32	$28.61	$32.24	$28.38	$14.85	$29.25	$31.92	$0.00	$42.44	($10.65)
Percent	7.1%	4.5%	8.3%	4.9%	2.5%	6.3%	6.1%	0.0%	9.0%	-1.8%

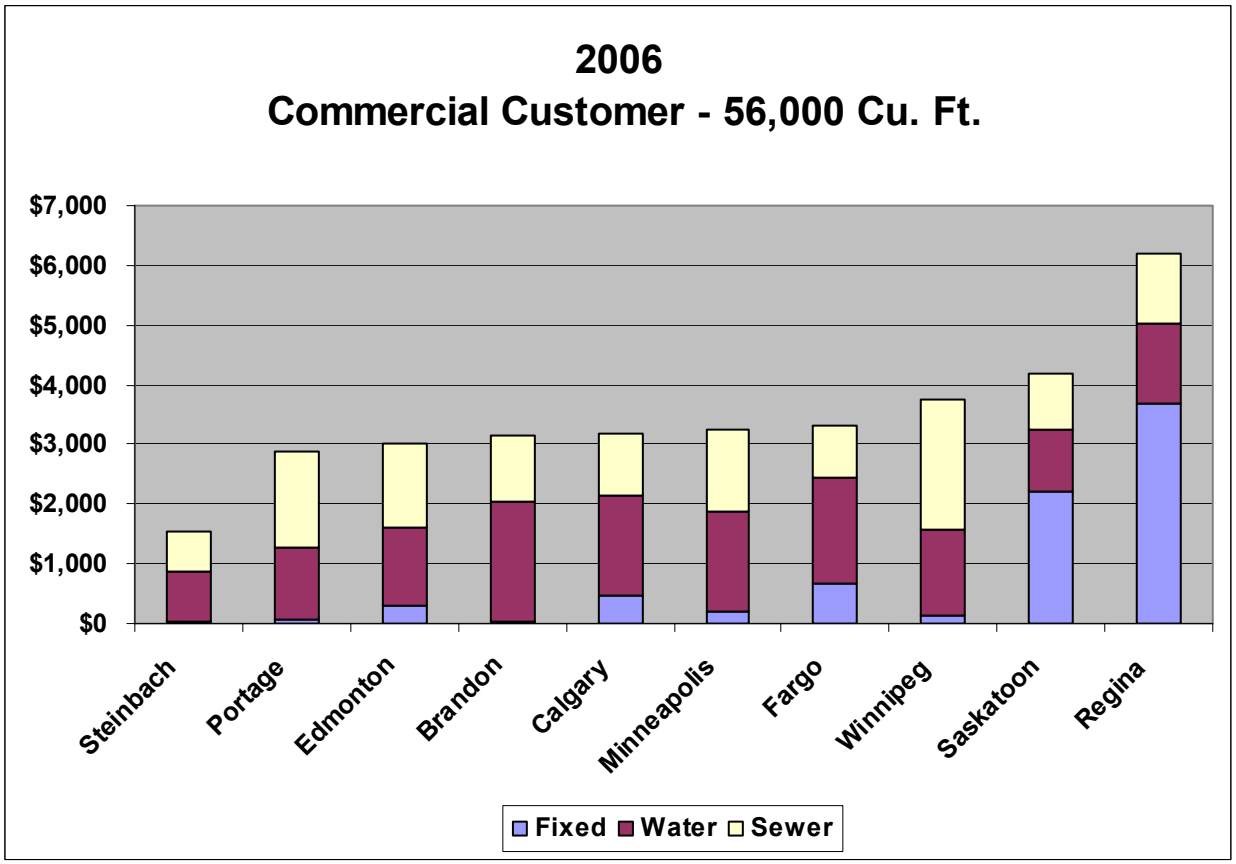
Note: 1) 2005 results shown at 2006 foreign exchange rate



Commercial Customers

	Winnipeg	Regina	Saskatoon	Calgary	Edmonton	PLAP	Brandon	Steinbach	Fargo [1]	Minneapolis [1]
Fixed	127.20	3,684.00	2,208.00	465.24	308.76	52.36	50.00	50.00	677.12	192.91
Water	1,455.52	1,347.88	1,056.67	1,683.81	1,301.60	1,216.86	2,007.46	833.67	1,773.58	1,689.58
Sewer	2,167.20	1,165.52	928.66	1,026.35	1,420.35	1,597.57	1,078.31	652.28	868.32	1,354.24
Total 2006	$3,749.92	$6,197.40	$4,193.33	$3,175.40	$3,030.71	$2,866.79	$3,135.77	$1,535.95	$3,319.02	$3,236.73
Total 2005	3,481.12	5,903.07	3,697.33	3,200.96	2,954.00	2,683.38	2,928.62	1,535.95	3,030.84	3,994.09
Variance	$268.80	$294.34	$496.01	($25.56)	$76.71	$183.42	$207.15	$0.00	$288.19	($757.36)
Percent	7.7%	5.0%	13.4%	-0.8%	2.6%	6.8%	7.1%	0.0%	9.5%	-19.0%

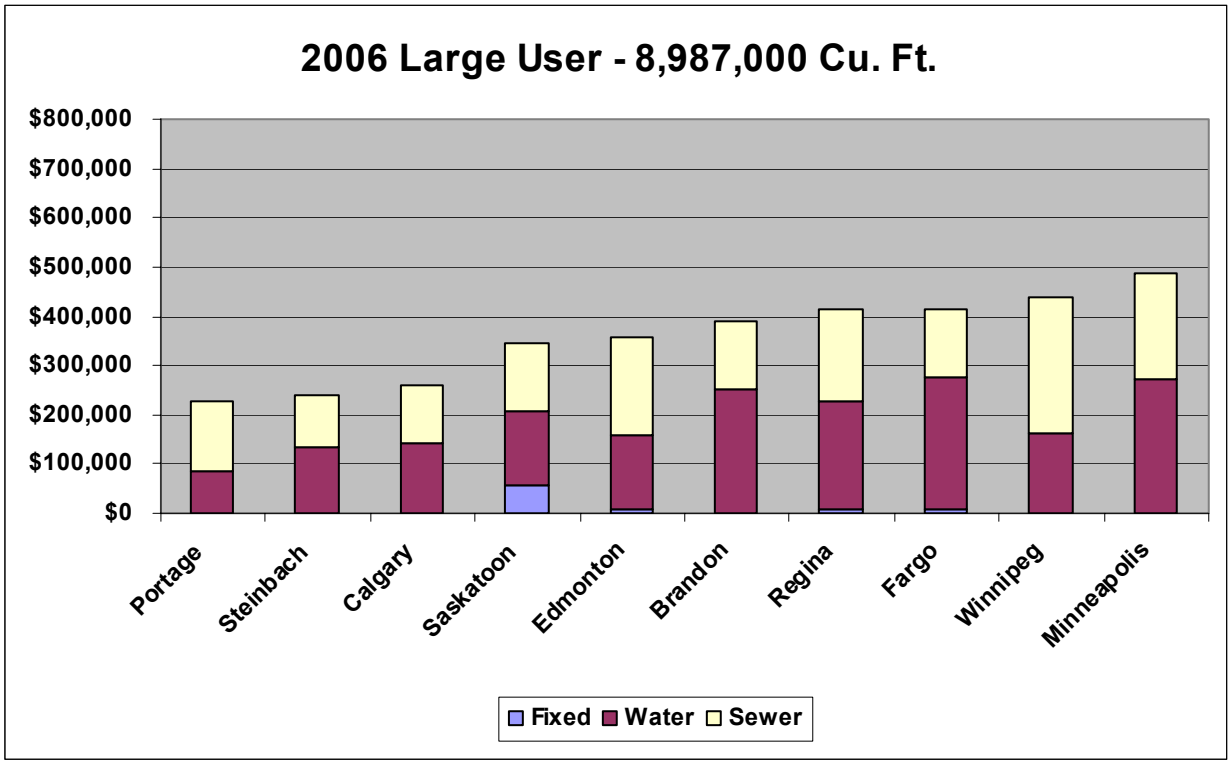
Note: 1) 2005 results shown at 2006 foreign exchange rate



Large Users

	Winnipeg	Regina	Saskatoon	Calgary	Edmonton	PLAP	Brandon	Steinbach	Fargo [1]	Minneapolis [1]
Fixed	1,142.80	9,300.00	56,520.00	922.44	6,285.00	52.36	50.00	50.00	9,120.41	365.65
Water	162,894.82	216,310.97	151,628.95	143,027.93	150,305.41	85,274.11	251,721.83	133,788.72	265,731.91	271,147.14
Sewer	273,457.83	187,045.37	136,298.25	116,233.09	200,707.96	141,833.43	136,676.25	104,679.88	139,350.33	217,331.68
Total 2006	$437,495.45	$412,656.34	$344,447.20	$260,183.45	$357,298.37	$227,159.90	$388,448.08	$238,518.59	$414,202.64	$488,844.46
Total 2005	407,299.13	399,544.85	323,182.00	213,848.38	348,595.39	212,589.11	355,364.22	238,518.59	374,811.56	635,643.71
Variance	$30,196.32	$13,111.48	$21,265.20	$46,335.07	$8,702.98	$14,570.80	$33,083.85	$0.00	$39,391.08	($146,799.25)
Percent	7.4%	3.3%	6.6%	21.7%	2.5%	6.9%	9.3%	0.0%	10.5%	-23.1%

Note: 1) 2005 results shown at 2006 foreign exchange rate



ALTERNATIVES:

This report recommends a combined rate increase of 13.61% which is beyond what was forecast in the 2006 Water and Sewer Utility rate report. Three alternatives to this increase and their impacts are outlined below. These scenarios assume the combined rate changes are applied to 2007 only, and the recommended future increases remain unchanged.

Alternative - Combined Rate Increase	Combined Working Capital Deficit in 2007 ($ millions)	Combined Working Capital Deficit at 10 Years ($millions)
Recommended – 13.61%	$ 1.7	Nil
No Increase in Combined Rate	$21.6	$277
Increase of 5% in Combined Rate	$14.3	$165
Increase of 10% in Combined Rate	$7.0	$53

These deficits may also jeopardize rate stability. Depleted working capital would hinder the utilities' ability to absorb unexpected losses in any given year if consumption were to fall short of expected levels or emergency funds were required.

The above alternatives assume that the utilities would continue with the high cost wastewater improvements, mandated by the Province as required in the Environmental Act Licenses. Council could also reduce the rate impact by:

a) Negotiating a reduction in the requirements mandated by the Province
b) Negotiating a longer time period over which to make these improvements
c) Negotiating increased contributions from senior levels of government

COMMUNICATION:

The Water and Waste Department will communicate the water and sewer rate increases to utility customers as follows:

Strategy	Timeline
Briefing session for Customer Service Centre Representatives	First week of December
Ads in the business section of both daily newspapers	December 9 and 10, 2006
Post information on the Web site	First week of December
Presentation on water and sewer rates at the annual Customer Seminar	First week of December
Bill insert with water/sewer bills	January – March 2007

The Water and Waste Department will use notices to inform customers affected by the rate increases outlined in Appendix G.

FINANCIAL IMPACT:

The 2007 rates and financial plans for water and sewer and utilities are contained in Appendices B and C. These plans are reflected in the utilities' current and capital estimates and as such, a financial impact statement has not been prepared.

"Original signed by L. Fisher, C.A."
Laurie Fisher, C.A.
Acting Manager of Finance and Administration

APPENDICES:

The following appendices are attached as additional information:

APPENDIX A	Water and Sewer Rates - Ten Year History
APPENDIX B	Waterworks System Fund - Ten year financial projection of revenue, expenditures and working capital based on the recommendations contained in this report
APPENDIX C	Sewage Disposal System Fund - Ten year financial projection of revenue, expenditures and working capital based on the recommendations contained in this report
APPENDIX D	Water Consumption Six Year Historical Summary 2000 - 2005
APPENDIX E	Water and Sewer Utility - Principles of Operation
APPENDIX F	Impact of the Water and Sewer recommendations on sample customers January 1st, 2007
APPENDIX G	Schedule of Fees and Charges

IN PREPARING THIS REPORT THERE WAS:

INTERNAL CONSULTATION WITH AND CONCURRENCE BY:

Corporate Services, Legal Services Division

EXTERNAL CONSULTATION WITH:
n/a

THIS REPORT SUBMITTED BY:

Water and Waste Department
Finance and Administration Division
Prepared by: Moira Geer, Darlene Capp
File No:

Appendix A

History of Water, Sewer and Solid Waste Utility Rates
1997 - 2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Water Rates (per 100 cu ft)										
Block 1 (< 9,600 cu ft)	**$2.10**	**$2.32**	**$2.54**	**$2.70**	**$2.75**	**$2.75**	**$2.75**	**$2.75**	**$2.75**	**$2.75**
Block 2 (9,600 - 96,000 cu ft)	**$1.72**	**$1.91**	**$2.10**	**$2.22**	**$2.27**	**$2.27**	**$2.27**	**$2.27**	**$2.27**	**$2.27**
Block 3 (> 96,000 cu ft)	**$1.33**	**$1.50**	**$1.65**	**$1.74**	**$1.79**	**$1.79**	**$1.79**	**$1.79**	**$1.79**	**$1.79**
Sewer Rates (per 100 cu ft)										
Volume Rate	**$2.83**	**$2.83**	**$2.80**	**$2.78**	**$2.73**	**$2.73**	**$2.73**	**$3.11**	**$3.39**	**$3.87**
Total Water and Sewer Rate (Block 1)	**$4.93**	**$5.15**	**$5.34**	**$5.48**	**$5.48**	**$5.48**	**$5.48**	**$5.86**	**$6.14**	**$6.62**

Appendix B

WATERWORKS SYSTEM FUND
Financial Projection 2007-2016 ($000s)

O:\Fa\Lszkware\Rate Model\2007\[07RTS_02.xls]WATER_REPORT Values

Waterworks System	2006 Budget	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue											
Sales Revenue	61,466	68,939	85,438	89,850	90,755	91,017	91,036	91,096	91,229	91,453	91,559
Non Rate Revenue	4,884	6,432	6,590	6,804	7,059	7,393	7,742	7,885	7,603	7,096	6,917
Water Treatment Reserve	10,167	10,127	0	0	0	0	0	0	0	0	0
Total Revenue	**76,517**	**85,497**	**92,028**	**96,653**	**97,813**	**98,410**	**98,778**	**98,980**	**98,832**	**98,548**	**98,475**
Expenditures											
Operating	43,241	45,822	53,617	57,902	59,059	60,240	61,445	62,674	63,927	65,206	66,510
Debt Service	9,457	11,987	16,070	18,877	18,891	19,172	19,467	19,139	17,612	15,157	13,331
Transfer to Water Treatment Reserve	10,167	10,127	0	0	0	0	0	0	0	0	0
Fire Hydrants	3,248	3,708	3,708	3,708	3,745	3,783	3,821	3,859	3,898	3,937	3,976
Transfer to General Revenue Fund	8,875	8,872	8,904	8,904	8,969	9,035	9,101	9,168	9,237	9,304	9,373
Total Expenditures	**74,988**	**80,516**	**82,299**	**89,392**	**90,664**	**92,230**	**93,834**	**94,840**	**94,674**	**93,604**	**93,190**
Surplus(Deficit) for the year	1,529	4,981	9,729	7,262	7,149	6,180	4,944	4,140	4,158	4,944	5,285
Opening Working Capital		17,059	11,598	12,997	13,126	12,080	6,635	7,079	6,719	6,529	7,367
Appropriated to Capital		(11,877)	(8,329)	(7,140)	(8,240)	(11,625)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)
Other Changes in Working Capital		1,436	(0)	7	45	0	0	0	151	393	756
Ending Working Capital		11,598	12,997	13,126	12,080	6,635	7,079	6,719	6,529	7,367	8,908
Working Capital as a % of Sales	**0%**	**17%**	**15%**	**15%**	**13%**	**7%**	**8%**	**7%**	**7%**	**8%**	**10%**
Water Rate Block 1 ($dollars)	**$2.75**	**3.15**	**3.45**	**3.55**	**3.55**	**3.55**	**3.55**	**3.55**	**3.55**	**3.55**	**3.55**
Rate Change Block 1	**0.0%**	**14.5%**	**9.5%**	**2.9%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Long-Term Debt Summary											
New debt, Water Treatment Plant	**60,000**	**48,000**	**56,204**	**0**							
Debt outstanding, closing year end balance	**27,115**	**71,936**	**123,288**	**116,466**	**109,473**	**102,184**	**94,586**	**86,885**	**79,657**	**73,371**	**67,754**

Appendix C

SEWAGE DISPOSAL SYSTEM FUND
Financial Projection 2007-2016 ($000s)

O:\Fa\Lszkware\Rate Model\2007\[07RTS_02.xls]SEWAGE_REPORT Values

Sewage Disposal System	2006 Budget	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue											
Sales Revenue	88,572	102,471	118,465	131,635	136,842	137,583	142,678	148,972	155,682	162,873	170,155
Non Rate Revenue	4,418	5,365	7,149	7,387	7,245	7,673	8,235	7,192	5,979	6,797	9,067
Environmental Projects Reserve	8,688	7,722	7,727	11,536	12,356	20,150	21,651	21,643	21,654	21,689	21,693
Total Revenue	**101,678**	**115,558**	**133,341**	**150,558**	**156,443**	**165,406**	**172,564**	**177,807**	**183,315**	**191,359**	**200,915**
Expenditures											
Operating	48,884	50,286	56,828	59,726	63,005	66,332	73,685	77,347	82,192	88,586	90,483
Debt Service	15,122	14,803	15,643	20,950	28,773	33,069	42,236	47,335	46,469	46,917	49,139
Transfer to Environmental Projects Reserve	8,688	7,722	7,727	11,536	12,356	20,150	21,651	21,643	21,654	21,690	21,693
Land Drainage	8,209	12,221	13,369	13,461	13,596	13,732	13,868	14,008	14,148	14,289	14,432
Transfer to General Revenue Fund	6,451	6,478	6,505	6,505	6,565	6,626	6,687	6,749	6,811	6,874	6,938
Total Expenditures	**87,354**	**91,510**	**100,072**	**112,178**	**124,295**	**139,909**	**158,127**	**167,082**	**171,274**	**178,356**	**182,685**
Surplus(Deficit) for the year	14,324	24,048	33,269	38,380	32,148	25,497	14,437	10,725	12,041	13,003	18,230
Opening Working Capital		(12,745)	(13,305)	(5,138)	10,498	18,642	28,429	25,519	18,476	16,888	15,482
Appropriated to Capital		(25,000)	(25,000)	(20,000)	(20,000)	(20,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Other Changes in Working Capital		393	(103)	(2,743)	(4,005)	4,290	(2,347)	(2,769)	1,372	591	0
Ending Working Capital		(13,305)	(5,138)	10,498	18,642	28,429	25,519	18,476	16,888	15,482	18,712
Working Capital as a % of Sales	**-14%**	**-13%**	**-4%**	**8%**	**14%**	**21%**	**18%**	**12%**	**11%**	**10%**	**11%**
Sewer Rate	**$3.87**	**$4.46**	**$5.12**	**$5.85**	**$5.97**	**$6.35**	**$6.59**	**$6.85**	**$7.12**	**$7.40**	**$7.69**
Rate Change	**14.2%**	**15.2%**	**14.8%**	**14.3%**	**2.1%**	**6.4%**	**3.8%**	**3.9%**	**3.9%**	**3.9%**	**3.9%**
Long-Term Debt Summary											
New debt, Environmental Projects	**0**	**0**	**18,000**	**53,000**	**89,000**	**148,500**	**176,000**	**69,500**	**63,100**	**0**	**0**
Debt outstanding, closing year end balance	**44,828**	**39,606**	**52,081**	**98,726**	**180,220**	**318,080**	**478,054**	**527,069**	**569,917**	**547,902**	**523,582**

Appendix D

WATER CONSUMPTION HISTORICAL SUMMARY - 000s GALLONS

Consumption for volume sales (excludes standpipe)

O:\Fa\Lszkware\Rate Model\2007\[07RTS_01.xls]Consumption Historical

	2000	2001	2002	2003	2004	2005
B-1 Sales	**99/00**	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**
October	906,724	824,164	965,309	933,722	795,325	748,041
November	710,007	689,014	738,590	724,901	619,909	636,342
December	758,809	747,260	821,073	817,935	751,683	818,248
January	831,380	801,656	876,961	837,821	852,006	889,805
February	680,216	654,591	620,700	630,317	651,738	697,814
March	758,647	747,005	768,535	759,140	785,707	792,068
April	790,161	826,841	803,207	830,781	808,006	808,199
May	686,032	673,964	665,609	677,894	632,943	639,414
June	902,067	767,123	790,454	858,112	872,663	823,206
July	981,311	849,050	960,142	943,887	853,732	882,399
August	743,338	741,022	761,990	777,798	725,259	732,120
September	772,084	859,102	856,568	869,904	828,967	792,439
Total	**9,520,776**	**9,180,792**	**9,629,138**	**9,662,212**	**9,177,938**	**9,260,095**
B-2 Sales	**99/00**	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**
October	377,891	326,255	443,628	388,686	295,871	251,095
November	373,842	345,176	365,758	318,955	331,895	329,023
December	270,708	257,387	254,680	280,674	198,561	283,404
January	310,487	309,390	342,561	360,932	328,743	345,648
February	342,212	320,493	293,732	315,362	313,277	361,954
March	265,185	245,104	276,281	230,457	279,872	251,733
April	280,253	320,751	308,196	316,622	311,378	302,882
May	323,220	344,120	337,517	306,117	324,550	312,426
June	250,325	242,352	224,977	258,537	256,964	240,420
July	333,668	329,190	365,064	313,258	272,493	306,199
August	379,563	350,348	345,719	396,572	364,001	379,852
September	305,175	277,549	300,375	322,785	333,051	325,285
Total	**3,812,529**	**3,668,115**	**3,858,488**	**3,808,957**	**3,610,656**	**3,689,921**
B-3 Sales	**99/00**	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**
October	352,163	279,214	382,924	297,954	192,412	109,742
November	274,705	301,776	289,609	218,225	324,615	274,234
December	173,978	186,582	180,823	167,851	40,529	182,493
January	267,287	221,279	193,635	295,438	211,402	162,014
February	213,172	191,856	199,970	207,787	252,773	291,618
March	185,755	185,126	138,922	100,921	148,316	175,227
April	234,648	227,242	235,043	242,005	169,360	162,230
May	236,943	223,285	249,468	201,851	312,176	251,989
June	138,755	112,734	115,750	131,279	92,735	186,213
July	302,471	282,364	341,669	436,628	166,094	192,539
August	266,899	254,438	279,939	205,735	360,388	358,768
September	192,008	169,016	179,995	225,071	184,180	215,619
Total	**2,838,784**	**2,634,912**	**2,787,747**	**2,730,745**	**2,454,980**	**2,562,686**
TOTAL B1-B3	**16,172,089**	**15,483,819**	**16,275,373**	**16,201,914**	**15,243,574**	**15,512,702**

Appendix E

WATER AND SEWER UTILITY
PRINCIPALS OF OPERATION

1. Self-Supporting Utilities. The Utilities do not receive subsidies from the mill rate.

2. Cost of Service Rates. Customers pay water and sewer rates, which represent the operating and capital costs of providing the utility services.

3. Debt Servicing. The Utilities' revenues are sufficient to service the Utilities' long-term debt.

4. Working Capital Reserves - Water and Sewer Utilities. The Water and Sewer Utilities maintain working capital reserves to protect the Utilities' financial position and prevent significant rate fluctuations that may otherwise result from a decline in consumption or major unforeseen expenditures. On an annual basis, the Utilities strive to maintain a minimum combined working capital position of 11% of the combined Water and Sewer sales.

5. Ten Year Financial Plan - Water and Sewer Utilities. Rates in the Water and Sewer Utilities are planned over a ten-year time frame to mitigate the effects of year over year fluctuations and to coincide with the longer term infrastructure development and renewal planning.

6. Transfers to the General Revenue Fund. The Water and Sewer Utilities transfer funds to the General Revenue Fund in the form of:
   - a percentage of sales revenue, net of capital reserves, as a return to the City on ownership of the Utilities
   - additional general provisions to meet the City's financial targets
   - support to the Fire Hydrant which funds 100% of the cost of this program
   - support to the Land Drainage program which funds 100% of the costs of this program. In addition the utility will fund all of the debt servicing costs in the Land Drainage program by the year 2008.

   Capital Reserve Funds. The Utilities establish reserves to fund major capital projects. The pay-as-you-go capital program is more economical than traditional debt financing, which equates to lower rates for our customers. In addition, for specific and cost intensive projects, the Department has developed a strategy whereby a portion of the project is funded through reserves and a portion through debt financing. This strategy facilitates an equitable approach for short and long term funding support.

Appendix F

CUSTOMER IMPACT ANALYSIS
Annual Basis

O:\Fa\Lszkware\Rate Model\2007\[07RTS_02.xls]customer impact calculation

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Residential 5/8" meter											
8,400 cu.ft. Water	2.75	3.15	3.45	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55
Sewer	3.87	4.46	5.12	5.85	5.97	6.35	6.59	6.85	7.12	7.40	7.69
Total Volume Rate	**6.62**	**7.61**	**8.57**	**9.40**	**9.52**	**9.90**	**10.14**	**10.40**	**10.67**	**10.95**	**11.24**
FQC	**13.75**	**13.75**	**13.75**	**13.75**	**13.75**	**13.75**	**13.75**	**13.75**	**13.75**	**13.75**	**13.75**
	$611.07	$694.24	$774.88	$844.60	$854.68	$886.60	$906.76	$928.60	$951.28	$974.80	$999.16
Overall $ Change	40.83	83.17	80.64	69.73	10.07	31.92	20.16	21.83	22.69	23.51	24.37
Overall % Change	7.16%	13.61%	11.62%	9.00%	1.19%	3.73%	2.27%	2.41%	2.44%	2.47%	2.50%
Small Restaurant 1" meter											
56,000 cu.ft. Water	2.27	2.67	2.97	3.07	3.07	3.07	3.07	3.07	3.07	3.07	3.07
Sewer	3.87	4.46	5.12	5.85	5.97	6.35	6.59	6.85	7.12	7.40	7.69
Total Volume Rate	**6.14**	**7.13**	**8.09**	**8.92**	**9.04**	**9.42**	**9.67**	**9.91**	**10.19**	**10.47**	**10.76**
FQC	**17.70**	**17.70**	**17.70**	**17.70**	**17.70**	**17.70**	**17.70**	**17.70**	**17.70**	**17.70**	**17.70**
	$3,553.73	$4,109.68	$4,647.28	$5,112.08	$5,179.28	$5,392.08	$5,531.12	$5,667.44	$5,823.28	$5,980.08	$6,142.48
Large Restaurant 3" meter											
626,000 cu.ft. Water	1.79	2.19	2.49	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59
Sewer	3.87	4.46	5.12	5.85	5.97	6.35	6.59	6.85	7.12	7.40	7.69
Total Volume Rate	**5.66**	**6.65**	**7.61**	**8.44**	**8.56**	**8.94**	**9.19**	**9.43**	**9.71**	**9.99**	**10.28**
FQC	**109.45**	**109.45**	**109.45**	**109.45**	**109.45**	**109.45**	**109.45**	**109.45**	**109.45**	**109.45**	**109.45**
	$36,359.42	$42,573.68	$48,583.28	$53,779.08	$54,530.28	$56,909.08	$58,473.12	$59,977.44	$61,729.28	$63,482.08	$65,297.48
Foundry 4" meter											
8,987,600 cu.ft. Water	1.79	2.19	2.49	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59
Sewer	3.87	4.46	5.12	5.85	5.97	6.35	6.59	6.85	7.12	7.40	7.69
Total Volume Rate	**5.66**	**6.65**	**7.61**	**8.44**	**8.56**	**8.94**	**9.19**	**9.43**	**9.71**	**9.99**	**10.28**
FQC	**139.25**	**139.25**	**139.25**	**139.25**	**139.25**	**139.25**	**139.25**	**139.25**	**139.25**	**139.25**	**139.25**
	$509,530.43	$598,739.28	$685,020.24	$759,617.32	$770,402.44	$804,555.32	$827,023.36	$848,595.52	$873,759.84	$898,925.12	$924,989.16

Appendix G

Water and Waste Department
Schedule of Fees and Charges
Effective January 1, 2007

Description	Proposed 2007	2006 Fee	2005 Fee	Last Increase	Cost of Service	Units
WATERWORKS SYSTEM						
Key Guard Deposit Fee						
Deposit fee for key access to standpipes	***$215.00***	$200.00	$75.00	2006	$215.00	per key
Non-payment Turn Off/Turn On Fee	***$50.00***	$25.00	$25.00	1991	$225.00	per account
Field Appointment - First	***Waive***	-	-			per appointment
Field Appointment - Second and each additional	***$50.00***	-	-	**New**	90.00	per appointment
Inspection Appointment - First	***Waive***	-	-			per appointment
Inspection Appointment - Second and each additional	***$20.00***	-	-	**New**	20.00	per appointment
SEWAGE DISPOSAL SYSTEM						
Overstrength Wastewater Surcharge Rates						
Biochemical Oxygen Demand surcharge rate (in excess of 300 mg/L)	***$1.12***	$0.92	$0.81	2006	$1.12	per Kg
Total Suspended Solids surcharge rate (in excess of 350 mg/L)	***$0.73***	$0.56	$0.49	2006	$0.73	per Kg
Sewer Adjustment Fee						
Initial application fee-non-refundable	***$200.00***	$175.00	$150.00	2006	$200.00	per application
Annual renewal and inspection fee	***$145.00***	$125.00	$100.00	2006	$145.00	per application
Wastewater discharge licence	***$75.00***	$63.00	$63.00	1998	$125.00	per application
Wastewater discharge licence annual renewal fee	***$50.00***	$25.00	$25.00	1998	$70.00	per application
Wastewater disposal vehicle licence	***$75.00***	$51.00	$51.00	1998	$125.00	per application
Wastewater disposal vehicle licence annual renewal fee	***$50.00***	-	-	**New**	$70.00	per application
Overstrength wastewater discharge licence	***$100.00***	$63.00	$63.00	1998	$130.00	per application
Overstrength wastewater discharge licence annual renewal	***$50.00***	-	-	**New**	$70.00	per application
Private wastewater disposal system permit- single family	***$100.00***	$75.00	$75.00	1998	$150.00	per address
Private wastewater disposal system permit- Commercial-Holding Tank	***$100.00***	$75.00	75.00	1998	$125.00	per address
Land drainage discharge licence	***$100.00***	$63.00	$63.00	1998	$225.00	per application
Land drainage discharge licence - renewal	***$50.00***	$25.00	$25.00	1998	$115.00	per application