

## Council Referred Items – Utility Fund

### Utility Rates

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#### Description

The purpose of this appendix is to respond to two outstanding motions passed by City Council regarding the utility rates. These motions were:

1. On December 10, 2018, City Council considered report CM18-15 (2019 General and Utility Operating and 2019-2023 General Utility Capital Plan) and approved the following resolution:

*“That Administration bring back a report as part of the 2020 proposed budget that includes implications of lowering the base utility rate and/or shifting the cost of consumption.”*

2. On February 13, 2017, City Council considered report CM17-2 (2017 General Operating and 2017-2021 Capital Budget; and 2017 Utility Operating and 2017-2021 Capital Budgets) and approved the following resolution:

*“The Administration undertake a rate review in 2017 to inform future utility rates that ensure Regina has a sustainable, affordable utility in the future.*

*Funds for the rate review be allocated from the current year’s operating budget*

*A Communication Strategy be developed to inform residents about the Utility, its components, the regulatory requirements and all associated operating and capital costs.”*

#### Recommendation

The 2020 Budget does not include any shifts from the base utility rate to the consumption or variable rate. Adjusting the rates to have more revenue coming from the variable consumption rate would benefit some residents, but would not be connecting to their means but rather to their use profile.

Administration recommends that a full rate structure review be completed after the implementation of the Advanced Metering Infrastructure (AMI) project, in 2024

#### Background

Regina’s residents expect consistent, high-quality water services, delivered in a manner that is fiscally, environmentally and socially responsible. Delivering these services in a sustainable way requires a long-term view that secures sufficient revenue to recover the system costs, buffer against unexpected circumstances, service debts and saves for future capital needs.

While many Canadian municipalities still do not have full cost recovery Utility Models, Regina has had a full cost-recovery utility for the past 50 years. There is a meter in every home and business in Regina collecting revenue. We use a 25-year financial model and master plans. These tools help to prioritize and meet environmental and system challenges to ensure a sustainable utility for many years to come.

#### Balance

When determining the utility rate increase required from year to year, it is important to strike the right balance between sustainability, equity and affordability.

### Sustainability

As mentioned previously, the City of Regina currently has a sustainable system, utilizing tools such as our 25-year financial model and the master plans to ensure that our systems are sustainable now and into the future. We still have vulnerabilities and will need to continue to adapt.

### Equity

General principles are outlined in *Design Regina: the Official Community Plan (OCP)* such that those who use a service are required to pay for it. Using a blend of rates, debt and reserves helps to ensure equity between user groups as well as intergenerational equity.

### Affordability

Affordability refers to rate structure that considers customers' ability to pay for water and wastewater services.

### Analysis

The Utility rates are structured to support a sustainable utility and to encourage conservation. The current structure uses a blend of approximately 33% fixed fees and 67% variable for water and wastewater. The fixed operating costs for water and wastewater are about 80%, with less than 20%

variable costs. Under this structure, Regina's water sales have remained steady over the last 10 to 15 years, despite population growth. This is a result of increased conservation by residents and businesses.

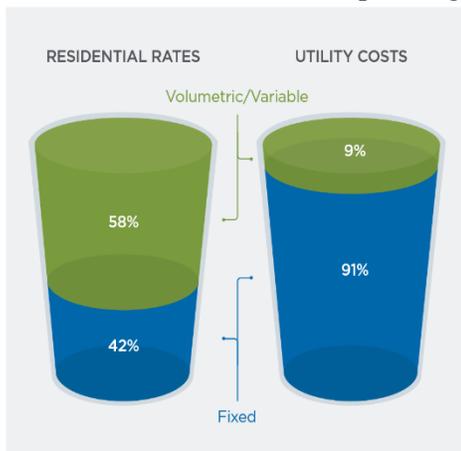


Figure 1 Comparison of single family household rates to utility costs for 31 utilities in 2013

Data source: National Water and Wastewater Benchmarking Initiative (NWWBI)

### Impacts of Adjusting the Rate Structure

When consumption drops, the fixed costs do not. While the City encourages conservation, consideration needs to be given to ensure that the utility remains financially sustainable. Increased pressure on the variable consumption rate may result in further decreases in per capita consumption, eroding the revenue required to maintain and operate the infrastructure.

As well, significant changes in overall consumption may result in operational challenges such as system stagnation or odour issues.

Adjusting the rates to have more revenue coming from the variable consumption rate would benefit some residents. The benefits, however, would not be connected to their means but rather to their use profile. Establishing a program to address affordability within a specific demographic or income bracket may be best done through mechanisms other than the utility rate. As a result, if City Council wished to subsidize or reduce the cost of utility services to a targeted pool of customers, exploring other tools such as subsidies or abatements may be a preferred approach. Such an approach would also reduce the impact to the sustainability of the Utility Fund model.

For example, a low-income renter with a six-person household, with outdated plumbing and no low-flow devices would see an increased water bill if the rate were shifted towards the variable component, whereas a high-income condo-owner with new plumbing and no yard would see a decrease.

### **Course of Action**

The current rate structure is simple and transparent. With the implementation of the AMI program in 2024, the City will have more information and better tools to develop a more complex rate structure to potentially address affordability issues as well as sustainability. For example, an analysis of the data collected from AMI could be used to explore complex structures such as:

- **Increased Block Rates:** encourages conservation as the per unit charge increases as the amount of water used increases.
- **Time of Day Pricing:** charging a higher rate for water used during peak demand periods, encouraging the change of behavior to lessen the impact on our infrastructure.
- **Summer Surcharges:** charging a higher rate for households with large lawns and pools.

Some affordability support is available through Provincial programs. A full review of rate structure, including affordability concerns would include a review of subsidies that may be available from other levels of government.

### **Communication Strategy**

The City will continue its strategy of educating customers about the benefits of the multi-year approach to rates – three consecutive annual increases of 3% in 2019, 2020, and 2021. Primarily, this approach achieves long-term infrastructure investment goals at a reasonable cost to consumers, ensuring the continued delivery of safe, clean water and reliable wastewater and drainage services. Utility customers were informed of the change and benefits of a three-year rate model through a separate communication that accompanied their Utility bills following approval of the 2019 Budget. This tactic will continue for the 2020 and 2021 Budgets, ensuring that Utility customers are informed of the proposed rate increases for the subsequent two years and understand the Utility is based on full cost recovery. Additional information on the integration of the waste, wastewater, and drainage systems provides residents with a more holistic understanding of the entire system. This information is also found on Regina.ca.

Through a variety of public engagement sessions, most notably the Conversations with the City event, Administration has sought to gain insight from residents about any affordability challenges they may currently face with the Utility. Such discussion will be an important aspect of the AMR replacement plan. Administration will develop a communication and engagement strategy that supports consultation during this process to help identify areas for consideration beyond consumption that might inform the future rate review and recommendations.