

Subject: Water and Wastewater Rate Methodology Review

Report to: Budget Review Committee of the Whole

Report date: Thursday, November 7, 2024

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to advise Council of recent discussions with Local Area Municipalities (LAMs) in relation to our current Water and Wastewater Rate allocation methodology (i.e., the way in which the Region recovers annual budgeted costs from the LAMs to deliver water and wastewater services).
- The current cost recovery methodology for water has been in place since, 2009, and was reaffirmed in 2011 for 2012-2015, and again in 2015 and apportions water costs at 75% variable rate and 25% as a fixed component to the LAMs.
- The current cost recovery methodology for wastewater was established in 2011 for 2012 to 2015 and reaffirmed in 2015 and apportions wastewater costs at 100% fixed.
- The feedback received from some of the LAMs is that the current cost recovery methodology is due for a review as it hasn't been reviewed for ten years. In addition, for wastewater specifically, the methodology should be reviewed to ensure it is fair, equitable and stable.
- Regional Council directs the method by which water and wastewater costs are apportioned to the LAMs and would recommend changes to the current methodology based on receiving majority support for a change from the LAMs.

Financial Considerations

The cost to undertake a review of the water and wastewater rate allocation methodology and to provide recommendations is estimated at \$60K for consulting support, in addition to staff time. The estimated consultant cost has been included in the 2025 proposed water and wastewater budget as a one-time ask funded from water and wastewater stabilization reserves.

The outcome of the methodology review could result in a change to the allocation methodology that would have impact on the amount allocated to each of the 11 participating LAMs. If a change to the methodology was recommended by regional staff, with majority support from the LAMs, a separate report would be brought forward to Council to seek approval and provide further information on what the impact of a change would be to each of the LAMs.

Regional Council approves the water and wastewater budget each year. The budget will not change as a result of a review of the allocation methodology, rather, the way in which budgeted costs are allocated to LAMs will change. The current methodology is the way in which the Region recovers the budgeted cost to deliver water and wastewater services. With a fixed allocation the Region is guaranteed to recover our costs, regardless of variable flows. 75% of the water budget is recovered through a variable rate, which does provide some risk to the Region, if we don't sell as much water as budgeted, we will not collect as much water revenues as budgeted. Changing the way in which we recovery costs could result in more risk to the region.

Analysis

Current Methodology Overview

The water methodology has been in place since 2009, and was reaffirmed in 2011 for 2012-2015, and again in 2015. 25% of the Region's net operating water budget is apportioned based on previous three year's average water supply volumes (example – 2025 budget based on October 2021 – September 2024). 75% of the Region's net operating water budget is apportioned on a variable rate, which is calculated by taking 75% of the Region's 2025 water net operating budget and dividing by the estimated supply volume.

The wastewater methodology has been in place since 2007, with an update in 2011 for 2012-2015 and reaffirmed in 2015. 100% of the Region's net operating wastewater budget is apportioned based on previous three year's average wastewater supply volumes (example - 2025 budget based on October 2021 – September 2024). Actual costs are allocated based on 1 year to December (example - reconciliation for the 2023 net requisition allocation based on actual wastewater flows versus the estimated flows will be included on 2025 wastewater monthly bills).

Waterloo and York Region have similar systems to Niagara, where they act as wholesalers to their LAMs. Both Waterloo and York allocate costs solely based on a

uniform volume-based water and wastewater rate. This results in these Regions taking on all of the risk when it comes to the impact of volumes.

Previous Review

The previous review considered the following in the consultation process, risk management (Predictability and volatility), equity and accountability, simplicity and transparency, conservation, economic development, and history.

The analysis included the review of results of the current methodology, referenced historical flow and budget data to estimate potential impacts and characteristics of methodology alternatives, and reviewed methodologies utilized by other two-tier water and wastewater systems in Ontario.

The resourcing required in previous reviews included the use of consultants, Council working groups, staff time and Council time both at the Local and Regional level.

Current Review

We are working with the LAMs to determine a set of principles to evaluate possible changes to the methodology against. Staff will report back to council on principles used for evaluation, consultants' recommendations, follow up discussions with LAMs as well as any proposed changes to the current methodology, including allocation impacts to each of the LAMs.

Alternatives Reviewed

As the ask for this came from the Area Treasurers and CAO's no other alternatives were considered.

Relationship to Council Strategic Priorities

The review of the current cost recovery model for water and wastewater aligns with Effective Region, implement continuous improvement and modernized processes to ensure value-for-money in Regional services and programs from the lens of the LAMs.

Other Pertinent Reports

- CSD 47-2014 Water & Wastewater Rate and Requisition Methodology
- CSD 61-2015 Water & Wastewater Rate and Requisition Methodology

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