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REPORT TITLE: **Long-Term Utility Financial Plan Pricing Objectives**

FROM: Kealy Dedman, Commissioner of Public Works

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## **RECOMMENDATION**

**That the Long-Term Utility Financial Plan pricing objectives identified as revenue and bill predictability, customer understanding and ease, and equity be approved.**

### **REPORT HIGHLIGHTS**

- In December 2020, the principles and workplan for the Long-Term Utility Financial Plan were approved by Regional Council under Resolution 2020-1039.
  - In May 2021, the Long-Term Utility Financial Working Group was approved by Regional Council under Resolution 2021-555. The purpose is to provide input regarding pricing objectives, rate structure options, and the recommended utility rates.
  - The objectives of the Utility Plan are to update the water and wastewater rate structure based on key pricing objectives, and to develop a financial planning model to ensure a sustainable water and wastewater revenue source to fund the long-term operating costs, including asset replacement, over time.
  - The first round of stakeholder engagement to gather feedback on pricing objectives has been completed. Customer input from residents and businesses showed alignment with the Utility Plan's key pricing objectives.
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## **DISCUSSION**

### **1. Background**

The principles and workplan for the Long-Term Utility Financial Plan (Utility Plan) were approved by Regional Council in December 2020 under Resolution 2020-1039. The Long-Term Utility Financial Working Group (Working Group), comprised of four Council members, Regional staff and two representatives from Raftelis Financial Consultants Inc., was approved by Regional Council under Resolution 2021-555 in May 2021. The purpose of the Working Group is to provide input into the pricing objectives, rate structure options, and recommended utility rates.

The Utility Plan will ensure that the Region of Peel's water and wastewater rates are predictable, and that revenue generated will be sufficient to fund the projected cost of service, including asset replacement costs, over the long-term. The Utility Plan will balance investments with revenue to ensure predictable and equitable rates for current customers and future generations. Raftelis Financial Consultants Inc. is leading the rate structure review, financial planning model, and stakeholder engagement process.

## Long-Term Utility Financial Plan Pricing Objectives

### 2. Public Consultation Phase 1 Results

The first round of public consultations was conducted from June to September 2021. Customer input was gathered for a short-list of pricing objectives recommended by Raftelis and supported by the Working Group.

#### Participation

Feedback was sought from the general public, property managers, small to medium-sized businesses, and high-use large industrial companies. Staff also engaged the Lived Experience Roundtable of the Peel Poverty Reduction Committee. This group is comprised of Brampton, Caledon, and Mississauga residents representing low-income, racialized communities, seniors, people with disabilities, single parents, newcomers and refugees.

All consultation was conducted virtually due to COVID-19 restrictions. Outreach included a public website with an online survey, and discussions with small groups of customer panels to gather more in-depth feedback.

Stakeholder Group	Engagement Type
Residential	
General Public (1800 responses)	Website and Online Survey
Lived Experience Roundtable	Customer panels
Residents	Customer panels
Property managers	Customer panels
Business	
Small to medium-sized businesses	In-depth interviews
High-use large industrial	Customer panels

#### Summary of Key Messages from Stakeholders

The first phase of stakeholder engagement focused on pricing objectives. Results from the online survey and customer panels showed that residents placed drinking water quality as the most important attribute of the Region's water and wastewater service. Customers also indicated that they were open to a rate change and strongly believed in equity, often stating 'if you use more, you should pay more' and emphasized 'value for service'. It was also important to residents that the bills be simple, easy-to-understand, and predictable over time. Lastly, residents felt powerless when receiving an unexpected high water bill.

Businesses had similar feedback in terms of prioritizing equity based on users paying for what they use. The most important aspect for businesses is to ensure the reliability of service and to keep rates competitive. Large businesses and high-water users indicated that they would support a rate structure that rewards lower consumption. Many businesses requested advance notice (i.e., one year) of any changes due to budgetary planning needs.

### 3. Priority Pricing Objectives

There were five pricing objectives that were tested with stakeholders. These included: revenue and bill predictability, customer understanding and administrative ease, equity, demand management, and affordability. Results from the online survey and feedback from the in-depth customer panels indicated that both residents and businesses prioritized three of the five pricing objectives. The results were presented to, and endorsed by, the Working Group, and Staff recommend that Council endorse three pricing objectives of the Utility Plan. These pricing objectives will be used to evaluate potential rate structure options.

## Long-Term Utility Financial Plan Pricing Objectives

- **Revenue and bill predictability** – rates will remain predictable from year to year, minimizing fluctuations in both the Region’s revenue and customer’s bills. Bill predictability also includes reducing the impact of one-time unexpected large bills.
- **Customer understanding and administrative ease** – bills are kept simple, easy to understand and implement.
- **Equity** – ‘*pay for what you use*’ is a message that came out very strongly among residents and businesses. A rate structure based on the cost to deliver service would be equitable.

The remaining two pricing objectives of demand management and affordability ranked lower among residents or businesses. Additionally, with the complex nature of these issues, staff recommend that these objectives are addressed outside of the rate structure review process. Large industrial customers can be incentivized to reduce consumption through existing water conservation programs and Corporate Social Responsibility policies. From an affordability lens, the Region has financial assistance programs offered through Ontario Works to help residents pay their utility bills.

### 4. Next Steps

#### a) Public Consultation Phase 2

The second phase of public engagement will occur in the Fall of 2021 to obtain feedback on rate structure options. Concepts tested will include the introduction of a fixed component, tiered rates, or rates by different customer classes.

#### b) Rate Structure Options

A short-list of rate structures will be evaluated based on the pricing objectives of revenue and bill predictability, customer understanding and administrative ease, and equity. An in-depth review of the cost to serve each customer class is being conducted to inform the recommended rate structure. A detailed analysis of bill impacts for different customer classes is also underway. The results will be communicated to the Working Group for feedback, and findings will be presented to Council in 2022.

#### c) Long-Term Utility Financial Planning Model

Staff are working in parallel to develop a long-term utility financial planning model. This will monitor current and projected levels of water consumption, costs associated with maintaining the infrastructure, asset replacement, and optimization to ensure that revenue generated will cover all current and anticipated future costs. The recommended utility rates will be based on the long-term projected revenue requirements and will be implemented in 2024.

## CONCLUSION

The priority pricing objectives of revenue and bill predictability, customer understanding and administrative ease, and equity are aligned with input from residents and businesses. These pricing objectives will be used to evaluate a short-list of rate structure options. Results of an in-depth cost of service analysis, combined with bill impacts for different customer classes, will be communicated to the Working Group for feedback and presented to Council in 2022.

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