



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	December 7, 2016
SUBJECT/REPORT NO:	Water and Wastewater / Storm Billing Frequency (FCS16092) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	John Savoia (905) 546-2424 Ext. 7298
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That Council approve the change to monthly billing for all customers of municipal water and wastewater / storm services;
- (b) That the Service Agreement between the City of Hamilton and Horizon Utilities Corporation dated as of January 1, 2015, be amended, as necessary, to implement Recommendation (a) of Report FCS16092, with content satisfactory to the General Manager of Finance and Corporate Services;
- (c) That the City's Water and Wastewater / Storm Consecutive Estimates Accounts Policy and Water Leak Adjustment Policy be amended to reflect the change to monthly billing for all customers of municipal water and wastewater / storm services as set out in Recommendation (a) of Report FCS16092 to the satisfaction of the General Manager of Finance and Corporate Services;
- (d) That the City Solicitor be authorized and directed to prepare for Council approval, all necessary amending by-laws to reflect the change to monthly billing for all customers of municipal water and wastewater / storm services as set out in Recommendation (a) of Report FCS16092.

EXECUTIVE SUMMARY

In 2001, Council approved the convergence of water / wastewater billings and collections with Hamilton Hydro, now Horizon Utilities Corporation (Horizon) in order to provide administrative savings to customers (refer to Report FCS01021). At that time, customers were billed on a quarterly basis with the exception of large industrial customers which were billed monthly. Those quarterly billed customers were subsequently shifted to match the bi-monthly electric billing cycle. The billing of electricity with water and wastewater / storm charges on a converged invoice results in a convenient one-bill solution for most customers. It should be noted that currently over 25,000 customers receive a stand-alone water invoice primarily due to service located within the City of Hamilton that are not within the Horizon electric service territory and are provided electric service from Hydro One.

The Ontario Energy Board (“OEB”) has mandated that all electricity accounts shall be billed on a monthly basis effective December 31, 2016. Horizon delayed its implementation of monthly billing due to on-going merger considerations and, in consultation with the OEB, is now planning to implement monthly billing for all its customers in Q2 of 2017.

As Horizon bills water and wastewater / storm customers on behalf of the City, generally on the same bills as electricity, the City’s customers are impacted by this mandated change. Presently, Horizon bills nearly 148,000 City customers consisting of residential, multi-residential, and industrial / commercial / institutional (ICI) accounts for water and wastewater / storm services.

Currently 137,100 (93%) of customers are billed bi-monthly and generally larger customers are billed monthly (8,500 customers). Typically, where a residential customer has electric heating the account is currently on a monthly bill cycle with the related water account following suit amounting to approximately 2,200 residential monthly accounts. Bi-monthly billing is comprised of approximately two months of consumption, but the billing interval may vary slightly between meter reading dates.

Similar to Hamilton, a number of water utilities in Ontario have engaged the local electric utility to provide water meter reading, billing and customer support services. In light of the OEB mandated transition to monthly electric bills, several water utilities have considered moving to a monthly water billing cycle. A number of factors influence these considerations including cost, customer service and the impact on the utility’s working capital.

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In conjunction with Horizon, the City has considered various options relating to water and wastewater / storm billings:

- Option 1** - Move water and wastewater / storm billing to monthly billing with electricity utilizing monthly meter readings.
- Option 2** - Estimate / bill water consumption the first month along with the fixed service charges then read / bill actual consumption with fixed service charges the following month.
- Option 3** - Bill fixed service charges monthly and record zero water consumption every second bill. Actual consumption for two months would be billed every second month.

In the event that this report's recommendations not be approved, the current billing cycle where fixed and consumption charges are billed bi-monthly would continue. Once electric billing is implemented in Q2 of 2017, water fixed charges and actual consumption for two months would continue to be billed every second month. In the intervening months customers will receive an invoice with only electric charges.

Considerations were made to ensure that the option selected would be the most beneficial to customers and would result, at most, in a minimal cost increase. The subsequent evaluation has resulted in the recommendation of Report FCS16092 for Council to approve the billing frequency change to monthly for all customers of municipal water and wastewater / storm services.

Monthly billing provides the following benefits:

- Improved ability for customers to develop and manage budgets through smaller, more affordable amounts;
- Improved customer understanding of water use and related costs;
- Improved feedback for customers on the impacts of their conservation and efficiency efforts;
- Monthly billings could alert customers sooner to high water consumption due to leaking fixtures or plumbing, or other changes in consumption;
- Monthly billings may reduce large fluctuations in consecutive billings that arise due to seasonal changes in water consumption patterns;
- More timely resolution of abnormal and estimated bills;
- Aligns billing frequency with other utility bills such as gas, telephone and cable;
- The continuation of a simple, consistent, and cost-effective bill for electric, water, and wastewater customers in Hamilton;
- Improved cash flow for the City as payments will be received more frequently; and,
- City will have more accurate information to prepare revenue projections and enable accounting improvements related to year-end accounting.

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A transition to monthly billing for the City would result in additional costs primarily as a result of the meter reading expenditure from reading the meters twice as often and the increased postage expense. The benefits of a converged electricity and water / wastewater invoice remain. The incremental annual cost impact for the City estimated by Horizon of \$400 K will be offset by increased investment returns. One-time expenditures related to transitioning to monthly billing such as programming, communication and legal costs will be absorbed by Horizon who will incur these as a result of the OEB mandate for monthly electric billing.

This increased cost is expected to be offset by the following quantitative advantages and qualitative customer service improvements:

- Improved cash flow generating increased investment returns;
- Reductions to customer accounts in arrears;
- Reduced write-offs or adjustments of high water balances resulting from leakages which are identified sooner;
- Efficiencies gained in staff time currently required to manage follow-up related to high water use and estimated reads; and,
- Efficiencies in communications costs required to explain complex billing.

These offsetting efficiencies are an important consideration that, in conjunction with the overall qualitative customer and City benefits of the move to monthly billing, results in the recommendation of Report FCS16092 for Council to approve the billing frequency change to monthly for all customers of municipal water and wastewater / storm services.

Recommendation (b) of Report FCS16092 reflects that the current service agreement between the City and Horizon will need to be amended to reflect revised rates for the change to monthly billing for all of the City's water customers. The City's objectives in its relationship with Horizon continue to be focused on minimizing service costs and improving customer service. The current agreement contains an expiration date of December 31, 2019.

Alternatives for Consideration – See page 10

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The \$400 K annual incremental cost related to monthly meter reading, postage and bill processing is expected to be offset by improved cash flow yielding increased investment returns. Additionally, the increased billing frequency should alert customers to leaking plumbing issues resulting in decreased credit adjustments under the City's Water Leak Adjustment Policy.

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Staffing: No impact to City staffing levels is expected with the recommended change to the water and wastewater / storm billing frequency.

Legal: The City will need to enter into an Amending Agreement to reflect the changed rates and fees related to monthly billing for all of the City's water customers.

HISTORICAL BACKGROUND

In 2001, Council approved the convergence of water / wastewater billings and collections with Hamilton Hydro, now Horizon Utilities Corporation (Horizon) in order to provide administrative savings to customers (refer to Report FCS01021). At that time, customers were billed on a quarterly basis, with the exception of large industrial customers who were billed monthly. The quarterly billed customers were subsequently shifted to match the bi-monthly electric billing cycle. The billing of electricity with water and wastewater / storm charges on a converged invoice results in a convenient one-bill solution for most customers. It should be noted that over 25,000 customers receive a stand-alone water invoice primarily due to locations located within the City of Hamilton that are not within the Horizon electric service territory and are provided electric service from Hydro One.

The Ontario Energy Board (OEB) has mandated that all electricity accounts shall be billed on a monthly basis effective December 31, 2016. Horizon delayed its implementation of monthly billing due to on-going merger considerations and, in consultation with the OEB, is now planning to implement monthly billing for all customers in Q2 of 2017.

As Horizon bills water and wastewater / storm customers on behalf of the City, generally on the same bills as electricity, the City's customers are impacted by this mandated change. Presently, Horizon bills nearly 148,000 City customers consisting of residential, multi-residential, and industrial / commercial / institutional (ICI) accounts for water and wastewater / storm services.

Table 1 to Report FCS16092 reflects that currently, most (93%) of customers are billed bi-monthly and usually larger customers are billed monthly. Typically, where a residential customer has electric heating the account is currently on a monthly bill cycle with the related water account following suit. Bi-monthly billing occurs in a billing cycle which approximates two months of consumption depending on the number of days in the billing cycle.

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TABLE 1

Customer Type	Monthly Billing (# acc'ts)	Bi-monthly Billing (# of acc'ts)
Residential	2,200	135,000
ICI & Multi-Residential	8,500	2,100

During 2011 Rate Budget deliberations, the issue of customer budgeting for water billings was discussed, specifically that paying bi-monthly bills can become problematic for vulnerable customers on a fixed income including senior citizens. Contributing to the budgeting challenge can be higher than average bills due to seasonal variations in usage and other changes that may affect a customer's consumption from month-to-month.

The subsequent Information Update provided by staff, noted that Horizon does offer an optional Equal Payment Plan (EPP) that provides a practical, cost-free tool to assist water and wastewater / storm customers to manage their bills. EPPs allow customers to budget for an equal monthly payment so that a fixed amount is automatically withdrawn from the customer's bank account on or after the monthly withdrawal date. The EPP is available to all current customers regardless if their electric service is provided by Horizon or not. However, Horizon electric customers who choose the EPP option will also have the EPP applied for their water and wastewater / storm billings. There are nearly 10,000 water and wastewater / storm customers currently on the EPP representing an increase of EPP water customers of approximately 35% over the past five years reflecting increased interest from customers trying to manage their month-to-month finances. Consideration to have water billing on a monthly cycle with electric remaining on a bi-monthly cycle was not recommended at the time as this would have separated the converged invoice that has provided a convenient one-bill solution for most customers over the past 15 years.

The OEB mandate for all electric accounts to be billed on a monthly cycle now presents the opportunity for the City to reconsider changing the billing frequency for its water customers who currently are on a bi-monthly billing cycle.

RELEVANT CONSULTATION

Horizon has identified costs and other considerations for the water billing frequency options for Council's consideration.

Public Works – Hamilton Water Division was consulted and supports this Report's recommendation to move to a monthly billing cycle for all customers.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Similar to Hamilton, a number of water utilities in Ontario have engaged the local electric utility to provide water meter reading, billing and customer support services and as such, are considering moving to a monthly water billing cycle. A number of factors influence these considerations including cost, customer service and the impact on the utility's working capital.

In conjunction with Horizon, the City has considered various options relating to water and wastewater / storm billings with the objective to ensure that the recommended option would be the most beneficial to the customers and would result in, at most, a minimal cost increase.

A number of municipalities across Ontario have engaged with local electric distribution companies to provide meter reading, billing and other related water / wastewater customer services. Table 2 to Report FCS16092 reflects that municipalities have varied in their water billing frequency preference with the change to monthly electric billing.

TABLE 2

Water Bill Frequency	London	Guelph	Sudbury	Kingston	Halton	Markham
Bi-monthly (no change)					X	X
Mthly with Actuals	X	X				
Mthly with Estimates			X	X		

The City of Toronto has nearly completed the installation of automated meter reading equipment and has now considered the possibility of moving towards monthly utility billings. In 2015, Toronto Council approved undertaking a pilot project for customers to elect to receive monthly billings, conditional on the requesting customer to enrol for both electronic billing and pre-authorized payments (automatic payment withdrawals from customers' bank accounts).

In general terms, monthly water billing provides the following benefits:

- Improved ability for customers to develop and manage budgets through smaller, more affordable amounts;
- Improved customer understanding of water use and related costs;
- Improved feedback for customers on the impacts of their conservation and efficiency efforts;
- Monthly billings could alert customers sooner to high water consumption due to leaking fixtures or plumbing, or other changes in consumption;
- Monthly billings may reduce large fluctuations in consecutive billings that arise due to seasonal changes in water consumption patterns;
- More timely resolution of abnormal and estimated bills;

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- Aligns billing frequency with other utility bills such as gas, telephone, cable;
- The continuation of a simple, consistent, and cost-effective bill for electricity, water, and wastewater customers in Hamilton;
- Improved cash flow for the City as payments will be received more frequently;
- City will have more accurate information to prepare revenue projections and probable improvements related to year-end accounting.

In 2014, the American Water Works Association (AWWA) published a study, “*Thinking Outside the Bill: A Utility’s Manager’s Guide to Assisting Low-Income Water Customers*” among other changes, a utility can have a significant impact on low-income customers by adopting monthly billing. The study noted that it can be very difficult for low- or fixed-income customers to ensure they have sufficient funds set aside to pay water bills that are issued bi-monthly or quarterly. These customers often find it easier to budget for and pay bills that occur at the same time each month. A further observation is that the use of monthly billing for low- and fixed-income customers may reduce the utility’s collection costs, representing a partial offset to increased billing costs.

A transition to monthly billing for the City would result in additional costs primarily as a result of the meter reading expenditure from reading the meters twice as often and the increased postage expense. The benefits of a converged electricity and water / wastewater invoice remain. The incremental annual cost impact for the City estimated by Horizon of \$400 K will be offset by increased investment returns. One-time expenditures related to transitioning to monthly billing such as programming, communication and legal costs will be absorbed by Horizon who will incur these as a result of the OEB mandate for monthly electric billing.

Table 3 to Report FCS16092 reflects that Horizon continues to be an effective low cost service provider for the City as the incremental costs identified by Horizon for monthly water billing on a per customer basis compares favourably to other municipalities that have provided their related costs in public reports.

TABLE 3

Municipality	# of Bi-Monthly Customers	Monthly Billing Incremental Cost	Incremental Cost per Customer
Sudbury	47,830	\$ 418,000	\$ 8.74
Guelph	34,000	\$ 230,000	\$ 6.77
Hamilton	137,100	\$ 400,000	\$ 2.92

The increased cost for monthly water billing as noted above will not be absorbed by Hamilton water customers as these costs are expected to be fully offset by the following improvements and reductions:

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- Improved cash flow generating increased investment returns;
- Reductions to customer accounts in arrears;
- Reduced write-offs or adjustments of high water balances resulting from leakages which are identified sooner;
- Efficiencies gained in staff time currently required to manage follow up related to high water use and estimated reads; and,
- Efficiencies in communications costs required to explain complex billing.

These offsetting efficiencies are an important consideration that in conjunction with the overall benefits of the move to monthly billing results in the recommendation of Report FCS16092 for Council to approve the billing frequency change to monthly for all customers of municipal water and wastewater / storm services.

Horizon offers a variety of payment options tailored to each customer's unique needs. Customer payment options include:

- Automatic pre-authorized payment plan – approximately 37,600 customers currently participate
- Equal monthly payment plans (for pre-authorized payment plan customers) – nearly 10,000 customers enrolled
- Via cheque or money order by mail or in the drop box at 55 John Street North in Hamilton
- Cheque, money order, or bank withdrawal from most financial institutions
- Telephone banking
- Internet banking
- Credit Card Payment (with a User Convenience Fee)

Customers will continue to be encouraged to save time and money with the available electronic payment options listed above. Additionally, available e-billing options will be further promoted to customers. To date, almost 4,100 customers with water billings have registered for Canada Post's epost™ paperless bill statement and no longer receive a paper invoice. Another 14,000 customers have selected to receive their invoice via email from Horizon.

Recommendation "b" to Report FCS16092 reflects that the current service agreement between the City and Horizon will need to be amended to reflect revised rates for the change to monthly billing for all of the City's water customers. The City's objectives in its relationship with Horizon continue to be focused on minimizing service costs and improving the customer service. The current agreement contains an expiration date of December 31, 2019.

Horizon is working on a billing change communication strategy to inform all bi-monthly billed customers of the changes expected in Q2 of 2017.

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ALTERNATIVES FOR CONSIDERATION

Alternative 1: Estimate and bill water consumption the first month along with the fixed service charges and read and bill actual consumption and fixed service charges the following month

- Under this scenario the existing bi-monthly meter reading schedule continues with estimated consumption in the alternate month, using established estimation programming. Estimated billings do occur for a variety of reasons where a meter read is not obtained with the current volume of estimates being significant at just under 5% of readings with over 950,000 meter readings occurring annually. Regardless of estimation alignment to actual meter reads, customers often do not accept the validity of estimated reads. City and Horizon staff have concerns that the cycling between actual and estimated billings would confuse customers and ultimately led to increased customer dissatisfaction. This option would result in the need for additional costly customer service support staff to resolve increased billing confusion and high bills resulting from inaccurate estimates. As such, due to the volume of customer issues related to estimates and the reputational impacts to both Horizon and the City, this option is not recommended.

Alternative 2: Bill fixed service charges monthly and record zero water consumption every second bill. Actual consumption for two months would be billed every second month.

- This alternative would provide a quasi-monthly water billing to customers by charging monthly fixed charges and bi-monthly usage charge based on actual meter reads. Similar to the previous alternative, there is an expectation that this scenario would lead to increased call volumes and decreased customer satisfaction. Due to the anticipated customer confusion and related increased customer escalations, this option is not recommended.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement & Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Clean and Green

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Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

N / A

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