



Corporate

 NO: R108

Report

 COUNCIL DATE: June 10, 2002

REGULAR COUNCIL			
TO:	Mayor & Council	DATE:	June 5, 2002
FROM:	General Manager, Engineering	FILE:	1200-241
SUBJECT:	Residential Water Metering Program		

RECOMMENDATION

1. That Council approve an agreement with Sher-Dan Holdings Ltd. to deliver the City's Residential Water Metering Program for a maximum amount of \$3,210,000 per year (including GST) over three years, subject to the signing of the Agreement for the funding with the Provincial Government under the Canada/B.C. Infrastructure Program; and
2. That Council approve amendments to Surrey Waterworks Regulation By-law, 1969, No. 2932, such that subscribers to the Residential Water Metering Program be offered a one-time credit equal to the difference between their bill for the first 12 months of consumption subsequent to meter installation and what they would have paid as a flat rate customer, subject to the conditions as listed in this report; and
3. That Council approve an amendment to Surrey Plumbing By-law, 1981, No. 6569 to exempt work required under the City's Residential Water Meter Program from the requirement for a Plumbing Permit; and
4. That the City Clerk be authorized to bring forward the amended By-laws for the required readings.

INTENT

To seek Council's approval of an agreement with Sher-Dan Holdings Ltd. for the delivery of the City's Residential Water Metering Program.

BACKGROUND

In July of 2000, Council endorsed an implementation strategy for metering residential properties (Corporate Report R161). The Residential Water Metering Program will start as a voluntary program to attract early-adopters and those that stand to gain financially from pay-by-flow rates.

There are a number of advantages to a voluntary program. It raises the profile of water metering and leads to enhanced public relations. In a positive manner, it brings customers over to user-pay billing and avoids the need for the City to determine the timing for when particular properties get metered. Once established, the metering program can be changed, at Council's discretion, to a mandatory program to complete the metering of all water utility customers.

In 2000, staff prepared a request for proposals (RFP) to deliver a voluntary residential metering program for the City. Over and above the supply and installation of meters, there are a number of unique components to this program.

- The onus for marketing the program rests with the contractor; hence they have a higher stake in the success of the project.
- The contract has a penalty and bonus provision. If targets are not achieved, the proponent takes on more risk.
- Proponents needed to demonstrate their ability to assist the City with rate design to increase the attractiveness of the program to customers.

Only two proponents submitted proposals, namely:

- BCG Services Inc., which is a non-regulated subsidiary of B.C. Gas Inc.
- Schlumberger Ltd. which is an international resource management company.

A team of City staff from Engineering and Finance Departments evaluated the proposals. A copy of the RFP, the proposals and the evaluation report are available in the Engineering Department.

BCG Services Inc. were found to be the preferred proponent and in February 2001, Council authorized staff to negotiate an operating agreement with them (Corporate Report CC 006). At the same time, the City applied for two-thirds funding for this project under the Canada/B.C. Infrastructure Program.

Effective April 1, 2002, the services division of BCG Services Inc. was transferred to Sher-Dan Holdings Ltd., as part of reorganization within B.C. Gas Inc. Sher-Dan Holdings is a wholly owned subsidiary of B.C. Gas Inc. The financial position of Sher-Dan Holdings has been reviewed and their assets, together with the performance security for the contract, do not raise any concern. Sher-Dan Holdings will operate under the trade name of "BCG Services".

DISCUSSION

Through the second quarter of 2001, staff negotiated an agreement with BCG Services Inc. By July 2001, agreement had been reached substantially on the content and form of the agreement. The agreement and a report to Council authorizing staff to proceed with the program were put on hold pending announcement of success or failure in receiving cost-sharing under the Infrastructure Program. This Program disqualifies projects that proceed ahead of funding approval.

On May 17, 2002, the Provincial and Federal Government announced that the City's project has received funding under the Infrastructure Program, which will contribute two-thirds of the costs up to \$6.2 million.

The Agreement with Sher-Dan Holdings Ltd. has been finalized and has been vetted by Legal Services. A 3-year contract is proposed as there is significant marketing and other fixed costs in the first year which need to be recaptured over the subsequent 2 years.

Agreement Structure

In addition to the supply and installation of meters, Sher-Dan Holdings Ltd. will be responsible for the marketing of the metering program. The City established a target of 30,000 water meter installations over the next three years, which is approximately 50% of the unmetered residential properties. The contract is structured such that the contractor may only install meters up to a \$3,210,000 (including GST) annual limit. Depending on factors such as meter size and location, the actual number of meters installed may vary from year to year.

Since it is in the City's interest to have as many meters installed as possible under a voluntary program, and the success of such a program depends on the effort spent on marketing, the negotiated agreement features a bonus and penalty provision, where the contractor benefits financially as they attract more residents to the program, as shown in the rate structure below. The average cost to install a meter under this agreement is \$300. Therefore, the contractor will recover less cost from the City as a penalty if less than 15,000 meters are installed; conversely, if over 15,000 are installed they will receive a bonus as shown in the table.

	First 5,000 meters	5,001 to 10,000 meters	10,001 to 15,000 meters	15,001 to 20,000 meters	20,001 to 25,000 meters	25,001 to 30,000 meters
Average Cost per meter	\$ 260	\$ 280	\$ 290	\$ 300	\$ 310	\$ 320

After each year, both parties will jointly evaluate the success of the voluntary program. If results are below targets to achieve 30,000 meters over three years, then there is a provision in the contract to convert to a mandatory metering program. This conversion would be at the City's option and the contract value per meter would revert to a flat rate. Under a mandatory program, there would be additional costs for public awareness and education programs; the average combined rate would be approximately \$270 per meter installed.

One-Time Incentive

As one of the benefits to attract residents to the Residential Water Metering Program, BCG Services Inc. recommends that the City offer volunteer home owners a one-time incentive to give home owners time to adjust their water-use habits, should they exceed what they would have paid as a flat-rate customer subject to the following conditions.

- Metered bill exceeds the flat rate.
- The adjustment is made only at the request of the customer.
- The difference must be more than \$25.
- It does not apply if there has been a change of ownership.
- It applies only to single-family dwellings.
- It must be claimed within 15 months of volunteering for a meter.

To implement this incentive program, a By-law amendment is required. The City will require the adjustment application in writing as well as a copy of the customer's first three bills (i.e. one year's worth of billings) subsequent to the meter installation. The City will then calculate the customer's consumption over a period of 1 year from the date of meter installation. If the difference between the amount calculated and the flat rate charge at the date of installation is greater than \$25, the City will apply a credit to the customer's account on the next billing.

Plumbing Permit

The primary purpose for requiring a Plumbing Permit is so that the City is informed about what work is being done within the City, in order that a plumbing inspection may be conducted to ensure proper compliance with the Plumbing Code. The City's water meter program is being managed by the City, and the installations will be handled by a single contractor directly accountable to the City. As such, the City will control where, when, and how the residential meters will be installed and the Building Division of the Planning & Development Department will be informed directly of the installations as they occur so that appropriate plumbing inspections may be conducted, eliminating the need for a Plumbing Permit.

Through consultation with the Building Division of the Planning & Development Department, it is recommended that the installation of water meters under the City's Residential Water Meter Program be exempted from the requirement for a Plumbing Permit as the information required for inspection purposes is in the control of the City.

CONCLUSION

The funding from the Infrastructure Program of two-thirds of the cost of the water metering program represents a significant benefit for the City's water utility and its customers. It will allow the City to pursue Council's objectives for water conservation and pay-by-flow in a very cost-effective manner. Water conservation benefits from metering will, in turn, reduce the City's cost of bulk water purchases and the City's cost for sewage treatment, both of which are charged on a pay-by-flow basis by the GVRD.

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