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Toward Greater Transparency in Water and Sewer Services in Winnipeg

By Will Randall



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Executive summary

Winnipeg City Council proposes a new water-management model for the city. The model creates a municipal corporation owned by the City to deliver water and waste services. The model would include a private partner in delivering waste services, not water, to Winnipeggers.

The public-private partnership is an effective water-management model. Consider the following examples:

- France turned to the private sector for water infrastructure, and satisfaction with water management is high in that country. Ninety per cent of cities that enter a public-private partnership continue the partnership at contract renewal time.
- Government regulation protects water quality. French law operates a user-pay model for water utilities. Ratepayers rather than general taxpayers fund water services in France, and water rates are competitive with other European cities. Leakage, which is the amount of water lost in the pipes before delivery, is lower in Paris than in other European cities with water systems of a similar age.
- Kingston, Ontario, uses a model akin to the one proposed for Winnipeg. Kingston once managed its water utilities as a City department. In 1998, it formed a wholly owned municipal corporation, Utilities Kingston, to act as the water utility. Utilities Kingston has provided the city with cost-effective services while upgrading infrastructure.
- Adelaide, South Australia, retained government ownership of water and sewer infrastructure but contracted the operation of the system to a private firm, which resulted in cost savings.

The benefits of a new water management model are increased transparency, long-term funding for needed infrastructure improvements in a non-political, non-partisan manner, and cost-effectiveness and environmental protection based upon smart usage and smart planning. The Manitoba Public Utilities Board would regulate the proposed corporation's rates in a more transparent process than does the current model. Such rates should encourage the environmentally sustainable use of water, and, overall, a move to such a system in Winnipeg would result in greater transparency, increased cost effectiveness and a more environmentally sustainable water system.

Introduction: The current debate

Soon, Winnipeg City Council will vote on the future of water and waste services for the city and capital region. At issue is the creation of a municipal corporation that would be entirely owned by the people of Winnipeg, and it would manage the current functions of the Winnipeg Water and Waste Department.¹

Water is essential to our existence, so Winnipeggers are naturally concerned about changes to their water supplier. The proposed arm's-length municipal corporation is a sound management model that would not lead to the private ownership of the infrastructure or the water. Under the proposal, the Council would represent the residents of Winnipeg; there would be no out-of-town shareholders.

Each year, the water company would present an annual budget and business plan to the Council for approval. The new organization would be subject to provincial and federal environmental protection laws and water quality standards.

The municipal corporation model would offer Winnipeggers greater access to international expertise, greater transparency in water tariffs and improved environmental sustainability. Cities across Canada and the world have adopted such models to deliver drinking water; the vast majority of those cities retain private water services after 10 years.

Precedents for the proposed model: from France to Ontario

Kingston, Ontario, uses a model similar to the one proposed for Winnipeg. Kingston once managed its water utilities as a City department.² In 1998, it formed a wholly owned municipal corporation, Utilities Kingston, to act as the water utility. Utilities Kingston is accountable to the Kingston City Council but operates at arm's-length from the City Council in everyday operations. This has significant advantages over a City department: ratepayers rather than city taxpayers fund Utilities Kingston. Utilities Kingston complies with relevant water standards, and it is meeting growth requirements on capital provision.

Simply put, when a major utility is within the confines of city hall, the tendency is to keep rates artificially low for political (vote-getting) reasons, while ignoring planning for the future needs of the infrastructure of the utility and the city. Few people understand the state of the city's pipes and water mains below the roads. Thus, the temptation, too often given into, is for civic governments to neglect the future in order to gain support today, by setting artificially low water rates that do not reflect the true costs of maintaining a healthy water-delivery system.

Infrastructure Ontario involved private capital in the construction of a new youth detention centre in Brampton. Private companies built and paid for the facility, and the province pays for the annual use of the facility. During construction, the private developers assumed *all* risk for delays and excess costs. The independent auditor PriceWaterhouseCoopers found that the province saved \$9-million by shifting the risk to other parties, because construction projects are historically delay-prone.¹³

These are the principal reasons continental Europe has gone further than North America in alternative water-management models. For example, in France, municipal corporations have delivered water to cities since the 19th century.³ In the mid-19th century, France turned to the private sector to build city infrastructure, because the government was unable to keep up with growing demand. France settled on a model that it still uses in which the infrastructure is publicly owned, but unlike the proposed Winnipeg model, private corporations control the delivery of water. (The next section will explain in detail how private enterprise can save money for consumers.)

Satisfaction with water management is high in France. Government regulation protects water quality. French law operates on a user-pay model for water utilities. Ratepayers rather than general taxpayers fund water services, and water rates are competitive with other European cities. Leakage, the amount of water lost in the pipes before delivery, is lower in Paris than in other European cities with water systems of a similar age.³

Companies that deliver water in France have become world leaders in water and environmental management. For example, Suez and Veolia are two of the largest water providers in the world. Suez, the company that built the Suez Canal, which connects the Mediterranean and Red seas, manages water systems in many of the world's cities. Although Winnipeg's model does not lead to private ownership or control of the water system, it does provide the possibility of public-private partnership in the construction and operation of the sewer system.

China has gone further than France in embracing private involvement in infrastructure. Private firms own and operate several Chinese water systems. This reflects the view that the private sector is a capable manager of major infrastructure and that the government does not need to involve itself in the day-to-day operation of water systems (or even highways).¹⁴

Public-private partnership model

A public-private partnership (P-3) can be fiscally prudent in long-term infrastructure projects.⁴ A municipal water corporation opens the door for such partnerships with private sector companies even though ownership remains 100 per cent in government hands. About 10 per cent of the world's urban water systems include a P-3, and, generally, there is a high degree of customer satisfaction.³ For example, 90 per cent of cities that engage a private partner continue using a private partner at the time of contract renewal.¹³

Manufacturers pioneered this type of partnership to save on gas and electric bills using energy service companies or ESCOs.⁵ Although arrangements vary, an ESCO will evaluate a facility's energy use and propose energy-saving measures. If the proposals result in savings, the ESCO will profit; otherwise the ESCO will receive little or no payment for services rendered.

Under Manitoba law, water supply and delivery must be owned, controlled and managed publically.⁶ This prohibition does not apply to sewer systems, however. Therefore, the proposed municipal utility corporation would be able to make use of private sector knowledge and capital in waste treatment. A private sector contractor would be able to enter into a long-term contract with a private water-services company to save operating costs related to energy and chemical use.

There are potential savings in operating costs, because 80 per cent of sewer costs are related to operating expenses rather than to capital expenditures. When the private partner achieves gains as per the contract, the partner receives financial reward. Alternatively, the private partner incurs cost penalties when it fails to meet energy savings as per the operating contract with the utility.

The case of Adelaide, South Australia

Adelaide is a city of 1.1 million and is the state capital of South Australia, a dry state known for mineral exploration and wine-making. Adelaide competes with farmers for water from the Murray-Darling River Basin, which supplies water to most of Australia's agricultural sector. To deliver water to Adelaide and make system improvements, the state government entered into a 15-year contract with France's Veolia (Vivendi at the time) in

1995 to manage, operate and maintain Adelaide's water and waste-water system.⁷ The infrastructure, billing, and water remained in public ownership.⁸ Operating in Adelaide as United Water, Veolia has met the performance targets set in the water-management contract. As the contract ends, the state government and Veolia are at odds over billing issues, but Veolia has successfully met performance targets while cutting operational costs.⁹

The case of Indianapolis, Indiana

Indianapolis, Indiana, is an example of a city that has had a successful relationship with a private water-services corporation. For most of its history, a private company provided water to residents of Indianapolis. In 2002, the City Council purchased the 133-year-old Indianapolis Water Company, and after a competitive bidding process, it leased the operation to private companies.¹⁰ Veolia won the competition. Today, the City asserts that the major upgrades the system requires

are best funded through a P-3 model rather than by City expenditures. As well, the City budget is insufficient to upgrade the system. The public-private partnership model will protect consumers from seeing rate increases in excess of 100 per cent for water and 400 per cent for sewer services. The City is in the bidding process for private partners to participate in the operation of the improved infrastructure under a contract that would give the City greater oversight of the utility.¹¹

Why P-3s end

It is important to understand why cities choose to end P-3 water systems. For example, the City of Atlanta ended its P-3 with United Water in 2003 after only four years.¹² During the initial bidding process in 1999, Atlanta and United Water underestimated the amount of work the system needed to meet demand and to comply with regulatory standards. Atlanta's water infrastructure dates back to 1875, and United Water found that Atlanta's water system was in such poor condition that it required far more work than initially thought. United Water could not break even in its US\$21-million per year contract and requested greater compensation from the City.

The City demanded concessions and placed conditions on United Water's performance, and, eventually, the City broke the contract even though water quality had improved overall. Nevertheless, the City's costs fell by US\$18-million during the United Water contract. United Water and the City should

have planned for greater infrastructure costs, *precisely because previous officials had not invested in the water system—a chronic problem in City-operated water systems*—and the water company underestimated how neglected the system was.

Winnipeg is far different from Atlanta in population size, growth, kilometres of pipe and system age. However, the lesson from Atlanta for Winnipeg is that a P-3 model can save money for ratepayers when the parties have accurate information. Both Atlanta and Indianapolis failed, on occasion, to oversee the operations of the private partner.^{12, 13} Smarter regulation of the entity and communication between stakeholders would have gone far in preventing the breakdown of the contractual relationship.

Atlanta and Indianapolis found that the P-3 model results in cost savings. Winnipeg can find similar savings if it chooses to retain a private partner in the operation of its sewer system.

Increased transparency

The Winnipeg City Council sets the rates consumers pay for their water and sewer services. As with any council decision, setting rates is subject to short-term political considerations rather than to the long-term viability of the water and sewer systems.

The proposed municipal water corporation would move away from a politicized rate-setting process.¹⁴ Councillors would not set water rates; instead, the Manitoba Public Utilities Board would set water and waste rates in Winnipeg. In Canada, bodies such as the Public Utilities Board have a long history of rate-setting in the public interest to ensure stable, fair utility rates. This is not new. Winnipeggers are accustomed to the Public Utilities Board because it sets insurance rates at Manitoba Public Insurance (MPI) and Manitoba Hydro as well as the water rates in every Manitoba community except Winnipeg.¹⁵ When a service has a monopoly in the market, such as MPI's for public auto insurance, the role of the Public Utilities Board is to protect consumers from unfair rates.

The Board would provide the same level of protection to Winnipeg's water consumers as it does to MPI customers.

The Public Utilities Board is a quasi-judicial body that makes independent, unbiased decisions, gathers evidence and hears testimony. Its processes are cheaper and more accessible than are those in a court of law. Citizens can navigate the process without a lawyer, and decisions can be appealed to a court of law.

In the rate-making process, the Public Utilities Board would ensure consumers of water and sewer services bear the costs of their usage. Non-users of the services, such as taxpayers through property or income tax, would not subsidize water use. Therefore, water rates would reflect the actual cost of water and sewer services. Consumers would be able to adjust their water use according to the true value of the services. Without subsidization, water rates should affect a decrease in water use. This would reduce pressure on the water supply and lead to greater water consciousness on the part of consumers.

Conclusion

A municipal water corporation leads to greater transparency, environmental protection and the use of international expertise. Private partners are useful for sharing the risks associated with infrastructure operations and construction, but in Winnipeg's case, it will not lead to private ownership or control of the system. Oversight by the Public Utilities Board would lead to greater transparency in water and sewer rate-making. The non-subsidized structure of the pricing system would result in water prices being a great reflection of the real value of water. The move to a municipal water corporation would be positive for Winnipeggers.

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Further Reading



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Michael Donison

<http://www.fcpp.org/publication.php/2694>

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