



Infrastructure Deficit and Water Opportunities

Charles Keizer

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- **This is a long standing problem governed by an “out of sight out of mind” approach that enabled the deferral of maintenance and reinvestment for the sake of competing government demands. There are a number of estimates as to the size of the problem. One common characteristic, the estimates are all large.**
- **Required upgrades to existing water and waste water infrastructure across Canada have been estimated to be \$88.5 billion**

- **The deficit related to water supply, waste water and storm sewer systems in Canada was estimated at \$31 billion for the existing capital stock and an additional \$56 billion for new investments**
- **Based on the 2005 Swain Report, between 2005 and 2015, Ontario's water infrastructure was estimated to require \$30-40 billion for capital renewal, deferred maintenance and future growth**

- **The National Round Table on the Environment and the Economy stated in 1996:**
 - “By ignoring this need for the last 15 to 20 years, governments have exacerbated the situation since repair bills rise exponentially over time.”
- **At that time the estimate for water and waste water needs across Canada was in the range of \$38-49 billion. New capital demands for water and waste water were expected to exceed \$41 billion by 2015**

The Swain Report and the Current State of Ontario's Water Infrastructure

- **Swain Report (May 2005) focused on how to implement O'Connor Walkerton Inquiry recommendations**
- **Swain Report concluded that several initiatives were required to improve Ontario infrastructure:**
 - > Scale and capacity of the water and wastewater systems must be increased
 - > Governance must be strong and effective

The Swain Report and the Current State of Ontario's Water Infrastructure...*cont'd*

- > Regulation should focus on providing safe, affordable water services, with as light-handed regulation as possible
- > Innovations in technology and training should be used to reduce costs

- **The political momentum for water infrastructure spending waned in the mid-2000s**
 - > has not historically been among the short-term priorities of municipal governments
 - > many municipalities have little understanding of the future capital maintenance requirements for water infrastructure
 - > agencies fear public backlash if facilities not well managed

- **However, momentum is returning**
 - > After initial fears, aggressive infrastructure spending became (and still is) a favored response to recession
 - > Province started with renewable energy; could look to other sectors ...

- ***Proposed Water Opportunities and Water Conservation Act, 2010***
 - > Purposes: to help foster creation and export of innovative clean water technology, to prove water conservation, to attract economic development and to create jobs
 - > Would create the Water Technology Acceleration Project to help bring new innovative water solutions and technology developed in Ontario to the market
 - > A new Ontario Small Waterworks Assistance Program would provide capital funding to assist small communities in improving water and wastewater systems

- **Shortages of municipal capital, rising maintenance costs for aging facilities and more stringent environmental standards have led governments to explore private financing**
- **PPPs becoming more common:**
 - > typically, private sector operator is contracted to design, build, finance and operate the facilities, with government paying costs and return on investment
- **Various countries have used concessions, leases and management contracts with private firms to incentivize private investment in the water sector**

- **These include:**
 - > mid to long-term O&M agreements
 - > Design/Build and O&M Contracts
 - > Design/Build, Finance, O&M Agreements
 - > Concession Agreements – e.g., a long-term lease of a public asset by a private entity for up front fee or payment over time in return for setting rates within certain parameters cover return, maintenance and capital cost for which private entity chooses and is responsible

- **Governments increasingly aware of advantages of this approach**
 - > easier to obtain financing for utility if lenders see it managed by credible commercial firms
 - > competition for service contracts can promote innovation and cost control
 - > private firms have expertise to make more accurate predictions of service demands
 - > engagement of multiple service providers can create operational efficiencies
 - > allows private sector to bear the investment risk

- **At the heart of the issue there are two key elements to correcting the deficit:**
 - > the price for water services has to be right
 - > the funding model must be able to work within the public ownership paradigm

- **Pricing that does not reflect full cost user pay has led to excess use, strategies in funding and delayed innovative environmental technologies to foster conservation**
- **Combined with the right financing vehicle, full cost pricing can facilitate needed capital**

- **In Ontario particularly, giving up government ownership and control will be difficult - for perceived safety reasons and because of sensitivity related to utility rates**
- **However, unless the investment gap can be closed, conditions will deteriorate further.**



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