Subject: Water Heater Rental Service – Business Wind Down Strategy
Report Number: HYD 20-01
Author: Ian McKenzie, Hydro Operations General Manager
Meeting Type: Council Meeting
Meeting Date: Monday, January 20, 2020

RECOMMENDATION
THAT Council receives Report HYD 20-01 for information;

AND THAT Council direct staff to wind down the Water Heater Rental business and cease installations of new water heaters.

BACKGROUND
As follow-up to report HYD 19-01, provided to Council on December 10, 2019, this report outlines an exit strategy to wind down the Water Heater Rental program operated by the Town of Tillsonburg.

As previously discussed, revenue stream and profit provided to the Town associated with the Water Heater Rental program is being outweighed by the liability associated with the Town’s aging water heater tank inventory, both from a replacement and property damage perspective. The previous report HYD 19-01 discussed the case law and liability associated with a failure of the tank and replacement cost for the 176 tanks that are at or beyond the industry average useful life of the assets.

As the Water Heater Program has been proven to not be financial viable, Staff are recommending that the Water Heater Program be stopped immediately. As with any business decision the communication strategy and interactions with customer must be managed.

Council requested exit strategy options be developed and provided for consideration to assist with the determination of the future viability of the Water Heater Rental program. Staff have developed the following strategy and discussed legal issues with Legal Counsel.

Staff are providing 2 options identified below.
1. Exit Strategy

- Ownership of Water Heater Tank transferred to resident at a value based on following tables utilizing the currently applied rental rate (requires customer acceptance for 2015 – 2020 rental units)
- Date of March 1, 2020 to be utilized for ownership transfer
- Ownership and associated liability would transfer at March 1, 2020
- No new contracts to be permitted

<table>
<thead>
<tr>
<th>Installed Year</th>
<th>Buy-out Equal to Equivalent Months Rental Agreement</th>
<th>Estimate Based on 2019 Rates and Fees By-law</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>40 Gal</td>
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<tr>
<td>pre-2015</td>
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<td>2015</td>
<td>2</td>
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<td>2016</td>
<td>4</td>
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<td>2017</td>
<td>6</td>
<td>$ 66</td>
</tr>
<tr>
<td>2018</td>
<td>9</td>
<td>$ 99</td>
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<tr>
<td>2019/2020</td>
<td>12</td>
<td>$ 132</td>
</tr>
</tbody>
</table>

2. Status Quo

- Continue Water Heater Rental Program
- Raise rates during 2021 budget discussion to market rates (approximately $15 per tank)
- Market service to Town residents to increase customer base to critical mass
- Develop aging tank replacement strategy to minimize future liability

FINANCIAL IMPACT/FUNDING SOURCE

Continue Water Tank Rental Service – risks identified above including liability from failure ($20,000 per claim), capital cost outlay ($176,000 re-investment in current year) and impacts from rental rate increases.

Exit Water Tank Rental Service – loss of contribution to shared expenses of $15,000 for 2021 onward (2020 would drive a minor amount of positive contribution)
COMMUNITY STRATEGIC PLAN (CSP) LINKAGE

1. Excellence in Local Government
   ☒ Demonstrate strong leadership in Town initiatives
   ☐ Streamline communication and effectively collaborate within local government
   ☒ Demonstrate accountability

2. Economic Sustainability
   ☐ Support new and existing businesses and provide a variety of employment opportunities
   ☐ Provide diverse retail services in the downtown core
   ☐ Provide appropriate education and training opportunities in line with Tillsonburg’s economy

3. Demographic Balance
   ☐ Make Tillsonburg an attractive place to live for youth and young professionals
   ☐ Provide opportunities for families to thrive
   ☐ Support the aging population and an active senior citizenship

4. Culture and Community
   ☐ Promote Tillsonburg as a unique and welcoming community
   ☐ Provide a variety of leisure and cultural opportunities to suit all interests
   ☐ Improve mobility and promote environmentally sustainable living

Attachments:

HYD 20-01 Appendix A - Report HYD 19-01 Water Heater Rental Service (December 10, 2019)
Report Approval Details

<table>
<thead>
<tr>
<th>Document Title:</th>
<th>HYD 20-01 Water Heater Exit.docx</th>
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<tbody>
<tr>
<td>Attachments:</td>
<td>- HYD 20-01 Appendix A - Report HYD 19-01.docx</td>
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<td>Final Approval Date:</td>
<td>Jan 22, 2020</td>
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This report and all of its attachments were approved and signed as outlined below:

Kyle Pratt - Jan 22, 2020 - 5:42 AM