Public Utilities Commission of the City of Sault Ste. Marie

Financial Plan for Water Supply Services

Prepared Pursuant to:
Ontario Regulation 453/07
Financial Plan #216-301
October 17, 2025

Contents

Notice to Reader

The Financial Plan outlined in this report represents a forecast of the financial performance of the Public Utilities Commission of the City of Sault Ste. Marie (PUC) under a series of assumptions that are documented within the Plan. The Financial Plan – which has been prepared for the purposes of meeting regulatory requirements established by the Ministry of the Environment, Conservation and Parks and establishing a plan to forecast rates to ensure an annual surplus is available to adequately manage the drinking water assets – does not represent a formal, multi-year budget for water supply services. The approval of operating and capital budgets for water supply services is undertaken as part of PUC's overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of PUC with respect to operating and capital costs, rate increases, as well as from consumption changes and unforeseen revenues and expenses. It is the intention of PUC to adjust the Financial Plan on an annual basis to reflect the most recent budgetary decisions made by PUC and changes in the forecast outlook.

PUC reserves the right (but will be under no obligation) to amend this report and advise accordingly in the event that new material information comes to its attention that may be contrary to or different from that which is set out in this document.

This report, including the attached appendices, must be considered in its entirety by the reader.

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1 Introduction

1.1 Provincial Reporting Requirements

Pursuant to Section 31(1) of the Safe Drinking Water Act, 2002 (the "SDWA"), Provincial licence is required for the operation of municipal drinking water systems in Ontario. In obtaining this licence, the Public Utilities Commission of the City of Sault Ste. Marie ("PUC") is required to meet five conditions under Section 44(1) of the SDWA, including the preparation of a financial plan for the water system. The form and content of financial plans for municipal water systems are prescribed under Ontario Regulation 453/07 (the "Regulation"). Under the terms of the Regulation, PUC is required to prepare a financial plan that:

I. Is approved through a resolution of the Commissioners that indicates that the drinking water system is financially viable
II. Extends over a minimum of six years and includes a statement that the financial impacts of the drinking water system have been considered
III. Includes details of the proposed or projected financial position of the system, itemized by:
    - Total financial assets
    - Total liabilities
    - Net debt
    - Non-financial assets
    - Changes in tangible capital assets
IV. For each year of the financial plan, includes details of the proposed or projected financial operations of the system itemized by:
    - Total revenues, further broken down into water rates, user charges and other revenues
    - Total expenses, further broken down into amortization expenses, interest expenses and other expenses
    - Annual surplus or deficit
    - Accumulated surplus or deficit
V. Details the proposed or projected gross cash receipts and cash payments itemized by:
    - Operating transactions
    - Capital transactions
    - Investing transactions
    - Financing transactions
    - Changes in cash and cash equivalents during the year
    - Cash and cash equivalents at the beginning and end of year

The disclosure requirements prescribed in the Regulation are consistent with the financial statement requirements as outlined in the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants, which comprise:

- A statement of operating results
- A statement of financial position
- A statement of cash flows
- A statement of changes in net financial assets

The Regulation requires a minimum six-year financial plan for water commencing on the date of licence expiry. Accordingly, this Financial Plan for PUC water supply has been prepared to include the budget year 2025 as well as the Financial Plan for the period from 2026 to 2031 in accordance with the Regulation.

In connection with its Financial Plan, PUC is also required to ensure an appropriate level of public communication by:

- Making the Financial Plan available, on request, to members of the public at no charge;
- Making the Financial Plan available to members of the public at no charge through PUC's website; and,
- Providing notice as deemed appropriate to advise the public of the availability of the Financial Plan.

1.2 Financial Plan Methodology

In order to assist municipalities with the preparation of financial plans required under the SDWA, the Ministry of the Environment, Conservation and Parks released a document entitled Toward Financially Sustainable Drinking-Water Systems (the "Ministry Document")[1] that outlines suggested principles of financial sustainability for water systems as well as possible approaches to implementing these principles.

1.2.1 Sustainability Principles

As outlined in the Ministry Document, financial sustainability for water systems is intended to ensure that residents enjoy safe drinking water that is provided on a reliable basis over the long-term in a manner that maintains environmental protection. The attainment of financial sustainability, which the Ministry Document recognizes does not necessarily need to occur immediately but rather can involve a transition, can be supported by the adoption of the following nine principles that can be used to inform financial plans:

1. Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
2. An integrated approach to planning among water, wastewater and storm water systems is desirable given the inherent relationship among these services.
3. Revenues collected for the provision of water supply services should ultimately be used to meet the needs of those services.

[1] Taking Care of Your Drinking Water: A Guide for Members of Municipal Councils

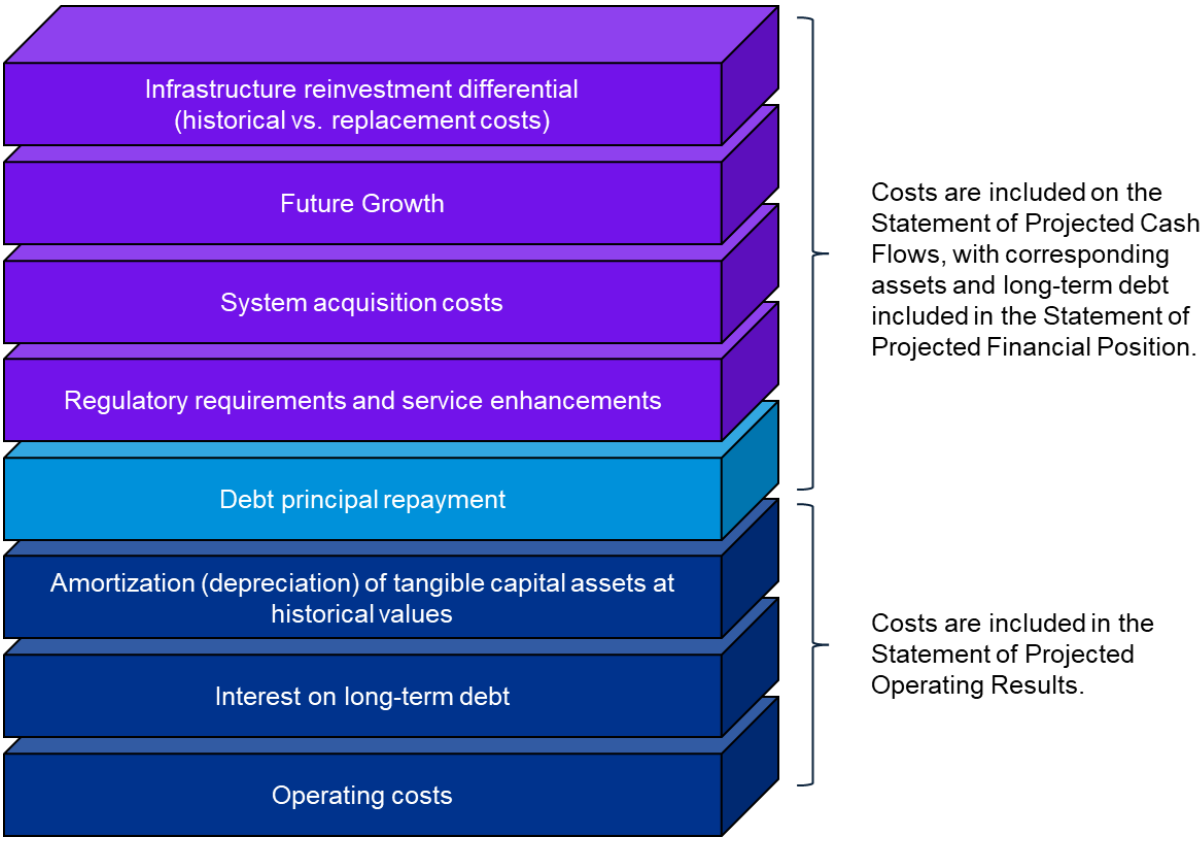
4. Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.
5. An asset management plan is a key input to the development of a financial plan.
6. A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.
7. Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.
8. Financial plans are "living" documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.
9. Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff and the municipal commission.

The Financial Plan developed by PUC embodies each of these principles, as further discussed in the Key Financial Plan Assumptions section of this report.

1.2.2 Approach to the Financial Plan

In developing the Financial Plan, PUC has adopted the "building-block" approach outlined in the Ministry Document, which considers both the current and anticipated operating and capital funding requirements for water supply services. A graphical depiction of the building-block approach utilized in the development of PUC's plan is provided below.

Figure 1: Building-block Approach to Developing the Financial Plan



1.3 Understanding this Plan

PUC developed and published a Water Asset Management Plan (AMP) in 2023 that identifies and quantifies infrastructure requirements over the mid to long term[2]. Asset management helps organizations like PUC plan ahead to achieve full value and useful life of their assets and have the financial resources available to rehabilitate or replace them when necessary. The AMP, in conjunction with PUC's operational expertise and information on asset failure rates, helps to prioritize capital investment by providing a structured approach to managing infrastructure assets and capital funding allocation. The AMP uses asset condition data, risk of failure, and level of service to help prioritize assets for renewal or replacement. By aligning investments with lifecycle costs, risk levels and performance goals, the AMP helps ensure long-term asset sustainability and reliable service.

Water infrastructure operations and capital spending budgets are established and approved by the Board of Directors annually; these plans are aligned with the strategies presented in the AMP.

Based on the 2025 approved budget, this Financial Plan is forward looking and will provide the funding envelope for annual spending (in line with asset rehabilitation/replacement requirements and PUC's target average asset replacement cycle[3]). Both asset management plans and financial plans are intended to be living documents. As the AMP is periodically updated, the Financial Plan should be adjusted to ensure forecasted capital investments based on specific projects for the six-year projection period meet expected levels of service. Future updates of the Financial Plan will reflect projected capital expenditures identified upon completion of the asset management plan for water supply.

The Financial Plan assumes that all funds for capital projects raised through user fees will be expended by PUC in the year that they are collected or held as a reserve to meet future capital spending. The Financial Plan forecasts a steady accumulation of cash for a future capital reserve fund, as discussed further in this report.

[2] PUC Water Asset Management Plan
[3] This is further described in '3.2 Capital Funding Section'

2 Overview of the Sault Ste. Marie Drinking Water System

2.1 Infrastructure

The Sault Ste. Marie Drinking Water System (SSM DWS) serves the City of Sault Ste. Marie and Batchewana First Nation. Recent typical annual water production is in the order of 10 to 12 million cubic metres per year. The table below summarizes the production, reservoir and pump station assets.

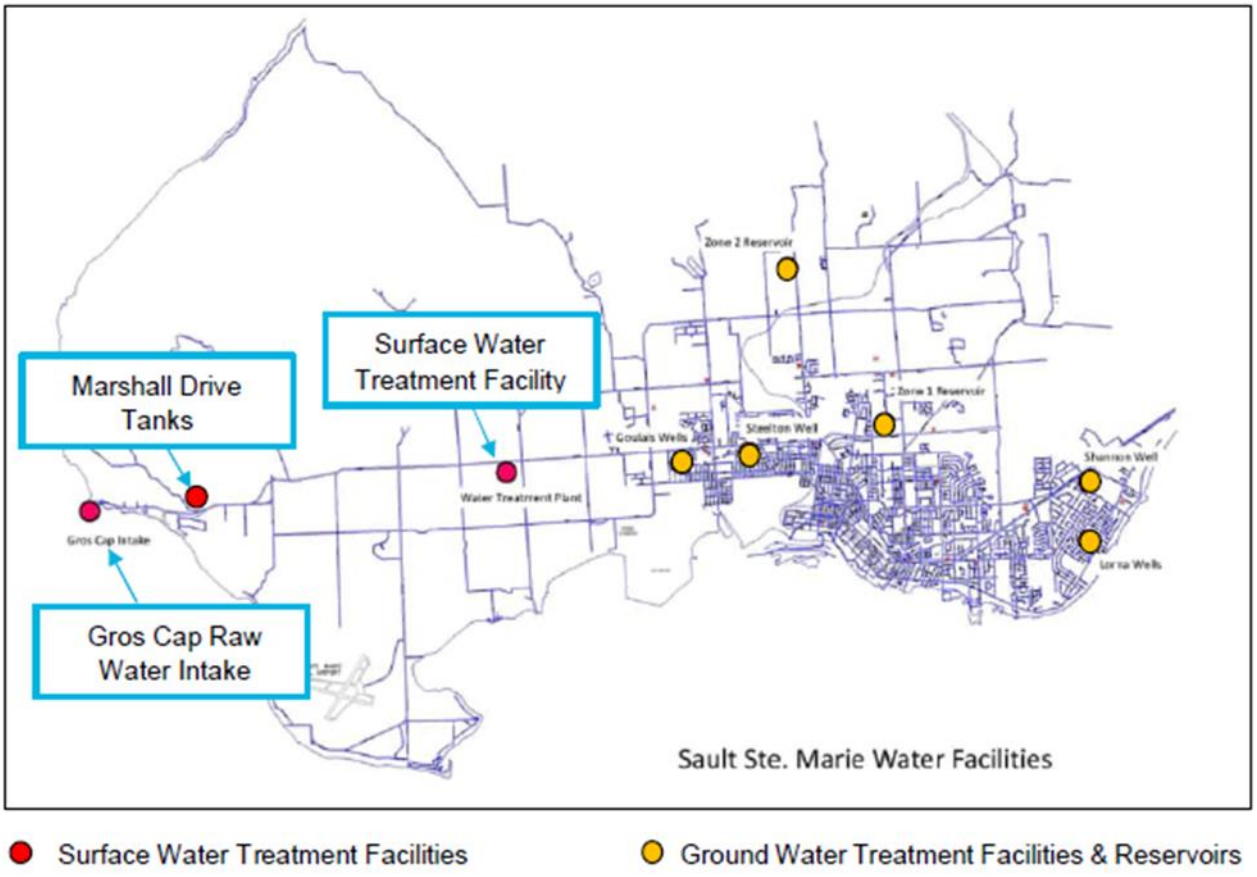
Table 1: City of SSM PUC Drinking Water Assets

Asset	Associated Assets
Water Treatment Plant	• Gros Cap Intake • Gros Cap Pump Station • Marshall Drive Tanks
Goulais Pump Station	• Well #1 • Well #2
Steelton Pump Station	• Steelton Well
Shannon Pump Station	• Shannon Well
Lorna Pump Station	• Well #1 • Well #2
Reservoirs and Booster Stations	• WTP Reservoir • Zone 1 Reservoir / Zone 2 Booster • Zone 2 Reservoir • Coronation Drive Booster Pump Station • Crimson Ridge Booster Pump Station • Peoples Road Booster Pump Station

Sizes of mains vary from 900 mm diameter down to 50 mm diameter to provide a total length of approximately 470 km of distribution mains. Approximate breakdown of major pipe materials includes 51% cast iron, 26% ductile iron, 14% PVC and 9% concrete pressure pipe. Figure 2 illustrates the extents of the drinking water system.

PUC was established over 100 years ago to assume management and operation of the Sault Ste. Marie drinking water and electricity systems previously owned and operated by the Tagona Water and Light Company. The age of the City, historic growth periods and associated construction methods all contribute to the present age distribution of infrastructure. Age alone is not necessarily an indication of whether watermains or other infrastructure must be replaced. PUC considers additional asset information such as condition, water quality and capacity to determine the need for renewal. PUC has adopted a Strategic Asset Management Policy, developed an AMP, and is committed to formal asset management based on asset condition and levels of service.

Figure 2: Sault Ste. Marie Water Facilities Map



2.2 Water Rates

One of the most critical factors in shaping water use is the price. While recovery of the full revenue requirement in a fair and equitable manner is a key objective of a utility using a cost-of-service rate-making process, it is often not the only objective. The following list contains the typical objectives in establishing cost-based rates:

- Effectiveness in yielding total revenue requirements (full cost recovery).
- Revenue stability and predictability.
- Stability and predictability of the rates themselves from unexpected or adverse changes.
- Promotion of efficient resource use (conservation and efficient use).
- Fairness in the apportionment of total costs of service among different ratepayers.

PUC rate structure contains a basic monthly charge (Table 2) and a three-tiered, variable block of rates (Table 3). The monthly charge applies regardless of the amount of water used, reflecting the fact that a portion of the cost to operate the system is fixed.

Table 2: Basic Water Charges (2025)

Size of Service		Basic Charge Per Month
Less than 1-1/2 inch	(37mm)	$39.32
1-1/2 inch	(37mm)	$111.78
2 inches	(50 mm)	$111.78
3 inches	(75 mm)	$150.37
4 inches	(100 mm)	$186.08
6 inches	(150 mm)	$214.50
8 inches	(200 mm)	$276.19
10 inches	(250 mm)	$363.77
12 inches	(300 mm)	$427.86
18 inches	(450 mm)	$640.51

Table 3: Metered Water Rates (2025)

Consumption	2025 Metered Water Rates
≤15 m^3	$0.901/$m^3$
15-250 m^3	$2.68/$m^3$
Over 250 m^3	$2.12/$m^3$

The block structure, as illustrated in Table 3, provides a significant incentive primarily to the residential and small commercial consumer to keep their consumption below 15 m^3/month. Water consumption above that level is roughly three times more expensive. The rate decreases from the second to the third block to account for large water consumers' consumption patterns, recognizing that simply being a large user does not mean they are using water inefficiently. Moreover, large water consumers should not have to carry an unreasonable system cost burden that may affect their competitive position.

2.3 Sustainable Capital Asset Management

To ensure the long-term sustainability of drinking water system assets, PUC reviewed its capital asset management practices to hold its funding for capital expenditures at ~1.3% of the estimated replacement value of water assets. This level of funding was considered necessary to support the continuous replacement and rehabilitation of PUC's water infrastructure at the end of its useful life[4].

[4] In determining the level of capital funding required to achieve sustainability, the financial plan considers a number of factors, including the replacement value and useful lives of PUC's water assets, the potential impacts of growth and regulatory changes on capital investment requirements, the traditional practice of funding some infrastructure-related operating costs through capital envelopes and the potential for grant revenues to offset some portion of capital expenditures. After consideration of these items, the calculated financial requirement for sustainability in the financial plan is 1.3% of the replacement value of tangible capital assets.

PUC has estimated that the replacement value of its water infrastructure is in the order of $916.2 million in 2025; the 75-year replacement target requires a $11.6 million capital funding commitment in 2025. Future forecasted capital funding (beyond 2025) will provide for the replacement of current infrastructure and for maintaining the traditional level of additions, extension and system reliability improvements (see Table 4 in ‘3.2 Capital Funding’ for details).

It should be noted that beyond 2031, PUC anticipates significant capital expenditures related to the replacement of its major water system assets (wells, water production facilities, transmission mains, pumping stations, and reservoirs). To account for this, funds will be diverted to a reserve that can be drawn from in the future to support the eventual replacement of these major water system assets (see section ‘4 Financial Plan Highlights’ for reserve contribution details).

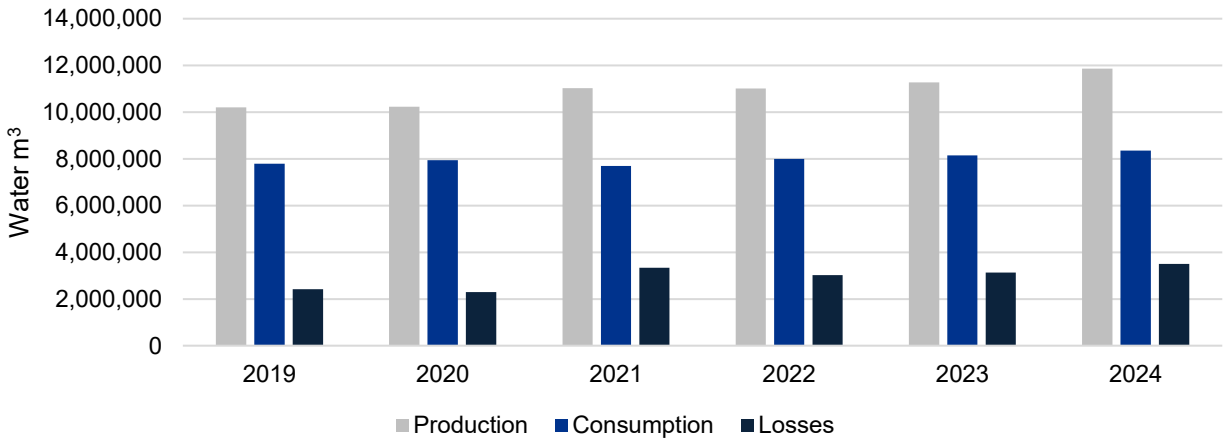
3 Key Financial Plan Assumptions

The preparation of a six-year Financial Plan for water supply necessarily requires the use of assumptions concerning future events. This chapter highlights the key assumptions that have formed the basis of the forecasted financial performance of PUC's water supply.

3.1 Water Production and Sales

Figure 3 illustrates annual drinking water production, consumption, and losses (i.e., non-revenue water) from 2019-2024.

Figure 3: Drinking Water Production, Consumption, and Losses (2019-2024)



Water production during the period saw an increase from ~10 million m^3 to ~12 million m^3 while losses fluctuated between 24-30%. Water consumption/sales are influenced by population and the type of industry in the community. The figure below provides additional detail on water consumption.

Figure 4: Annual Water Sales (m^3 by Customer Type)

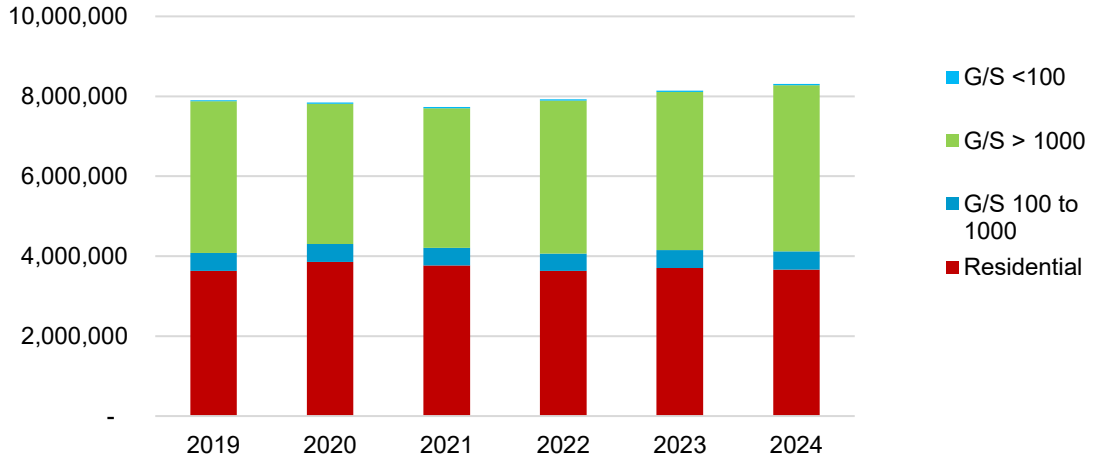


Figure 4 illustrates the combined annual consumption of the four customer billing groups. Approximately half of water use is by residential consumers. The other large consumer comprises industrial entities whose monthly consumption exceeds 1,000 m^3/month (e.g., manufacturing facilities, post-secondary intuitions, school boards, medical offices, etc.),

followed by those with monthly consumption between 100 m^3 and 1,000 m^3 and lastly by commercial customers consuming less than 100 m^3/month.

Since 2019, total water sales have fluctuated between 7.8 million m^3 and 8.4 million m^3. Residential consumers exhibit variable usage depending on summer weather; industrial consumers are impacted by sectoral health and demand. Future consumption (2026-2031) is expected to remain flat and in line with the 2019-2024 period, as PUC's customer base has stabilized and is not expected to grow significantly over the next 6 years[5]. Moreover, as water conservation habits improve and more efficient fixtures and appliances, such as low-flush toilets and efficient washing machines, gain popularity, residential customers are likely to consume less on average. That said, sudden changes to local industrial production could have a significant impact on future sales.

3.2 Capital Funding

The Financial Plan phases in increases to capital funding over a 6-year planning period to a level sufficient to provide for:

- Self-sustained reinvestment in PUC's existing water infrastructure.
- Minimal anticipated growth (e.g., new growth related projects or additional demand) in PUC's water system.
- A provision for future capital needs arising from regulatory changes or unavoidable service level enhancements (i.e., contributing to a reserve fund).

Overall, funding for infrastructure will increase from the 2025 budgeted level of $11.6 million to $13.2 million in 2031, at which point capital expenditures will be approximately 1.3% of the projected replacement value of PUC's water assets (see Table 4). Increases to water rates will cover capital cost increases. This increase will reduce its replacement cycle (i.e., the number of years required to fully replace the system infrastructure) from the 2025 budgeted 79 years to a 75-year replacement cycle.

[5] Consumption projections over the 2026-2031 period were modelled based on an average of the five previous years.

Table 4: Projected Replacement Value of Water Infrastructure and Annual Capital Funding

Year	Replacement Value of Capital Assets (million)	Forecasted Capital Funding (million)	Funding Percentage	Replacement Cycle (in years)[6]
2025	$916.16	$11.60	1.27%	79
2026	$927.77	$11.89	1.28%	78
2027	$939.66	$12.53	1.33%	75
2028	$952.19	$12.70	1.33%	75
2029	$964.88	$12.87	1.33%	75
2030	$977.75	$13.04	1.33%	75
2031	$990.79	$13.21	1.33%	75

The increase in capital spending required to maintain the system is reasonable, especially compared to the significant increase PUC previously expected in the 2019 study. The replacement cycle for infrastructure during the projected period is near or at the target 75 years.

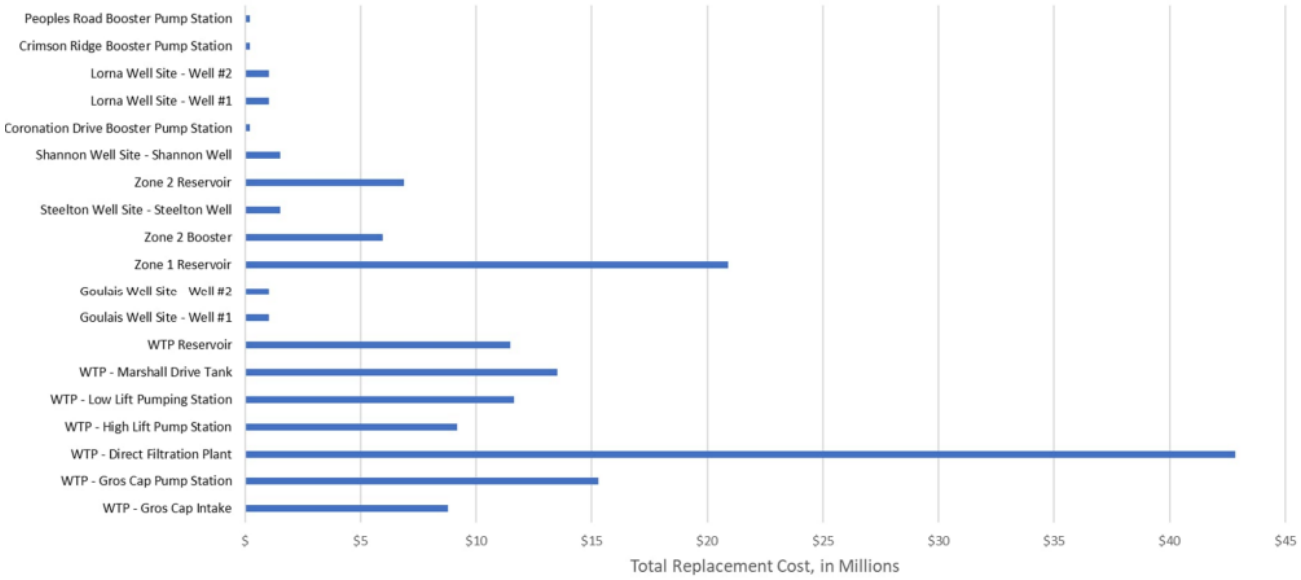
The capital spending plan (for both vertical and linear infrastructure) are based on currently identified needs, best practice asset management planning, and information presented in the AMP.

3.2.1 Vertical Infrastructure Renewal

Vertical infrastructure includes water supply and treatment facilities, pump stations and reservoirs. Projects undertaken to renew vertical infrastructure are driven by factors such as condition and criticality to sustaining or improving service levels consistent with asset management principles. In large facilities such as a water treatment plant, it is typical that various subsystems such as controls, pumps, and motors may be replaced one or more times over the life of the facility. Asset management principles are applied to optimize life-cycle costs relative to the desired service levels. Figure 5 shows the replacement costs of all vertical infrastructure assets. The total replacement cost[7] of all vertical infrastructure assets, in 2020 dollars, is approximately $154 million[8]. These assets are at various stages of life.

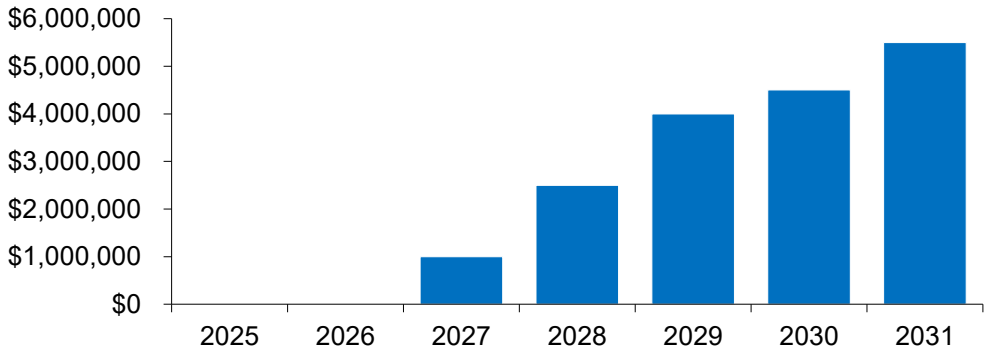
[6] 'Replacement cycle in years' metric is calculated by dividing the total cost of the asset portfolio by the annual capital expenditure, which gives the number of years it would take to fund the replacement from the annual investment alone.
[7] Per PUC Asset Management Plan: Replacement cost refers to the cost to completely replace all the assets to a new condition with a current / similar model of equipment / asset, as applicable. The Replacement Cost would be applicable if PUC were to purchase a similar asset that is currently installed (i.e., a pump) and install it in place of the existing asset
[8] Based on PUC Asset Management Plan

Figure 5: Vertical Asset Replacement Cost by Facility



PUC anticipates significant, future capital requirements related to the replacement of major water system assets (such as the water treatment facility). In anticipation of these types of renewal projects, PUC has committed to contributing excess cash to a reserve fund, with the intention of leveraging funds for future major capital projects (see Figure 6).

Figure 6: Reserve Fund Contribution Schedule (2025-2031)



Some Ontario municipalities have recently recapitalized their water treatment facilities, which can serve as benchmarks for PUC as it considers its own replacement project in the future. The Collingwood and New Tecumseh Water Treatment Plant Expansion has a rated capacity of 59,000 m³/day, with capital costs amounting to $270 million, supported by a $70 million grant from Ontario (estimated completion in 2031). The Carleton Place Water and Wastewater Treatment Plant Expansion has a water capacity of 20,700 m³/day and a wastewater capacity of 10,625 m³/day (estimated completion 2028); project costs are roughly $145 million.

3.2.2 Linear Infrastructure Renewal

PUC's linear infrastructure involves the water distribution system. The bulk of the value of the drinking water system is found in the water distribution system – the system of

watermains, services and hydrants supplying customers in Sault Ste. Marie and Batchewana First Nation. The total estimated replacement value of all linear assets is $788 million (see breakdown by diameter in Figure 7)[9]. These assets are at various stages of life.

Figure 7: Watermain Replacement Cost by Diameter (mm)

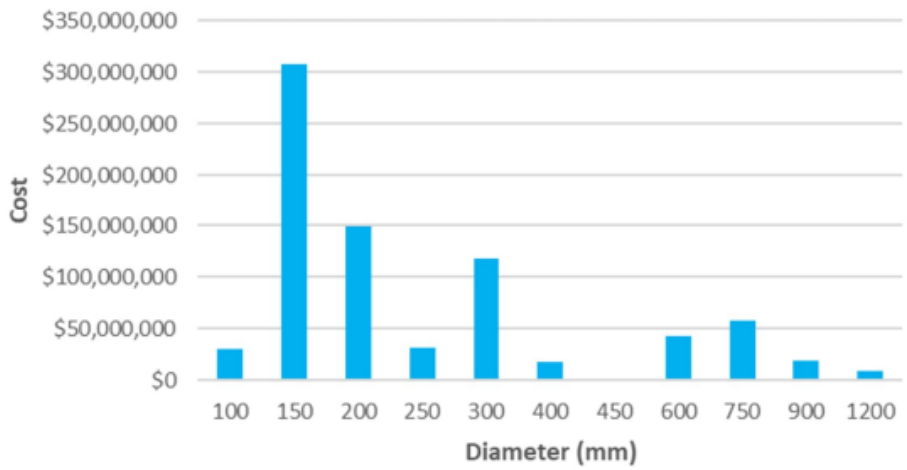
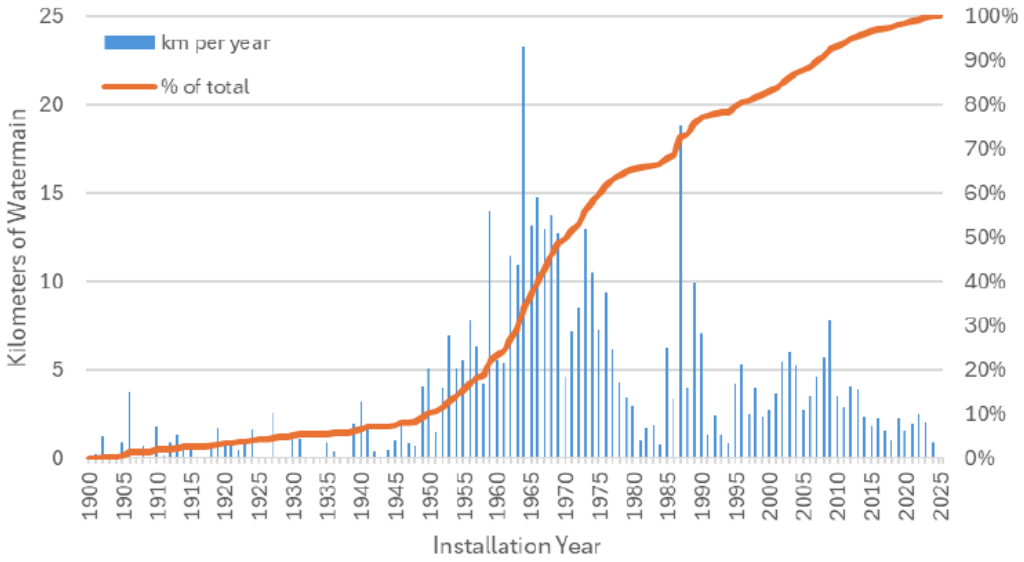


Figure 8 outlines the number of kilometres of watermains in service by construction date and the cumulative age of the distribution system.

Figure 8: PUC Watermain Age Distribution



Expected service life for watermains reported by American Water Works Association, National Research Council of Canada and other authorities typically ranges from approximately 40 to 120 years and is widely reported to be a function of pipe material and installation conditions.

[9] Based on PUC Asset Management Plan

PUC implements five annual programs for the purpose of renewal of the water distribution system. Individual projects are prioritized using asset management planning principles.

3.2.2.1 Coordinated Watermain Reconstruction

PUC collaborates with the City Road Reconstruction Program to most cost-effectively replace watermains in tandem with sewer and road reconstruction projects. Levels of service include minimized costs, less disruption to traffic and residents, improved reliability, capacity and water quality. PUC works with the City to upgrade water infrastructure associated with these roads, where appropriate.

3.2.2.2 PUC Watermain Replacement Program

Watermain breaks affect levels of service for business owners and residents and contribute to variances in operating costs, both for the initial control of water and the pipe repair, and later for road restoration. Watermain breaks also divert resources from capital and operating programs supporting water quality and preventive maintenance. Replacement watermains may be of increased diameter to improve capacity for fire protection. Factors such as watermain condition, lead services and lack of capacity for fire protection on existing watermains make watermain replacement a better value than lining when the City has no foreseeable reconstruction plans. PUC advances projects under this program to sustain continuous improvement in service levels. Watermain breaks are typically budgeted on a rolling 5-year average.

3.2.2.3 Watermain Rehabilitation

Advances in Trenchless Technology have enabled a cost-effective alternative to the replacement of watermain. Trenchless watermain rehabilitation can involve installing non-structural, semi-structural or fully structural linings in existing watermains to extend service life by up to 50 years. Lining may be suitable when there are no foreseeable plans for road reconstruction, there are no known lead service pipes, existing pipe is of adequate capacity and the existing watermain is otherwise adequately installed and not subject to factors such as freezing.

3.2.2.4 Lead Water Service Replacement

Lead water services are known to have been installed in Sault Ste. Marie primarily during the 1940s. PUC replaces lead service pipes in the municipal right of way at no charge to customers and offers interest free loans for customers, replacing lead services on private property. PUC also works with local government and nongovernment organizations to provide other assistance to homeowners, including free point of use filters for lead reduction (supplied by PUC). PUC continues to deliver an annual Lead Service Replacement Program replacing lead services and has included approximately $50,000 annually as part of the capital spending for the replacement of lead service pipes in 2025 for residential customers.

3.2.2.5 Smart Water Meters

Currently, roughly one third of the City's water customers have smart meters installed[10]. PUC's current approach is twofold: to replace old meters during any service or maintenance calls to customers, and further to replace old meters during watermain replacements and rehabilitation projects as well. The goal eventually is to update the entirety of the system with smart meters.

[10] For consumers, benefits include accurate, real-time usage data, lower bills from prompt leak detection and repair, and easy access to consumption information through apps or online portals. For PUC, benefits include improved operational efficiency by eliminating manual readings, better water management, and more accurate, automated billing and revenue collection

3.3 Operating Cost Increases

Planned operating costs are based on the 2025 budget with provisions for future inflationary increases. Additional costs associated with new requirements, including source water protection for water supply, are included in the Financial Plan. Generally, inflation is expected to average 3% per annum for water costs for the forecasted period ended December 31, 2031.

3.4 Possible Impacts to the Plan

In addition to the key assumptions noted above, there are several other variables that are not included in the Financial Plan. In the event that these variables materialize, whether in whole or in part, the potential exists for significant impacts (either positive or negative) on the projected Financial Plan.

Contingencies that were identified but not incorporated into the Financial Plan due to uncertainty as to quantum or probability of occurrence include:

- The acquisition of private water systems currently in operation.
- Potential operating savings resulting from the projected increase in capital spending. For example, the frequency and cost of repairing water main breaks may decrease as capital funding increases and reduces the overall age of the water main system.
- Potential operating savings related to on-going process reviews and technology enhancements.
- Senior government grant revenues for operating and/or capital purposes above the level of grant revenue noted in the Financial Plan.
- Unforeseen capital expenditure projects such as water extensions and development of cost sharing initiatives that exceed the financial resources identified in this plan.
- New Ministry regulations that would have a significant impact on operating costs in excess of cost increases provided for in the Financial Plan.
- Certain economic externalities[11].

[11] This could include significant, unanticipated, and major capital expenditures and economic policies impacting local industrial production, such as tariffs and trade barriers (for example, as of August 2025, the United States had imposed a 50% tariff on steel and aluminium)

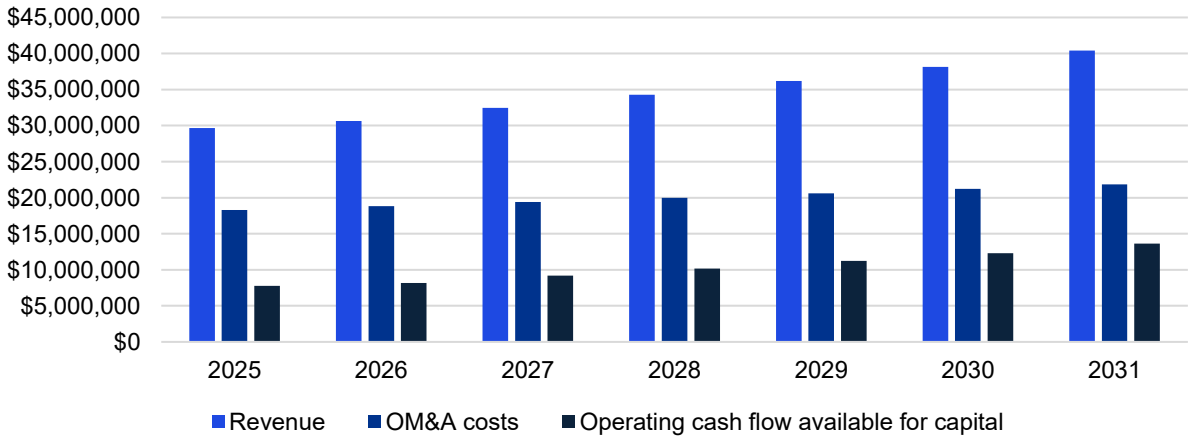
4 Financial Plan Highlights

'Appendix – Financial Plan Schedules for Water Supply Services' includes the consolidated Financial Plan schedules for water supply, which provides a financial forecast of water supply from 2026 to 2031, based on the proposed 2025 budget. The Financial Plan schedules are comprised of:

- A Statement of Projected Financial Position
- A Statement of Projected Operating Results
- A Statement of Cash Flow
- A Statement of Changes in Net Financial Assets

As noted in the Financial Plan, total revenues are projected to increase from the budgeted level of $29.6 million in 2025 to $40.4 million in 2031; this equates to a net operating margin of $7.8 million and $13.7 million in 2025 and 2031, respectively, which can be used for infrastructure renewal and reserve contributions (see Statement of Projected Operating Results and Reserve Fund Contribution Schedule (2025-2031) for details). The level of revenue projected at the end of the forecast period is considered sufficient to attain sustainability (i.e., PUC's 75-year replacement cycle target) of the water supply from a capital reinvestment standpoint (i.e., what is currently scheduled for the period), but, as noted above, significant future capital expenditures are expected.

Figure 9: Projected Revenues, Expenses, and Cash Flow



As summarized in Figure 9, total annual expenditures (excluding debt servicing, noted as 'OM&A' above) are projected to increase from $18.3 million in 2025 to $21.9 million in 2031. Additionally, annual operating costs are projected to increase from $11.2 million in 2025 to $13.4 million in 2031. Working capital is projected at $11.2 million in 2025 and $18.6 million in 2031.

4.1 Projected Water Rates

Water rates are projected to rise 5%, year-on-year, as indicated in Table 5, to reach the funding level necessary to replace capital assets to the level required to achieve sustainability (i.e., not require significant outside funding) and to support PUC's plan to shift

excess funds into a reserve fund that will be used to fund future projects and generate interest.

As indicated in the Introduction, the Financial Plan (which has been prepared for the purposes of meeting regulatory requirements established by the Ministry) does not represent a formal, multi-year budget for water services. The approval of operating and capital budgets for water services is undertaken as part of PUC's overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of PUC with respect to operating and capital costs, rate increases, consumption changes and unforeseen revenues and expenses. It is the intention of PUC to update the Financial Plan on a regular basis to reflect budgetary decisions made by PUC.

Table 5 summarizes the actual variable and fixed residential water rates for 2025 as well as the projected rates for 2026 to 2031. These rates reflect the anticipated total cost of water services, other revenue sources and projected consumption levels, as well as the continuation of PUC's past policy of escalating fixed and variable water rates by the same percentage increase.

Table 5: Projected Residential Water Rates (2025-2031)

Year	Water Rate		Average Annual Residential Consumption[12]	Average Annual Residential Water Cost	Annual Increase
	Variable (per m^3)	Fixed (monthly)			
2025	$0.90	$39.32	14.00 m^3	$623.04	5%
2026	$0.95	$41.29	14.00 m^3	$655.08	5%
2027	$0.99	$43.35	14.00 m^3	$686.52	5%
2028	$1.04	$45.52	14.00 m^3	$720.96	5%
2029	$1.10	$47.79	14.00 m^3	$758.28	5%
2030	$1.15	$50.18	14.00 m^3	$795.36	5%
2031	$1.21	$52.69	14.00 m^3	$835.56	5%

4.2 Comparison to Other Municipalities

In the past, PUC has undertaken a comparison of its water rates against other Ontario municipalities for the purpose of assessing the reasonableness of proposed rate increases. While the preparation of financial plans for water services would appear to afford the opportunity for a detailed comparison of PUC's operations from a financial perspective, the ability to undertake this type of analysis is limited by several factors:

- Municipalities are in different stages with respect to their financial plans, with the timing for completion depending on their specific licensing situation.

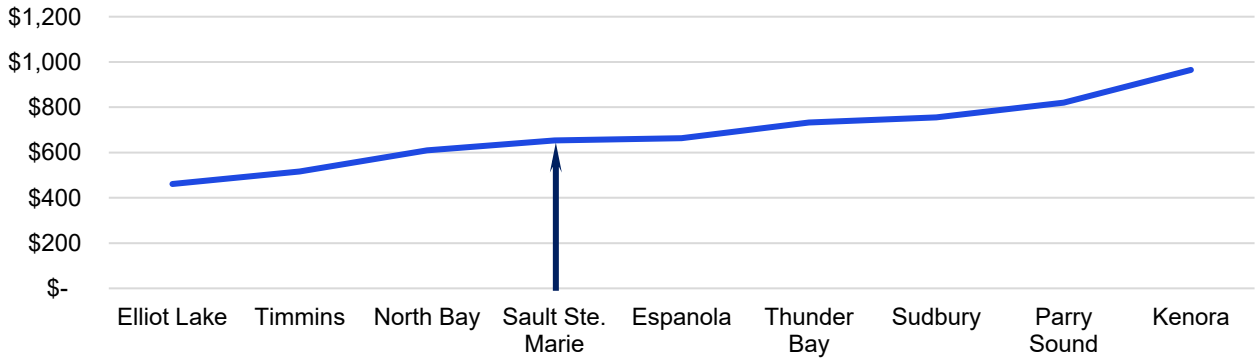
[12] Set at 14 m^3 / month for illustrative purposes

- The Ministry disclosure requirements are relatively high level and as such, municipalities are not required to provide detailed information concerning water rates, consumption levels or operating cost categories.
- The financial plans for municipalities with high rates of population growth do not form reasonable comparisons given significant increases in consumption and capital investment, both of which impact on revenues, rates and operating costs.
- Individual municipalities are subject to differing contexts, including condition and service level provided by their water systems, financial position, and other municipal pressures. As a result, targets and thresholds with respect to financial sustainability could differ substantially.

In light of these factors, the comparison of PUC's Financial Plan is limited to Northern Ontario municipalities or municipalities with similar population growth projections (i.e., minimal growth).

PUC residential customers enjoy lower than average annual water costs ($654 for 200m^3 compared to the provincial average of $683 for 200 m^3), as determined by BMA Management Consulting Inc. in their Municipal Study 2024. As noted in Figure 10, the average 2024 cost to a household in Sault Ste. Marie for water service was on the lower end of the comparator municipalities.

Figure 10: 2024 Actual Water Costs (per Annum Based on 200 m^3 of Consumption)[13]



4.3 Congruence With Sustainability Principles

At the onset of the Financial Plan, the nine sustainability principles developed by the Ministry were outlined. Table 6 provides an indication as to the degree of congruence between PUC's Financial Plan and the guidance provided by the Ministry of Environment, Conservation and Parks.

[13] BMA Municipal Study 2024

Table 6: Congruence with Suggested Sustainability Principles

Principles	How Addressed	Conclusion
1. Public engagement and transparency	• The Financial Plan was presented at a public PUC meeting • Public access to Financial Plan will be provided consistent with the Regulation	Achieved
2. Integrated approach to planning	• The Financial Plan for capital expenditures is integrated with the City of Sault Ste. Marie planned capital projects for road reconstruction that includes replacement of sanitary and storm sewers. PUC and the City commit in their respective AMP strategies to have consideration for coordination of capital projects	Achieved
3. Revenues should be used to meet water needs	• Financial model is full user pay	Achieved
4. Lifecycle planning with mid-course corrections is preferrable	• Planning is a long-term forecast based on the useful life of infrastructure assets	Achieved
5. Asset management is a key input	• PUC completed and published its 2023 Asset Management Plan, which was referenced in the preparation of this Financial Plan	Achieved
6. Sustainable level of revenue considers operating and capital requirements	• Revenue is sufficient to fund all operating costs as well as ongoing capital asset replacement, growth and regulatory changes	Achieved
7. Users pay for the services they receive	• No subsidization of water services by non-users	Achieved
8. Financial plans are living documents	• PUC intends to regularly update the Financial Plan	Achieved
9. Financial plans benefit from close collaboration	• Preparation included involvement from infrastructure and finance groups, as well as external advisors	Achieved

5 Appendix – Financial Plan Schedules for Water Supply Services

5.1 Statement of Projected Financial Position

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations- Statement A

Statement of Projected Financial Position
As at December 31

	Actual	Budget	Projected					
	2024	2025	2026	2027	2028	2029	2030	2031
Financial Assets								
Cash & Investments	$ 19,045,300	$ 17,701,799	$ 17,527,183	$ 18,058,601	$ 19,661,749	$ 22,407,747	$ 26,300,754	$ 31,652,822
Accounts receivable	$ 7,736,277	$ 7,736,277	$ 3,711,277	$ 3,711,277	$ 3,711,277	$ 3,711,277	$ 3,711,277	$ 3,711,277
Unbilled service revenue	$ 1,335,731	$ 1,335,731	$ 1,335,731	$ 1,335,731	$ 1,335,731	$ 1,335,731	$ 1,335,731	$ 1,335,731
Total financial assets	$ 28,117,308	$ 26,773,807	$ 22,574,191	$ 23,105,609	$ 24,708,757	$ 27,454,755	$ 31,347,762	$ 36,699,830
Financial Liabilities								
Accounts payable and accrued liabilities	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906
Short Term Loans	$ 4,025,000	$ 4,025,000	$ -		$ -			
Long Term Loans	$ 991,442	$ 77,455	$ -	$ 0	$ -	$ -	$ -	$ -
Total financial liabilities	$ 19,047,348	$ 18,133,361	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906	$ 14,030,906
Net financial assets	$ 9,069,960	$ 8,640,446	$ 8,543,285	$ 9,074,703	$ 10,677,851	$ 13,423,849	$ 17,316,856	$ 22,668,924
Non-Financial Assets								
Inventory	$ 466,311	$ 466,311	$ 466,311	$ 466,311	$ 466,311	$ 466,311	$ 466,311	$ 466,311
Tangible capital assets	$ 122,246,057	$ 130,463,294	$ 138,732,477	$ 147,385,453	$ 155,951,562	$ 164,429,648	$ 172,818,535	$ 181,117,034
Total non-financial assets	$ 122,712,368	$ 130,929,605	$ 139,198,788	$ 147,851,764	$ 156,417,873	$ 164,895,959	$ 173,284,846	$ 181,583,345
Accumulated surplus (deficit)	$ 131,782,328	$ 139,570,051	$ 147,742,073	$ 156,926,466	$ 167,095,724	$ 178,319,807	$ 190,601,701	$ 204,252,269

5.2 Statement of Projected Operating Results

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations- Statement B

Statement of Projected Operating Results
For the Years Ending December 31

	Actual	Budget	Projected						
	2024	2025	2026	2027	2028	2029	2030	2031
Revenues								
Residential	$ 15,177,962	$ 16,036,254	$ 16,611,468	$ 17,600,035	$ 18,550,051	$ 19,494,799	$ 20,390,727	$ 21,394,260
General	$ 10,878,109	$ 11,021,908	$ 11,417,260	$ 12,096,713	$ 12,749,670	$ 13,399,007	$ 14,014,789	$ 14,704,529
Hydrant	$ 1,888,463	$ 2,000,823	$ 2,072,592	$ 2,195,934	$ 2,314,466	$ 2,432,341	$ 2,544,125	$ 2,669,335
Other revenues	$ 1,101,060	$ 583,886	$ 545,403	$ 582,265	$ 681,983	$ 882,067	$ 1,195,029	$ 1,645,880
Total revenues	$ 29,045,594	$ 29,642,871	$ 30,646,722	$ 32,474,947	$ 34,296,170	$ 36,208,214	$ 38,144,670	$ 40,414,004
Expenses:								
Operating expenses	$ 9,417,758	$ 11,187,561	$ 11,523,188	$ 11,868,883	$ 12,224,950	$ 12,591,698	$ 12,969,449	$ 13,358,533
General and administration expenses	$ 7,091,601	$ 7,112,691	$ 7,326,072	$ 7,545,854	$ 7,772,229	$ 8,005,396	$ 8,245,558	$ 8,492,925
Interest on long-term debt	$ 449,378	$ 167,544	$ 201	$ -	$ -	$ -	$ -	$ -
Amortization of tangible capital assets	$ 3,297,852	$ 3,387,352	$ 3,625,240	$ 3,875,816	$ 4,129,733	$ 4,387,036	$ 4,647,769	$ 4,911,978
Total expenses	$ 20,256,589	$ 21,855,148	$ 22,474,701	$ 23,290,554	$ 24,126,913	$ 24,984,130	$ 25,862,776	$ 26,763,436
Gain on sale of building	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Annual surplus	$ 8,789,005	$ 7,787,723	$ 8,172,021	$ 9,184,394	$ 10,169,257	$ 11,224,083	$ 12,281,894	$ 13,650,568
Accumulated surplus, beginning of year	$ 122,993,321	$ 131,782,326	$ 139,570,049	$ 147,742,071	$ 156,926,464	$ 167,095,721	$ 178,319,805	$ 190,601,699
Accumulated surplus, end of year	$ 131,782,326	$ 139,570,049	$ 147,742,071	$ 156,926,464	$ 167,095,721	$ 178,319,805	$ 190,601,699	$ 204,252,266

5.3 Statement of Projected Cash Flows

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations- Statement C

Statement of Projected Cash Flows
For the Years Ending December 31

	Actual	Budget	Projected						
	2024	2025	2026	2027	2028	2029	2030	2031
Cash provided by (used in) operating activities:								
Annual surplus (deficit)	$ 8,789,005	$ 7,787,723	$ 8,172,021	$ 9,184,394	$ 10,169,257	$ 11,224,083	$ 12,281,894	$ 13,650,568
Items not involving cash:								
Amortization of tangible capital assets	$ 3,297,852	$ 3,387,352	$ 3,625,240	$ 3,875,816	$ 4,129,733	$ 4,387,036	$ 4,647,769	$ 4,911,978
Developers contribution	$ (105,729)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Changes in non-cash asssets and liabilities:	$ 4,179,215	$ -	$ 4,025,000	$ -	$ -	$ -	$ -	$ -
Net change in cash from operating activities	$ 16,160,343	$ 11,175,075	$ 15,822,262	$ 13,060,210	$ 14,298,990	$ 15,611,119	$ 16,929,663	$ 18,562,546
Cash provided by (used in) financing activities:								
Due to from PUC Services Inc.								
Debt financing obtained	$ 1,025,000	$ -	$ -	.	$ -	$ -	$ -	$ -
Principal repayments on net long-term liabilities	$ (886,035)	$ (913,987)	$ (4,102,455)	$ -	$ -	$ -	$ -	$ -
Net change in cash from financing activities	$ 138,965	$ (913,987)	$ (4,102,455)	$ -	$ -	$ -	$ -	$ -
Capital activities:								
Cash used to acquire tangible capital assets	$ (9,014,072)	$ (11,604,589)	$ (11,894,423)	$ (12,528,792)	$ (12,695,843)	$ (12,865,121)	$ (13,036,656)	$ (13,210,478)
Proceeds from disposal of tangible capital assets	$ -	$ -	$ -		$ -	$ -	$ -	$ -
Net change in cash from capital activities	$ (9,014,072)	$ (11,604,589)	$ (11,894,423)	$ (12,528,792)	$ (12,695,843)	$ (12,865,121)	$ (13,036,656)	$ (13,210,478)
Net change in cash	$ 7,285,236	$ (1,343,501)	$ (174,616)	$ 531,418	$ 1,603,147	$ 2,745,998	$ 3,893,007	$ 5,352,068
Cash and cash equivalents, beginning of year	$ 11,760,064	$ 19,045,300	$ 17,701,799	$ 17,527,183	$ 18,058,601	$ 19,661,749	$ 22,407,747	$ 26,300,754
Cash and cash equivalents, end of year	$ 19,045,300	$ 17,701,799	$ 17,527,183	$ 18,058,601	$ 19,661,749	$ 22,407,747	$ 26,300,754	$ 31,652,822

5.4 Statement of Projected Changes in Net Financial Assets

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations - Statement D

Statement of Projected Changes in Net Financial Assets
For the Years Ending December 31

	Actual	Budget	Projected						
	2024	2025	2026	2027	2028	2029	2030	2031
Annual surplus (deficit)	$ 8,789,005	$ 7,787,723	$ 8,172,021	$ 9,184,394	$ 10,169,257	$ 11,224,083	$ 12,281,894	$ 13,650,568
Acquisition of tangible capital assets	$ (9,119,801)	$ (11,604,589)	$ (11,894,423)	$ (12,528,792)	$ (12,695,843)	$ (12,865,121)	$ (13,036,656)	$ (13,210,478)
Amortization of tangible capital assets	$ 3,297,852	$ 3,387,352	$ 3,625,240	$ 3,875,816	$ 4,129,733	$ 4,387,036	$ 4,647,769	$ 4,911,978
Loss on disposal of tangible capital assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	$ 2,967,056	$ (429,514)	$ (97,161)	$ 531,418	$ 1,603,147	$ 2,745,998	$ 3,893,007	$ 5,352,068
Change in inventory	$ 8,825	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Change in net financial assets	$ 2,975,881	$ (429,514)	$ (97,161)	$ 531,418	$ 1,603,147	$ 2,745,998	$ 3,893,007	$ 5,352,068
Net financial assets (net debt), beginning of year	$ 6,094,075	$ 9,069,956	$ 8,640,442	$ 8,543,281	$ 9,074,698	$ 10,677,846	$ 13,423,844	$ 17,316,851
Net financial assets (net debt), end of year	$ 9,069,956	$ 8,640,442	$ 8,543,281	$ 9,074,698	$ 10,677,846	$ 13,423,844	$ 17,316,851	$ 22,668,919