

# Report to Council



**Date:** May 14, 2018  
**File:** 1890-01  
**To:** City Manager  
**From:** Kevin Van Vliet, Utility Services Manager  
**Subject:** Agricultural Water Rate Design Community Engagement Results and interim water rate measures for SEKID integration

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## **Recommendation:**

THAT Council receives for information the report from the Utility Services Manager dated May 14, 2018 with respect to the results of the Agricultural Water Rate Design Community Engagement process;

AND THAT Council direct staff to retain rates set by SEKID to 2020 for SEKID agricultural and domestic water customers after dissolution of SEKID and through the year 2020;

AND THAT Council direct staff to propose amendments to the Water Regulation Bylaw such that existing City and SOMID agricultural customers use the same rate structure as existing SEKID agricultural customers;

AND THAT Council direct staff to develop a holistic and inclusive process to engage and consult with the agricultural community in developing irrigation water rate policy, pricing structure and a water allocation structure to provide water security in support of sustainable farming in Kelowna;

AND FURTHER THAT Council direct staff to bring forward for Council's consideration an updated water rate and irrigation water allocation structure based on the results of the community engagement that can be implemented for all agricultural customers beginning in 2021.

## **Purpose:**

To inform Council of the engagement results from the agricultural water rate design consultation process and to consider interim water rate stability measures for existing SEKID and SOMID customers.

## **Background:**

The pending transition of South East Kelowna Irrigation District (SEKID) and South Okanagan Mission Irrigation District (SOMID) customers into the City system, along with the separation of irrigation and

domestic water supplies in Southeast Kelowna, has resulted in the need for the City to review its agriculture rate structure to ensure a fair rate design that encourages conservation and supports farming operations.

At present, the City, SEKID and SOMID all charge agricultural customers for water in different ways, highlighting the need to adopt a single rate structure with the goal of one water rate structure for all agricultural customers.

On October 30, 2017 Council directed staff to proceed with the communications and engagement process for gathering feedback and preferences on agriculture water rate design. A report summarizing the process and results is included as an attachment to this report.

With more than 12,000 hectares of the City's land base zoned "agricultural", agriculture is integral to the history and identity of Kelowna and is a key component of community planning, economic development and environmental sustainability. During the engagement process for the recently endorsed Agriculture Plan, growers and residents identified water as a concern. To that end, the Agriculture Plan identified two actions for ongoing and long-term implementation namely:

- 2a: Evaluate and monitor City of Kelowna water pricing with the goal of sustaining agriculture and;
- 2f: Continue to work towards ensuring sustainable, redundant and secure water for all agriculture.

## **What We Heard**

The communication and engagement process sought input on water pricing values, priorities, concerns and impacts from stakeholders and the public. Feedback was collected through an online survey, face-to-face meetings, public information session and a stakeholder workshop.

The community engagement process highlighted many farmer concerns about the future security of supply and the cost of water. The way future decisions will be made regarding rates, management of supply sources and clarity of how the utility would be governed were also concerns.

While there were some significant differences between the concerns expressed by agricultural stakeholders and those expressed by non-agricultural water users, both strongly felt that if agricultural users were to be charged reduced rates, those rates should only apply to bona fide farm operators. For example, the majority of survey respondents indicated that if a property does not have Farm Status (through BC Assessment), it should not receive subsidized water rates. Those at the workshops pointed to the need for legitimate agriculture activities to be conducted in order to receive the agriculture rate. It was noted that SEKID's system currently offers allocations and an agricultural irrigation rate to all land holders, regardless of whether agriculture is occurring or not.

Conservation concerns were varied with non-farming water users placing a much higher priority on conserving water and ensuring resiliency in light of climate change. Farm operators generally did not feel that they need to be encouraged to reduce their use of water on the farm. Many noted that the crops need what the crops need, and distinguished between 'conservation' and 'wastage'. While the agricultural stakeholders acknowledged that changes to the climate are occurring there is a strong sense that the water system is not vulnerable to climate change variability. This sense is based on the

understanding that SEKID targets having at least 10 percent volume remaining at the end of year when issuing water allocations, many landowners do not use their full allocation and that removing domestic users from the system will free up additional capacity. Staff feel that climate change is a significant risk to ensuring adequate water supply in the long term.

Consultation results show that there is tension between the top priorities of respondents who are agriculture customers and the top priorities of respondents who are other water customer types. The attached report summarizes these results.

### **Rate Stability and Allocations**

With the pending transition of SEKID into the City Water Utility and the extensive amount of potable water construction activities in the area, immediate rate stability and consideration for allocation security would help farmers through this transitional period. SEKID has a well-established agricultural water rate structure. Since the City will automatically adopt SEKID bylaws on dissolution, it is easy for the City to maintain the SEKID rate structure and water security model through 2020 to provide immediate stability to farmers and domestic water users. This will also give the City time to engage with the proposed SEKID transitional committee and broader agricultural community.

The existing SEKID water system will continue to operate and will be dedicated to providing irrigation and fire protection by 2021. The SEKID facilities are well maintained, although many are showing signs of age. Staff has some concerns about the state of the buried pipe infrastructure, its life expectancy and the City's liability around system replacement and overall lifecycle costs.

Irrigation Districts, including SEKID, goals have been to provide their agricultural customers water at a reasonable cost. Staff are concerned that SEKID has more asset renewal required than what is currently budgeted. Staff believe that the costs of owning and operating the irrigation system could rise significantly faster than inflation due to the quality and aging nature of the system, and the lack of replacement reserves. This will be better understood after a few years of owning and operating the system.

On April 19, 2018, the SEKID Board of Trustees passed a resolution to set the 2019 water tax rates (irrigation services) at the 2018 rate plus 5 percent inflation. Staff are supportive of maintaining these 2019 rates and the current domestic water rates ("tolls") through 2020 to ensure water rate security through the period of merging SEKID into the City of Kelowna.

In order to begin to align agricultural water rates it is recommended that the City amend the water regulation bylaw in 2019 and apply the SEKID water rates, irrigation allocations and rate structure to the few City agricultural water customers and to the SOMID agricultural customers once SOMID is dissolved.

To address the concerns of water cost and water security for the longer term the City of Kelowna should adopt overarching policies to guide water rate decisions and the security of water supply for farming to allow for long term farm decisions and security. Staff will develop a holistic and inclusive process to engage and consult with the agricultural community in developing irrigation water rate policy, pricing structure and a water allocation structure to provide water security in support of sustainable farming in Kelowna.

**Internal Circulation:**

Divisional Director, Corporate Strategic Services  
Divisional Director, Infrastructure  
Utility Planning Manager  
Senior Engineer, Infrastructure  
Communications Advisor  
Financial Planning Manager

**Considerations not applicable to this report:**

**Legal/Statutory Authority:**

**Legal/Statutory Procedural Requirements:**

**Personnel Implications:**

**Communications Comments:**

**External Agency/Public Comments:**

**Existing Policy:**

**Financial/Budgetary Considerations:**

**Alternate Recommendation:**

Submitted by:

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**Approved for inclusion:**



K Van Vliet, Utility Services Manager

cc:

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