

# Report to Council



**Date:** June 15, 2020  
**To:** Council  
**From:** City Manager  
**Subject:** Water Rates 2021  
**Department:** Utility Services

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## **Recommendation:**

THAT Council receive for information the report from the Utility Services Department, dated June 15, 2020, regarding Water Utility rates for 2021;

AND THAT Council direct staff to transition water rates for the Beaver Lake Industrial Area Properties such that they align with the rest of the City by 2024 as outlined in this report;

AND FURTHER THAT Council direct staff to bring forward an amending bylaw for reading consideration to enact the water rates outlined in this report beginning January 1, 2021.

## **Purpose:**

To set the 2021 rates for the Kelowna Water Utility.

## **Background:**

The City water utility provides potable water to more than half of the City's population and provides non-potable water for irrigation to customers in southeast Kelowna. The balance of the City is serviced by three large Improvement Districts and two dozen minor systems. The City's potable water coming from Okanagan Lake fully meets Canadian Drinking Water Quality Guidelines and Interior Health Authority water quality requirements.

As part of the transition plan to incorporate the former South East Kelowna Irrigation District's (SEKID) water system, Council froze the rates charged to former SEKID customers in 2019 through 2020. This would allow time for completion of Phase 1 of the City's water integration project, bringing potable water to former SEKID homes. The project scope includes ensuring that water services are metered so that metered billing can begin on January 1, 2021. In addition, the rate freeze allowed time for community engagement regarding how the agricultural community should pay for water going forward.

On October 28, 2019 Council adopted Water Supply Policy 383 which includes the following Policy Statements related to setting water rates:

5. *The City supports agriculture within the utility service area. Pricing of water for agricultural purposes will reflect the community's support and will be set to be competitive with agricultural water rates in the Okanagan Valley.*
6. *Properties classified as Farm under the Assessment Act will be eligible for agricultural water rates.*
7. *To encourage the use of the lower cost, non-potable water to the extent that it is available, pricing for non-potable water for irrigation purposes will be lower than the pricing for potable water for the same customer class.*

Water rates are set by Council in the Water Regulation Bylaw. Former SEKID customers are paying rates according to several adopted SEKID bylaws. It is recommended that the Water Regulation Bylaw be amended with a new rate schedule and other amendments to reflect both the potable and non-potable water systems owned and operated by the City. This would also allow Council to rescind several legacy SEKID bylaws.

**Discussion:**

Staff have conducted a review of the City water utility's operations, maintenance, and capital costs to determine financial revenues needed to support a sustainably funded utility. This analysis includes a pro-forma statement of revenues and expenditures across a 10-year projection, based on present budget figures, future capital, and operating expenditures in all areas of the utility. New to the program this year are estimates on consumption rates for the former SEKID and SOMID customers that have historically never been metered. As there are significant unknowns regarding water consumption in southeast Kelowna as well as the unknown of how former SEKID customers consumption behavior might change once they begin paying for water based on use, staff recommend setting rates for only one year (2021) at this time. This will allow for timely adjustments for 2022 should they be deemed necessary.

As was reported to Council when City water rates were adjusted in 2017 and again in 2019 there remain several factors that drive rate adjustments. These factors are expected to continue over the coming years and are:

1. Water assets continue to depreciate faster than they are being renewed. Our current renewal rate is adequate given the relatively young age of our assets, but renewal will need to increase in the longer term as the system ages. The financial model assumes that renewal rates increase stepwise beginning in 2026;
2. We can expect operating costs to rise as the average age of our infrastructure increases;
3. The construction cost inflation rate typically exceeds general consumer inflation.

Additional financial pressures have come about since taking ownership of the SEKID system and extending the potable water system into southeast Kelowna:

4. The non-potable system has been in operation for about 50 years with little renewal resulting in a substantial financial liability (often referred to as "infrastructure deficit"). This inventory includes major dams and supply infrastructure which will require long term maintenance plans. The financial model assumes that we will start to fund significant renewal of the non-potable system beginning in 2024;

5. Operating costs of the potable water system expansion that includes the extension into southeast Kelowna, and other water supply improvements. The potable system has grown by roughly 20 per cent and the additional operating costs must be funded by the customer base.

With the addition of roughly 2,000 potable water customers in southeast Kelowna as well as a non-potable water system and many agricultural customers the work to adjust rates is significantly more complicated than in the past. We have developed a detailed rate model and have proposed rates that include adjustments related to ensuring that the revenues received from each Customer Class reasonably reflect the proportion of water used by that class.

The proposed rates apply the same rate structure to former SEKID customers as the rest of the city customer base which is a significant change for former SEKID customers. In addition to the proposed rates former SEKID and SOMID customers will pay a Local Area Service fee on their property tax notice to recover their proportion of the capital cost of the Integration Project.

Staff are recommending that a general increase of six per cent be applied to all fixed and variable water fees on January 1, 2021 and that the Water Quality Enhancement Fee for 2021 not be increased at that time. For a typical single family home using an average of 41 cubic metres of water per month this rate increase will amount to \$2.09 per month.

There are several recommended changes and new fees that do not currently exist in the Water Regulation Bylaw. These are summarized as follows:

*A. Meter reading.*

As reported to Council on April 1, 2019 (Water Utility 2019 Update) staff have been working to update the meter reading technology as part of the 7-year meter replacement program. Meters will be read daily. This system will allow staff, and ultimately customers, to be informed of possible leaks after 24 hours, not months.

The benefits of this technology are significant in reducing water losses and saving customers substantial amounts of money that can occur when leaks go undetected between the readings for the two-month billing period. With the introduction of a customer facing portal this technology allows customers to review their own time of use water consumption to better understand their consumption behaviour and have stronger control over potential savings.

Additionally, this upgrade will remove the need to have water meters manually read which will remove the need for staff to access private property and improve the efficiency and safety of Utility staff. However, staff anticipate that there may be the occasional customer that desires not to have the technology at their home and would prefer to pay the City to continue to read meters manually every two months. A small number of manual reads will be inefficient and costly. The proposed rate schedule in Attachment 1 addresses this possibility as follows:

1. Adds a "Manual Read" fee of \$40 per billing period for the City to manually read and upload the data into the billing system. With six billing periods per year this would add \$240 to their annual water costs and will recover the water utility's administrative efforts.
2. Eliminates the option for "Manual Read" customers to have their water bills adjusted should they have a leak. To date we allow leakage, once repaired, to be billed at the lowest tiered water rate. This is done in part because of the long time between receiving bills and

information on consumption. Customers that choose manual reads are removing this option of addressing leaks promptly and proactively and therefore should be responsible for the full cost of water according to the Water Regulation Bylaw.

The capital cost of the meter reading technology also adds approximately \$150 to the capital cost of new meter installations for new development. This is the main reason for the significant increase in the cost of smaller meters outlined in "Schedule B" of Attachment 1. These fees are charged only for the installation of new meters at new developments.

*B. Non-potable water system*

The former SEKID water system is being referred to as the "non-potable system" as water supplied does not meet Canadian Drinking Water Quality Guidelines. This system has been dedicated to irrigation and fire protection. The new fee schedule is proposed to have two basic rates, both of which are less than the potable water rate:

1. Properties with Farm Status pay the Agricultural Rate,
2. Properties without Farm Status pay the Non-Farm Irrigation Rate.

In addition, the Agricultural Rate (properties with Farm status) will be a fixed fee per acre of "allotment". Staff are recommending that the fee for exceeding the allotment be simplified into three Tiers (A, B and C) with an increasing cost for each cubic metre of water consumed. This structure is consistent with many other agricultural water purveyors including Glenmore Ellison Improvement District and Greater Vernon Water and very similar to the former SEKID rate structure.

*C. Backflow Prevention*

In order to protect the drinking water system all properties that have a City non-potable service must have a backflow preventer on the potable service. These are located in the City owned meter pit, along with the meter, at the property line. The devices must be tested annually. For utility customers with both a domestic and City non-potable water service it is recommended that the City water utility own these devices and coordinate their testing on behalf our customers. This will help minimize the cost of irrigation service to our customers as well as the administrative effort in tracking and ensuring each device is tested on schedule. This is estimated to cost approximately \$35,000 per year to the overall utility which will be recommended as part of the 2021 operating budget request.

*D. Beaver Lake Industrial Area Properties*

The Beaver Lake industrial area has a different rate structure than the rest of the City which more closely reflected how the City utility paid for water supplied to it by the District of Lake Country. This rate structure has higher fixed fees based on meter size, but lower consumption rates per cubic metre of water. This rate structure has more cost predictability for users but reduces incentives to conserve water. Staff recommend that the rate structure for the Beaver Lake Industrial Area transition to be consistent with the rate structure across the rest of the City water utility to ease administrative efforts, reduce confusion, and provide consistent water use messaging for all users. For most customers in this area the overall impact will be small (close to cost neutral). A four-year transition will allow staff to work with customers to facilitate the transition.

In addition, Lake Country staff has indicated that there may be significant costs to the City related to water quality improvements in the future. Unlike the rest of the city water utility customers, currently Beaver Lake Industrial Area Properties do not pay the City's Water Quality Enhancement Fee. As most

of these properties require potable water, and we are now aware that there are expected to be significant water quality improvement costs to the water supply in the future, it is appropriate that these properties contribute to the water quality enhancement reserve by paying the same water quality enhancement fees as properties in the rest of the City. The proposed rate structure has added the water quality enhancement fee to Beaver Lake Industrial Area properties. For the most common service size (37 mm) in this industrial area this will add \$38.68 per month to their water utility bill.

**Conclusion:**

The Water Regulation Bylaw must be updated and amended to allow Council to rescind legacy SEKID bylaws and ensure that the water utility remains sustainably self-funded. By passing the 2021 rates now our new customers can be adequately informed about water costs and have time to adjust their consumption should they feel the need to do so.

***Financial/Budgetary Considerations:***

The 2021 Financial Plan will include the anticipated additional revenues for the new fees and rate adjustments outlined in this report.

***Communications Comments:***

A communications and engagement process began in Sept. 2017 and completed in late 2019. The process sought to review the City's agriculture rate and rate design to ensure proposal of fair rates that encourage conservation, support farming operations and included opportunities to provide input on water pricing values, priorities, concerns and impacts from stakeholders and the public.

Engagement with water customers was not restricted to SEKID customers, as any current or potential future City agriculture customers will also be affected by any rate design adopted. The broader Kelowna community also had an opportunity to provide input through an online survey.

Inserts in utility bills and a news release will ensure customers are informed of the proposed rates prior to implementation in 2021.

**Internal Circulation:**

Communications  
Financial Planning  
Controller  
Revenue Services  
Utility Planning Manager

**Considerations not applicable to this report:**

***Legal/Statutory Authority:***

***Legal/Statutory Procedural Requirements:***

***Existing Policy:***

***External Agency/Public Comments:***

Submitted by:

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**Approved for inclusion:**



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