

# COMMITTEE REPORT



**Date:** July 9, 2020

**RIM No.** 1210-21

**To:** Agricultural Advisory Committee (AAC)

**From:** Manager Utility Services

**Application:** NA **Owner:** NA

**Address:** NA **Applicant:** NA

**Subject:** 2021 Agricultural Water Rates

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## 1.0 Purpose

To consult with the Agricultural Advisory Committee on proposed 2021 water rates for agriculture as directed by Council and to provide AAC feedback to Council.

## 2.0 Background

In May of 2018, Council approved maintaining the 2019 water rates for South East Kelowna Irrigation District (SEKID) customers for 2020 to ease the transition to a potential new water rate structure for agriculture and in consideration of the relatively extensive disruption in the community due to the Water Integration Project.

On November 14, 2019 staff informed the Agricultural Advisory Committee (AAC) of the results of the community engagement on the water rate structure for agricultural use. Based on the consultation the water rate design for agriculture is as follows:

1. Properties with Farm Status (as determined by BC Assessment) would be able to access the agricultural water rate.
2. Farms would receive an allotment of water (in acres) based on the SEKID or South Okanagan Mission Irrigation District (SOMID) allotment, or based on area farmed if outside of the former SEKID or SOMID service areas. The allotment would provide for up to 685 mm water depth per acre (2,772 cubic metres of water per acre) for the calendar year which is consistent with the previous SEKID program.
3. The City would bill at a fixed fee per acre of allotment. Exceeding the allotment volume would result in additional tiered volumetric pricing per cubic metre of water consumed. The tiers selected are consistent with those used by Glenmore Ellison Improvement District (GEID) as well as Greater Vernon Water (GVW). Specifically:
  - a. Tier A: 0-20% over allotment
  - b. Tier B 20 – 50% over allotment

- c. Tier C 50% or more over allotment.

To provide further guidance to staff in proposing water rates for agriculture, Council adopted Water Supply Policy 383 on October 28, 2019 which includes the following Policy Statements:

*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.*

On June 15, 2020 staff recommended a comprehensive set of water rates for all City of Kelowna water customers to begin January 1, 2021. This adjustment included a rate increase of 6% to all non-farm properties. The fixed fee allotment rate for Agriculture (Farm Status properties) had a proposed increase from \$96.30 (originally set in 2019) to \$120 per acre, amounting to a 24.6% increase. Council requested that staff consult with the AAC on agricultural water rates prior to bringing back final 2021 rates for bylaw approval.

### **3.0 Discussion**

The Kelowna water utility is a fully self-funded component of the City organization that provides water for drinking, sanitation, irrigation and fire protection for more than half of Kelowna's population. Revenues are to cover all operating and infrastructure costs, including management and infrastructure renewal. The utility also contributes towards overall city overhead (e.g. Council, Finance, etc).

Prior to the dissolution of SEKID and SOMID, the City utility had less than 20 agricultural customers who were charged a rate of \$0.11 per cubic metre of treated domestic water for irrigation. The volume of water consumed, and the revenues from this agricultural class were relatively inconsequential to sustainable utility operations.

With the conversion of SEKID and SOMID, the City now services over 500 designated agricultural customers. Most customers in southeast Kelowna have access to the now dedicated non-potable (former SEKID) system. Staff are proposing one equitable water rate for farmers with Farm Status which will apply to the non-potable system if available and to the potable system when non-potable water is not available.

Staff have proposed an agricultural fixed fee allotment water rate for Farm Status properties of \$120 per acre for 2021 (up from the 2020 rate of \$96.30). This will be billable at the end of 2021. Attachment 1 compares agricultural irrigation rates across the Okanagan valley. The 2019 Black Mountain Irrigation District (BMID) rate of \$110 is currently the lowest on the chart by comparison however BMID is expected to increase that rate for 2020 as well as 2021. It is expected that the proposed Kelowna rate will remain one of the lowest 2021 agricultural water rates in the valley. The proposed rate of \$120 per acre meets or exceeds Council's direction to ensure that Kelowna agriculture rates remain competitive.

Most agricultural water rates are subsidized by domestic water rates. This can be sustainable when there is community support for the agriculture industry and provided the community feels that the subsidy is reasonable and additional cost burden to domestic users is manageable.

There are many ways of comparing water rates across customer classes. A few perspectives comparing 2021 domestic water rates with the proposed agricultural water rates follow:

**1. Comparison between water consumed and revenues**

Agriculture in Kelowna uses a far greater percentage of water than it provides in revenue to the Utility. Consumption numbers can vary significantly depending on how hot or dry the irrigation season was. Staff estimate that overall agricultural water consumption will account for 30-45% of total water sold by the city (both potable and non potable). Revenue from agriculture is expected to account for under 4% of total revenues.

**2. Normalized unit costs of water between Domestic and Agricultural Uses.**

Domestic water revenues come from fixed fees (based on meter size) plus variable fees based on consumption. Typically, the average user’s cost of domestic water will range between \$0.95 to \$1.00 per cubic metre depending on consumption. This does not include the added Water Quality Enhancement Fee charged to domestic water customers. This compares with other City rates as follows:

User	Customers average cost (per cubic metre)
Domestic, potable water	\$0.95 - \$1.00
Non-potable water (non farm properties)	\$0.30
Agricultural (not exceeding allotment)	\$0.043 - \$0.10

**3. Revenues compared with cost of system**

In comparing all agricultural revenues to the cost of operating the non-potable system it is estimated that agricultural revenues cover will cover 25-35% of the system operating costs.

The operating cost does not include the cost of facility infrastructure renewal which is a substantial liability to the Utility that will need to be addressed and will add significant annual costs to the non-potable system in the near future.

In addition to the fixed agricultural farm rate staff proposed tiered rates for users that exceeded their allotment. The table below summarizes the proposed 2021 City tiered rates and compares them with GEID and GVW 2020 rates:

Percentage over allotment	Rates (\$ per cubic metre)		
	Kelowna 2021	GEID 2020	GVW 2020
0 - 19.99% over	\$0.30	\$0.50	\$0.45
20 – 49.99% over	\$0.60	\$1.00	\$0.90
50% + over	\$1.00	\$1.50	\$1.79

**4.0 Conclusions and Recommendations**

The City of Kelowna needs to fairly balance the needs of water users with revenues from the various customer classes to ensure a sustainable water supply while continuing to support the viability of our agricultural community. The amount of support for agriculture in the form of lower water rates depends on community values. Lowering water rates for agriculture results in higher water rates for other property classes. The proposed \$120 per acre fee for agricultural properties is expected to be the lowest in the Okanagan in 2021.

The AAC has an opportunity to provide Council feedback on the proposed 2021 Kelowna Utility agricultural rates by resolution.

**Report prepared by:**

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Kevin Van Vliet, P.Eng., Manager Utility Services

**Approved for Inclusion:**



Dean Strachan, Community Planning & Development Manager

**Attachments:**

1. Chart of Agricultural water rates in Okanagan

