

# Report to Council



**Date:** November 1, 2021  
**To:** Council  
**From:** City Manager  
**Subject:** Water Rates 2022/2023  
**Department:** Utility Services

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## **Recommendation:**

THAT Council receives, for information, the report from the Water Operations Manager dated November 1, 2021 regarding Water Rates for 2022 and 2023;

AND THAT Bylaw No. 12281 being Amendment No. 15 to Water Regulation Bylaw 10480 be forwarded for reading consideration.

## **Purpose:**

To set the 2022 and 2023 water 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 Improvement Districts and two dozen smaller water systems. The City's potable water is supplied from Okanagan Lake and fully meets all Canadian Drinking Water Quality Guidelines and Interior Health Authority water quality requirements.

Water Rates are set by Council through Water Regulation Bylaw 10480. Staff recommend that the Water Regulation Bylaw be amended with a new rate schedule for 2022 and 2023 in addition to other amendments to the potable and non-potable water systems operated by the City.

## **Discussion:**

The Finance Division regularly reviews the cost of Utility's operations, maintenance, renewal along with the capital costs and the revenues needed to support a sustainably funded Utility. The analysis includes a pro-forma statement of revenues and expenditures for a 10-year period based on operating budget,

capital requirements and other expenditures. The outcome of the analysis results in the Water Rate Model which is used to predict water rates to support a sustainably funded Utility.

The Water Rate Model includes the following factors in its analysis to account for:

- The age of the Utility's assets and the required renewal rate,
- Rising operating costs with asset age/condition,
- Rising construction costs that typically exceed general inflation (accounts for economic impacts from the pandemic affecting materials and supply chains),
- The age and condition of the added SEKID assets including dams and the non-potable supply system,
- The operating costs of the potable water supply system that increased with the expansion of that system into southeast Kelowna.

In 2021, water consumption rates increased by six per cent. The Water Rate model was adjusted to apply a six percent increase over the next five years. These increases are required to support the Utility and to make progress with its growing and aging infrastructure.

The City of Kelowna Utility added roughly 2,000 potable water customers in southeast Kelowna. Some of these customers have small irrigation system connections to the non-potable system in addition to over 500 agricultural customers using non-potable water for agricultural production. Metering information and consumption data for these customers was available in January 2021 and all customers transitioned to the City's water utility rates. The lack of reliable data prior to 2021 for SEKID customers added a level of uncertainty for the Water Rate Model as earlier data was estimated.

2021 was a very hot and dry year. The "heat dome" period of extreme temperatures and prolonged drought levels led to unusually high-water consumption. Staff are reviewing how this impacts our future consumption projections and how climate change is causing less predictability. Water rates are set based on predicted average consumption rates during average summer weather.

Other utility initiatives that affect the Water Regulation Bylaw are summarized below:

Water Rate Adjustment:

For 2021, Council equalized Tier 3 and Tier 4 rates for properties greater than 1 acre in southeast Kelowna that only had access to the potable water system. This accommodation was to provide time for customers to make changes to their water consumption practices as many of these properties were developed under a different landscaping and water use paradigm. The 2022 and 2023 bylaw rate return Tier 4 rates on a graduated basis such that they will be equal with the rest of the City in 2024.

Beaver Lake Industrial customers also receive transitioning water rates. This was to account for the different rate structure previously reflecting the District of Lake Country which used higher fixed fees and lower consumption rates. The change was to utilize a lower fixed fee and higher consumption charges to increase water conservation practices as well as harmonize rates for industrial water customers across the utility.

The City is committed to adjusting rates over this three-year period to transition Beaver Lake Industrial customers to City industrial customers in 2024.

## Meter Reading Technology and Meter Exchange:

In southeast Kelowna new water meters were installed for all potable water customers. Approximately 50 per cent of the non-potable water customers have had their old SEKID era meters renewed and the remaining non-potable customers are targeted for renewal in 2022. These meters are equipped with cell phone technology to transmit meter data. The benefits are near real-time consumption data as well as providing timely information for leak detection. The Utility continues to encourage eligible customers to take advantage of the Eye on Water program to monitor their consumption and help them understand where they can conserve water.

The remaining utility customers are also having their water meters replaced with new meters and reading technology. Since the replacement program began approximately 21% of 16,509 residential customer meters have been switched out. Additionally, 664 of the approximately 4,000 eligible customers are enrolled with the Eye on Water program. Communication is ongoing and will continue with this initiative. The City utility meter upgrade and exchange project is anticipated for completion in 2028.

## Water Quality Enhancement Fee (WQEF)

All properties with a potable water connection, excluding Agricultural properties with no access to the non-potable water supply and Park Use Properties, pay the WQEF as a contribution to the future Water Quality Enhancement Reserve Fund. This fund will be important for upcoming water quality upgrades. This bi-monthly flat fee is charged based on meter size. The WQEF was not increased in 2021. For 2022 and 2023 staff recommend an increase to the WQEF by two per cent to reflect inflation.

## Southeast Kelowna Water Integration Project Local Area Service Charge

The first phase of the Kelowna Water Integration Project constructed and supplied potable water to southeast Kelowna customers. The cost of the project was funded through Federal and Provincial grants along with the City's share that will be recovered through a Local Area Service charge.

To help cover project costs, southeast Kelowna water utility customers have been paying a project fee, in addition to their bi-monthly and annual fees, since 2018.

Once the project is complete at the end of 2021, staff will prepare the Local Area Service plan and Bylaw for Council consideration. Once implemented, an LAS charge will replace the project fee currently found on customers utility bills. The LAS will be payable annually and appear on southeast Kelowna water utility customers property tax notice starting in 2022.

## Golf Course Non-Potable Water Rates

In 2021, Council amended the Water Use Regulation Bylaw to allow all three golf courses in southeast Kelowna using non-potable water to be classified as Agricultural for irrigation. As the irrigation season is ending for 2021, staff will now assess consumption and develop a new water rate for this use classification that will be consistent for all three users while being fair and equitable to all rate payers. Consultation with the affected customers has been initiated and will continue prior to Council's consideration of the report in 2022.

The non-potable water supply system is an older system requiring significant study and investment to ensure its continued operation for our agricultural customers. Staff recommend increasing the per acre allotment fee by six per cent.

**Conclusion:**

The Water Regulation Bylaw must be updated and amended to allow the water utility to remain sustainably self-funded. Passing rates for 2022 and 2023 allows our customers to know water unit costs and plan accordingly.

Appendix A includes a comparison of water rates showing the Utilities proposed 2022 rates with other utility 2021 rates. The City of Kelowna's Water Utility rates remain competitive with other utilities in the Okanagan Valley. These rates support a sustainable water utility balancing the operation of the treatment and supply of potable and non-potable water sources as well as capital renewal of these systems.

**Internal Circulation:**

Financial Planning  
Communications  
Controller  
Revenue Services  
Utility Planning Manager

**Considerations applicable to this report:**

**Existing Policy:** Bylaw No. 10480

**Considerations not applicable to this report:**

**Legal/Statutory Authority:**

**Legal/Statutory Procedural Requirements:**

**External Agency/Public Comments:**

**Submitted by:** A Weremy, Water Operations Manager

**Approved for inclusion:**



K Van Vliet, Acting Director Civic Operations

cc:

P Gramiak, Revenue Supervisor

**Attachments:**

Appendix A, B, and C  
Proposed Schedule A & B