

# Report to Council



**Date:** January 22, 2024  
**To:** Council  
**From:** City Manager  
**Subject:** Water Rates 2024 - 2025  
**Department:** Utility Services

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## **Recommendation:**

That Council receive for information the report from the Utility Services Department, dated January 22, 2024, regarding Water Utility Rates for 2024 and 2025;

AND THAT Bylaw No. 12577 being Amendment No.17 to Water Regulation Bylaw 10480 be forwarded for reading consideration.

## **Purpose:**

To set the 2024 and 2025 rates for the Kelowna Water Utility.

## **Background:**

The reliable supply of safe water to the community is one of the City's most important roles and responsibilities. In Kelowna, we live in an arid environment where the water we have is limited in supply. We share the water supply with other users, wildlife, and the natural environment. We have a responsibility to respect all these interests and needs.

The City water utility provides potable water withdrawn from Okanagan Lake to more than half of Kelowna's population for domestic uses (i.e., drinking water and landscape watering), commercial, industrial, institutional uses, agriculture, parks, recreation, and fire protection. Additionally, non-potable water withdrawn from the McCulloch watershed is provided to over 500 agricultural and rural customers for irrigation in southeast Kelowna. The balance of the City is serviced by three Improvement Districts and two dozen smaller water systems.

In 2020, it was anticipated that annual rate increases of 6% would sustainably fund the water utility through 2030 using our "pay as you go" financial strategy. On November 1, 2021, Council adopted updates to Water Regulation Bylaw 10480 which set out the services, terms, conditions, and rates charged for the City's potable and non-potable water supply and distribution systems for 2022 and 2023.

In general, water rates increased 6% in each of 2022 and 2023. The 2023 rates will continue to apply until new rates are adopted by Council.

There are a multitude of factors that will continue to push rate adjustments higher than general consumer inflation. These include:

1. Water assets continue to depreciate faster than they are being renewed. The current replacement value of all assets in the water utility is \$938 million. The approved 2024 capital renewal expenditure amounts to 0.5% of asset value, which means that at this rate it will take 200 years, on average, to renew all assets. While this is adequate in the short term due to the relatively young average age of our system, the investment in asset renewal must continue to increase over time to sustainably fund the water utility.
2. The non-potable system has been in operation for over 50 years with little renewal. The City has absorbed substantial financial liability following the transfer of assets from the Province in 2018. The non-potable assets include major dams, supply infrastructure and high capacity mainlines which will require long term maintenance and replacement. Beginning in 2020, the 10 Year Capital Plan was prepared assuming that significant renewal projects of the non-potable system would begin in 2024. The planned renewal over the coming decade will focus on dam safety, modernizing operations, addressing health and safety issues, and repairing mainlines based on pipe condition. A Non-Potable Capital Plan will be completed in 2024.
3. A significant portion of utility renewal funding is required to contribute to projects that address growth needs. The utility contributes to growth projects that replace (upscale) existing capacity resulting in renewal expenditures earlier than would otherwise be optimal adding to renewal expense needs.
4. Operating costs rise as the average age of our infrastructure increases resulting in increased repairs and maintenance. Operating costs have also increased in recent years as the older infrastructure in the non-potable system is being updated following the acquisitions from SEKID. As with other sectors of the economy, operating cost inflation has recently been unusually high. As examples over a four-year period between 2019 to 2022, electricity costs increased by 34%, natural gas costs increased well over 100% and chemical expenses increased over 200%.
5. The construction cost inflation for utility infrastructure in Kelowna over the last 15 years has consistently exceeded general consumer inflation.

**Discussion:**

Proposed updates to Water Regulation Bylaw 10480 are recommended to:

- Approve rates for each customer class for 2024 and 2025,
- Update user fees,
- Update definitions and language to better reflect utility operations,
- Improve administrative requirements of the system.

The City annually reviews the water utility operations, maintenance and capital expenditures required to support a sustainably funded utility. The analysis includes a pro-forma statement of revenues and expenditures over a 10-year projection based on present and projected capital and operating expenses.

Staff are sensitive to the criticality of safe, reliable, and affordable water for our community. Ensuring reasonable and predictable water rates for our customers remains a priority for the City, however is particularly challenging at this time due to high rates of inflation as well as the substantial need for infrastructure investment to accommodate growth and address needed renewal over the next ten years.

Historically, infrastructure renewal was funded from revenues on a pay-as-you-go basis. Capital renewal was timed to reduce fluctuations in the annual capital funding required from utility revenues and some balancing was accommodated from the Utility's reserves. Debt has been used to fund large new infrastructure such as the Cedar Creek water source and ultraviolet treatment upgrades at the Poplar Point water source.

Given the near term need for capital investment as well as inflationary pressures on the Utility, the pay-as-you-go funding model would drive significant rate increases over the next two years in the range of 10-15 percent per year at a time when few in the community can afford it. Financially, current water utility debt will be substantially paid off in 2029 and fully eliminated in 2031. Financial analysis shows that using internally financed debt to help fund our ten-year capital plan will allow the Utility to be sustainably funded with ongoing annual rate increases in the realm of 6%, which is considerably more affordable. Financial health indicators indicate there is no substantial financial risk associated with this proposal.

Based on this analysis that includes planned capital expenditures, operating expenses and using some internally financed debt, staff recommend an increase of 6% for water rates and the Water Quality Enhancement fee in 2024 and 2025.

For a single-family home, the recommended rate adjustments will result in an average single-family home that typically uses 40 cubic metres of water seeing a cost increase of \$2.98 per month. Water rates in Kelowna have historically been some of the lowest rates in the valley as well as some of the lowest across Canada (compared to 33 other benchmarked Canadian cities). The water cost comparison in Figure 1 illustrates total water costs for an average single-family home using 2023 rates and an average monthly demand of 40 cubic metres of water.

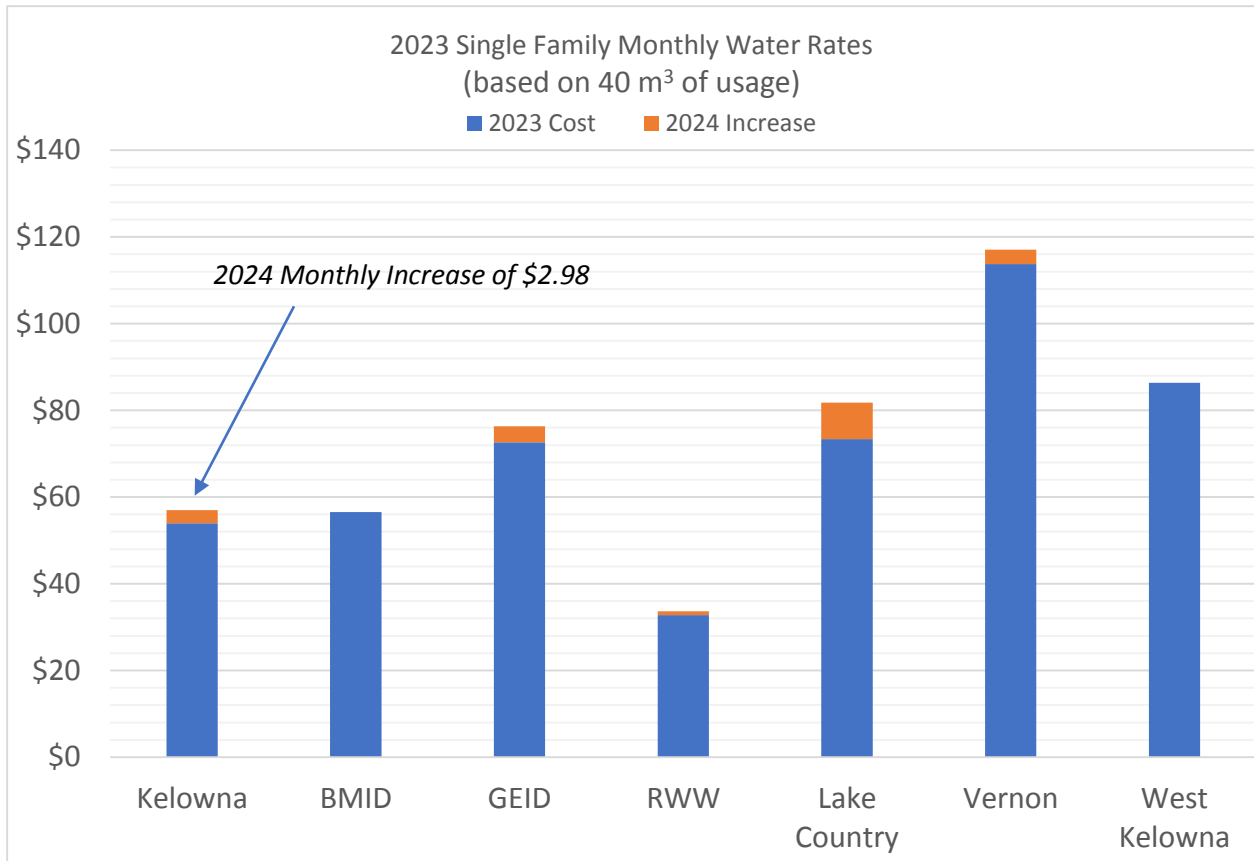


Figure 1 – Comparison of 2023 Water Costs

**Other Rates of Note**

The recommended rates for agricultural allotment per acre increase at the same percentage (6%) as other rates for 2024. This equates to a charge of \$142.92 per acre of allotment in 2024. The overuse Tier Charges for agricultural users are only increased in the Tier A charge group to remain consistent with the consumption rate of irrigation water for all other customers using the non-potable water source. This equates to an Overuse Tier A rate of \$0.36 per cubic metre in 2024. Staff feel that the Tier B and C agricultural overuse rates do not need to be increased at this time.

The recommended consumption rate for Golf Courses using non-potable irrigation water is \$0.20 per cubic metre in 2024 consistent with the implementation plan communicated to Council in 2022. It increases by 6% for 2025 to a rate of \$0.21 per cubic metre.

Other user fees have been increased based on an assessment of cost-of-service and are summarized in the Bylaw Change Summary Table.

**Conclusion:**

Staff recommend that the Water Regulation Bylaw be amended with a new rate schedule for 2024 for the potable and non-potable water systems operated by the City.

**Internal Circulation:**

Financial Planning  
Revenue Services  
Communications

***Communications Comments:***

City of Kelowna water customers will be notified of the rate increase on their March and April 2024 utility bills.

***Financial/Budgetary Considerations:***

Budget impacts will be included in the 2024 Financial Plan.

**Considerations not applicable to this report:**

Legal/Statutory Authority:  
Legal/Statutory Procedural Requirements:  
Financial/Budgetary Considerations:  
Existing Policy:  
External Agency/Public Comments:

**Submitted by:** K. Van Vliet, Utility Services Manager

**Approved for inclusion:** M. Logan, Infrastructure General Manager

**Attachments:**

Table of bylaw amendments  
Water Rates 2024 Presentation

cc: Divisional Director, Corporate Strategic Services  
Divisional Director Financial Services