

Report to Council



Date: January 31, 2017
File: 0245-80
To: City Manager
From: Kevin Van Vliet, Utility Services Manager
Subject: Water Utility Rates 2017 - 2018

Recommendation:

THAT Council receives, for information, the report of the Utility Services Manager dated January 31, 2017, regarding Water Utility Rates;

AND THAT Council approves a two percent increase to water utility user rates and a 2 percent increase to the Water Quality Enhancement Reserve Fund for 2017 and 2018 for the operation, maintenance, infrastructure renewal and capital improvements to the Utility with the first billing cycle of May of each year;

AND THAT 2017 financial plan be amended to reflect the rate increase;

AND THAT Bylaw No. 11351 being amendment No. 8 to the Water Regulation Bylaw 10480 be forwarded to Council for reading consideration.

Purpose:

To provide Council with information on water costs and to obtain approval for water utility rates for 2017 and 2018 as well as to suggest administrative adjustments to the Water Regulation Bylaw.

Background:

The City Water Utility provides water supply to approximately one half of the City's population with the balance of the City serviced by four Improvement Districts and 26 other minor systems. The City water supply comes from Okanagan Lake and our water fully meets Canadian Drinking Water Guidelines and Interior Health Authority water quality requirements.

As part of development of the Water Asset Management Plan, presented to Council on November 28, 2016, City staff have conducted a review of the City Water Utility's operations, maintenance, and

capital costs to determine financial revenue needs to support a sustainably funded Utility. The Utility is fully self-funded.

The City's Financial Services Department has prepared a pro-forma statement of revenues and expenditures that is a 10-year projection, based on present budget figures, future capital, and operating expenditures in all areas of the Utility. The method of rate setting allows the balancing of debt and large capital expenditures, with the accumulated surplus, to establish a stable Utility rate structure.

There are a number of factors that drive rate adjustments slightly higher than inflation over the coming years:

1. Water assets are depreciating 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.
2. We can expect operating costs to rise as the average age of our infrastructure increases.

The Water Utility has been building reserves to address planned infrastructure replacement, such as water meters, in the short term and medium term as outlined to Council in November. In order to continue on a sustainably funded path without future large rate increases there is a need for a general two percent rate increase to water user fees for both 2017 and 2018.

The Water Quality Enhancement Fee has not increased since 2014. This fee was established to set aside revenues for future water quality improvement projects, primarily expected to be water filtration and related transmission projects. Within the foreseeable future the Water Quality Enhancement Reserve Fund is expected to be used to increase transmission capacity from the Cedar Creek source northward towards the lower mission, reducing reliance on the Eldorado water source. While staff are working to defer these projects, timing of their implementation could be pushed sooner by other factors such as development or possible interconnection or amalgamation with one or more Improvement Districts. It is proposed that the Water Quality Enhancement Fee also be increased by two percent for both 2017 and 2018.

In an effort to continuously improve service to our customers as well as our operational efficiency, the proposed rates are simplified and work towards making the consumption charge more consistent across the different classes of properties. The proposed changes to the rate structure are summarized as follows:

1. **Rate Class: Multi-Family Residential Properties- 3 or more attached dwelling units on a single property:** Use the same consumption charge per cubic metre as the lowest tier of Single Family residential. This results in a reduction of \$0.002 per cubic metre (0.5%) for their consumption charge and will not have a significant impact on overall utility revenues.
2. **Rate Class: Single Family Strata – Single Family Housing on a strata property:** Use the same consumption charges per cubic metre as Single Family Residential properties. This results in a consumption charge reduction of between 11 and 13 percent depending on the volume of water consumed.
3. **Non-Metered Customers.** Remove language and rates referring to non-metered water customers from the rate schedule. This category of customer remains in the bylaw from the period of transitioning to a fully metered water utility. Current policy and practice is to require all water services to be metered. The Utility currently has no known services without meters.

Removal of these rate classes in the bylaw removes an apparent option that can cause confusion with customers.

4. **Water Quality Enhancement Reserve Fund.** The proposed bylaw removes the contribution to the Water Quality Enhancement Reserve Fund from the following categories where it is currently being charged:
 - a. Park and Non-ALR Farm Use
 - b. Agricultural Properties

The fact that domestic water use, not farm or park irrigation, drives water quality improvements has been a significant topic of concern across all water providers in Kelowna when considering the cost of water quality improvements. This proposed change acknowledges the drivers of water quality enhancements and helps ensure costs are distributed appropriately.

The overall impact on revenues by consolidating these consumption rates is relatively small as the number of properties affected is small.

After implementing the changes outlined above there will remain two rate structure anomalies that staff intend to address over the coming two years:

1. **Beaver Lake Industrial Area.** Transitioning to the same rate structure as other commercial / industrial properties will not affect the Utilities overall revenue, but would have a significant impact on two customers. Staff will consult with these customers before recommended any changes to their water rates.
2. **Agricultural Customers.** The City's rate structure is significantly different than that of the Improvement Districts. Staff will consult with the agricultural community prior to proposing a rate structure change.

The proposed rate increases, including the Water Quality Enhancement Fee, continues to keep the City water utility rate for single family residential customers in a very competitive position with the other four water purveyors in the City and well below most municipalities in British Columbia (See Attachment 1).

Internal Circulation:

Divisional Director, Infrastructure
Divisional Director, Communications and Information Services
Divisional Director, Financial Services
Revenue Manager,
Utility Planning Manager,
Infrastructure Engineering Manager,
Communications Supervisor.

Communications Comments:

Our water customers will be notified of the rate changes on their utility bills prior to the increase.

Considerations not applicable to this report:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Personnel Implications:
Financial/Budgetary Considerations:
External Agency/Public Comments:
Alternate Recommendation:

Submitted by:

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

Approved for inclusion:



J. Creron, Deputy City Manager - Operations

cc:

Revenue Manager,
Utility Planning Manager,
Infrastructure Engineering Manager
Communications Supervisor