
CITY OF KELOWNA

MEMORANDUM

Date: July 20, 2001
File No.: 1824-02
To: City Manager
From: Wastewater Manager
Subject: 2001 Sewer Rates

RECOMMENDATION:

THAT Council approve an increase to both residential and Industrial/Commercial/Institutional (ICI) Sewer rates effective on the **September 16, 2001** billing as follows :

	<u>Existing 2000</u>	<u>New 2001</u>
Residential - Flat Rate	\$11.25 / month	\$ 11.50 / month
Commercial (I/C/I)		
- Minimum charge for 0-8 m ³	\$11.25 / month	\$ 8.00 / month
- Usage in excess of 8 m ³	\$ 0.75 / m ³	
- All usage (per m ³)		\$ 0.75 / m ³
Sewer Strength Surcharge Rates		
- BioChemical Oxygen Demand	\$ 0.350 / kg	\$ 0.375 / kg (B)
- Total Suspended Solids	\$ 0.350 / kg	\$ 0.375 / kg (T)
- Fats, Oil and Grease	\$ 0.151 / kg	\$ 0.161 / kg (F)
- Volume	\$ 0.452 / m ³	\$ 0.750 / m ³ (V)

THAT Council direct staff to prepare an amended Sewer Regulation Bylaw for approval,

AND THAT the definition of Standard Sewage strength in the Sewerage System User Bylaw No. 3480 be amended as follows :

	<u>Present</u>	<u>Proposed</u>
Biochemical Oxygen Demand (B.O.D.)	300 mg/l	250 mg/l
Total Suspended Solids (T.S.S.)	300 mg/l	300 mg/l
Fat, Oil & Grease (F.O.G.)	90 mg/l	90 mg/l

The formula to be used to calculate surcharge billings will be as follows:

Billing = Flow (m³) x {V + B(measured BOD – 0.25) + T(measured TSS – 0.3) + F(measured FOG – 0.09)}

where 'measured BOD, TSS and FOG' are in units of kg/m³.

BACKGROUND

A financial review was conducted on the Sewer Utility revenues and expenditures, based on our most recent projections. This review considered the timing and expenses of Capital improvements such as Treatment Facility expansions as well as new mains. Also considered

were the expenses of ongoing infrastructure replacement, the management of our Bio-Solids program, treatment plant, lift station and pipe network operation & maintenance.

Financial Details

The City Financial Services Department prepared a pro forma statement of Revenues & Expenditures for the Sewer Utility, that is a 10-year projection, based on the present year Budget figures and future Capital and Operating expenditures in all areas of the Utility. This method of rate setting allows the balancing of Debt and large Capital expenditures, with the accumulated Utility surplus, to establish a stable Utility rate structure. For example, in 2001, the Utility is expected to incur expenses of approximately \$8.86 Million, with offsetting revenues of approximately \$8.37 Million. The projected deficit will be financed by drawing from the accumulated surplus that had been built up to accommodate the large expenditures. Therefore, Sewer rates can be 'blended' to avoid large rate fluctuations from year to year as large expenditures are made.

Sewer Utility revenues from our customer base come from two types of charges; the monthly user rate and an annual parcel tax. The user rate is a flat rate per month for our residential customers. A minimum charge coupled with a volumetric usage charge is applied to Commercial (Industrial/Commercial/Institutional) customers. The annual Parcel Tax makes up the other component of our sewer charge and is presently \$70.⁰⁰ per year, per parcel that is capable of being serviced with sewer. We propose to keep the Parcel Tax component of the charges at the same rate.

The effect of the new rates, on residential customers, is \$3.⁰⁰ per year. The overall adjustment represents an increase of revenues of approximately 1.46 percent. The increase for I/C/I (Industrial/Commercial/ Institutional) customers will be less for most customers, depending on their consumption.

There are a few changes proposed in our Sewer rate structure this year, beyond an incremental inflationary increase. The method used for charging our I/C/I customers has historically been to charge the same minimum monthly rate as residential customers, and because of the extreme variability of usage between I/C/I customers, to also charge a volumetric rate based on the cubic meters of water used by the business. I/C/I customers were not charged (i.e. credited) for the first 8 cubic meters of use. The new rate structure will lower the basic charge for I/C/I customers from \$11.²⁵/mo. to \$8.⁰⁰/mo. and eliminate the 8 m³ deduction. The reason for this change is two-fold : Firstly, this change will initiate an adjustment that will move the I/C/I sewer charge closer to that charged to residential customers. The second reason for the structure change is to implement a simpler, more understandable charge with a "base" rate and a charge for every m³ used, rather than deduct 8 m³ from all I/C/I consumption. A comprehensive rate review will be required in the future to assess the true cost-of-service for different customer classes, and will determine the timing and magnitude of any cost reallocation between residential and I/C/I customers.

The surcharge amounts are being corrected to account for several years in the 90's when the surcharge was not increased in conjunction with the general Utility rate increase, and the charge per loading is not representative of the original bylaw amount. It is proposed to make the correction over a 2-year period, both in 2001 (this adjustment) and 2002. The Sewerage System User bylaw that was adopted about 10 years ago, used a value that was supposed to be representative of residential Biochemical Oxygen Demand (BOD) of 300 mg/l. Recent tests and publications suggest that a value of 250 mg/l would be more appropriate, and therefore the concentration is proposed to be amended at this time. The surcharge volume rate is proposed to be increased from \$0.452 /m³ to \$0.75 /m³ to ensure that over-strength customers pay at least as much as a conventional I/C/I customer for the same volume used. The existing rate allows a customer with only one high-strength constituent such as only BOD or only TSS, to pay less than a customer with normal strength sewage.

The following table illustrates the effect of the proposed rate adjustment for this year on residential customers:

	Annual Parcel Tax	Monthly User Rate	Total Annual Sewer Charges
1999 Rates	\$70. ⁰⁰	\$11. ²⁵ /mo.	\$205. ⁰⁰
2000 Rates	\$70. ⁰⁰	\$11. ⁵⁰ /mo.	\$208. ⁰⁰

The rates are proposed to be in effect for the sewer use during the August 16th to September 14th consumption, and to appear on the September 16, 2001 sewer bills and all subsequent bills. This will allow a one-month notice of the rate increase to be printed on our customer sewer bills, prior to the rate coming into effect.

W.J. Berry, P. Eng
Wastewater Manager

John Vos
Director of Works & Utilities

WJB/ms

cc: Revenue Manager
Financial Planning & Systems Manager