
CITY OF KELOWNA

MEMORANDUM

Date: January 12, 2005
File No.: 1826-02
To: City Manager
From: Water Manager
Subject: 2005 Water Rates

RECOMMENDATION:

THAT Council approve the concept of a revised water rate structure that incorporates an increasing block rate for residential customers and an increasing volume charge for multi-family and commercial water utility customers.

AND THAT Council authorize staff to prepare a more detailed report outlining the implementation and impacts of this revised structure on all customer classes within the water utility for implementation in early spring of 2005.

BACKGROUND:

Since the implementation of water meters, public education programs and consumption based rate structure, the water utility has realized a 20% reduction in overall water consumption. Over the past three years a number of initiatives have been completed to better understand the long term impacts of how water demand and growth will affect the utility over the next 20 years within the service area. In addition, work has been completed to determine if each of the various customer rate classes adequately support the true cost of providing water service. Attachment # 1 provides an overview of impacts to each of the customer classes within the utility. There has also been no increase in water rates to water utility customers since May of 2000.

The outcome from the work completed over the past 3 years has concluded the following:

- The Water utility continues to recognize the importance of reducing water consumption within its own facilities as well as the need for certain segments of the customer base to reduce consumption to ensure sustainability of the water resource. Kelowna continues to be one of the highest per capita water users in the province and in the country.
- A reduction in peak water demand which occurs during periods of outside water use will significantly reduce the capital expenditure required for future infrastructure expansion. The 2020 Servicing Plan suggests that over \$20 million in cost savings can be realized over this period if peak demand can be reduced by 16%.
- Customer education and incentive programs that have been piloted over the past 3 years with residential customers have resulted in water reductions as high as 25%.

- Average irrigation water use requirements by lot size have been defined and can be used as a guideline to determine specific customer needs to ensure water use beyond what is required can be prevented.
- Certain segments of the customer base are creating unnecessary peak demand. Approximately 20% of our overall customer base is considered to be high to extreme water users.
- Some historical rate inequities exist between various customer classes. The overall revenue to the utility will be neutral under a new rate structure after incorporating revenue requirements under the existing structure. However the cost of service analysis has identified the need to reallocate water service costs among the various customer classes to ensure each class is paying their appropriate share.
- The completion of a comprehensive cost of service and rate design study has provided the true cost of service to our various customer types and will help to ensure reduction goals can be met.

To meet the utility's objective of reducing overall consumption and peak water demand two primary initiatives must be undertaken.

Continued Emphasis on Customer Education

Providing education and water reduction techniques through the Water Smart program must continue to provide further awareness on how best to reduce consumption

Implementation of a Revised Rate Structure

A rate structure must be implemented that is designed to provide more equity across all customer rate classes, does not penalize customers who are low to average water users and provides incentive for high water users to reduce their consumption through increased consumption charges. This type of rate structure is referred to as an "inclining block rate" where the consumption rate is higher for excessive water use. This proposed rate is based on a strategy that will phase in the full cost of service for all customer classes over a five year period. The strategy is also designed to phase out the parcel tax and mitigate sizeable increases to other customer classes that would otherwise have to be implemented if a shorter period of phase in time were chosen. This rate structure lowers the fixed monthly charge and increases the volume charge as water use increases through various blocks of consumption. It is designed so that low to average water users will see a normal percentage change (or potentially experience a decrease) in their monthly bill while high water users will experience a larger increase in their monthly bill. This approach addresses the goal of reducing peak demand that is generated from high water users by applying a cost incentive to reduce to average or acceptable levels of consumption. Increasing block rate strategies are used in many other locations and have been designed to more aggressively promote water conservation during outside water use periods. This structure will also reflect the true cost of providing service by ensuring each customer class pays an appropriate share for water service.

Don Degen,
Water Manager

John Vos,
Director, Works & Utilities

ATTACHMENT #1

IMPACT ON CUSTOMER CLASSES

Residential Customer

The flat rate service charge will be reduced for all customers and the volume charge increased for the higher consumption blocks. Low to moderate residential water users will experience a normal rate increase or in some cases lower charges in their overall water bill. Higher water users will experience an increase in their water bill based on their excessive consumption. The parcel tax will be phased out over a 5 year period beginning in 2006.

Multifamily and Commercial

The flat rate service charge will be reduced for all customers and the volume charge increased. User rate revenues for multifamily and commercial classes will be increased from the current level for the next 5 years to establish full cost of service by 2009. The parcel tax will be phased out over a 5 year period beginning in 2006. Low to moderate multifamily water users will experience a regular required increase to their water bills while high water users will experience a greater increase in their monthly bill based on their higher consumption pattern.

Irrigation and Agricultural

Irrigation and agricultural customers currently pay an annual flat rate per acre of \$90.30 and \$31.62 respectively. Although these rates do not adequately recover the cost of service for these classes and rate adjustments are required, adherence to agricultural policy established by council related to water costs for these customers must prevail. This policy requires that water charges for these customer classes, where farm status exists within the agricultural community, must not adversely affect the sustainability of the agricultural industry. As a result, adjustments to water rates within this class will be in keeping with accepted rate structures that currently exist within the community provided by other purveyors. This will ensure a consistent approach to charges for this customer class. In addition many of these customers are not metered and metering will occur over time to ensure there is an accurate accounting of water usage by this customer class.

Bulk Water Users

There is currently no rate class for this group of users and a new customer class will be established. Most bulk water use is seasonal and is currently provided by applying for a hydrant use permit. A nominal fee is charged to recover the cost of inspecting the hydrant after use; however there is no set charge for water volume that adequately reflects the cost of the volume of water provided. The cost of service review recommends that a rate class be developed for these users and that they are assessed on the basis of a commercial customer rate.

Private Fire Protection

The annual charge for private fire line protection will be maintained at the existing rate. Current charges adequately reflect the cost of providing this service.