



Standing Committee Report Electoral Area Services Committee

To: Electoral Area Services Committee
From: Associated Director of Development and Engineering Services
Date: October 21, 2024

Subject: Dietrich Water System Fees and Charges Bylaw Amendment

Objective: To consider amending the water system fees and charges for the Regional District owned water system.

Discussion:

The Regional District owns and operates the Dietrich water system located in Electoral Area East on the Trepanier Bench outside Peachland with connected 8 users.

The current water fees are composed of base fees, consumption fees and asset renewal fees:

- I. The base fee is a flat fee that applies to all properties connected to the water system,
- II. The consumption fee is based on actual individual metered water consumption, and
- III. The asset renewal fee applies to all lots within the service area and is intended to fund capital reserves that will be utilized for scheduled capital projects.

The fees for all water systems were reviewed in 2022 with the next review scheduled in 2027. The current water fee structure (including the 4-tiered consumption fee) is the same for all RDCO water systems and the specific fee values vary by community.

Since the last water rate review in 2022, some major items have impacted operating costs/revenue for this water system, including:

- Unanticipated operating projects
- Unplanned and necessary operational expenses, without adequate reserve funding
- Overhead (Admin and Engineering) associated with increased expenses

The user fees are currently adjusted annually to account for the previously projected expenses; however, operating costs have increased beyond previously forecasted values.

Service Fees:

The user fees are intended to fund the operation of the water system based on the fees established in the 2022 rate review. The operating costs have increased since the last review and adjustments are required to align revenue and expenses. Through the annual budget process, it was determined that fees need to be adjusted earlier than anticipated.

Two main options are available to the Board on how to adjust rates and those options centre on how best to maintain service levels and sustainably invest in the ongoing renewal and maintenance of the

Trepanier Water System. To date, staff have already deferred and smoothed costs wherever possible to reduce the magnitude of the proposed rate adjustment.

Option 1 – Increase rates to cover additional expenses

In recognition of the above-noted challenges and to ensure continuity of the established service levels for the residents, it is recommended to increase rates and contribute all asset renewal funds towards future capital replacement. This recommendation would result in an average increase total user cost by \$1,841 per year, and is included in the table below:

2024 Average User Cost		2025 Proposed Total User Cost			
Quarterly	Annual	Quarterly	Annual	Difference	Diff (%)
\$1,119	\$4,478	\$1,580	\$6,320	\$1,841	41%

Option 2 – Increase rates, divert asset renewal funds

Should the Board choose to minimize the user rate increase, diverting a portion of asset renewal funds (up to 65%) towards annual operating expenses could reduce the impact to the average customer to a minimum of approximately \$1,024 per year, which is an approximate overall increase of 23%. Diverting asset renewal funds will shift expenses onto future users and may result in inadequate funds for future asset replacement or repair. As established, the asset renewal fund was planned to fund 50% of capital infrastructure replacement with the remainder made up through grants or additional future user contributions.

Status Quo - Risks

Since 2018, a portion of the asset renewal fund has been diverted to offset unanticipated expenses. It is no longer possible to use this strategy to resolve budget deficit and user rates must be adjusted.

Maintaining the status quo funding scenario from 2025 through to 2027 is not advised, and will present the following risks:

- Maintain known cyber infrastructure vulnerabilities, compromising the integrity of all Regional District services and systems.
 - To mitigate risks to the Regional District, the service may need to be removed from the RDCO network, which will introduce additional expenses well beyond the forecasted \$4000 for security improvements.
- Inadequate funding to replace Water Quality analyzers when they fail
 - Analyzer funding expenses have increased by over 50% since the previous rate adjustment in 2022. Given the small scale of this water system, a single required analyzer can represent over 30% of Operating Expenses in a single year.
 - Online Analyzers provide Certified Operators immediate notification when water quality is worsening and are a critical tool in providing safe drinking water, especially in smaller systems with limited funds for full-time staff oversight.
- Inadequate funding to complete maintenance and replacement of water system infrastructure, such as filters, pressure tanks, and water meters.
 - Previous contributions to Operating Reserves were not sufficient to undertake this work as planned.

Value Comparison

Water fees differ between each of the RDCO water systems throughout the region for numerous reasons including, but not limited to:

- Factors that impact economies of scale (e.g., number of users, service area)
- Types and cost of water treatment
- Population density
- Age and efficiency of infrastructure
- Elevation of water source and users (i.e., pumping vs. gravity), and
- Funding, asset replacement planning, and subsidizations.

Given the range of different water rate structures and funding methods in the region, it is not possible to produce an accurate comparison of fees across multiple water systems, particularly at different levels of water consumption. It has been observed that water systems that are older, require additional treatment, or that have fewer number of connections will have higher fees. According to BC's Ministry of Health, water systems with less than 50 connections have higher financial and operational risks over time.

As an alternative to a community water system, residents could source water through an alternate water source such as a private well or through a water hauler and cistern. For example, based on the average annual water consumption for Dietrich, it is estimated that the cost to haul water would be between \$12,000 - \$17,000 / year per resident. This does not include the cost of a cistern or other equipment required by the homeowner.

Alternatively, residents could pursue a private well. There are many variables involved in the cost of drilling a well; however, it is suggested that an average cost is between \$25,000 - \$30,000 in addition to the ongoing operation and maintenance costs.

Should any customer within the Water Service Area choose to physically disconnect from the water system, Asset Renewal rates will continue to apply (approximately \$1,300 annually per household). Loss of customers from a small water system will consolidate base and consumptive costs onto remaining customers, further increasing individual user fees. This could quickly result in the service becoming untenable.

Water Service provided through the RDCO, inclusive of proposed rate increases, is the most economical option available to receive regulatory-compliant drinking water.

Next Steps:

Report to the Board on the required user fee changes. If the fee changes are approved, the residents will be informed of the fee changes through:

- Email notification to those subscribed to e-notification services at rdco.com;
- Updated rates provided at rdco.com/water; and
- Updates in the next version of the Water Talk newsletter

Changes would be proposed to take effect January 1, 2025, and residents would receive their first quarter invoices reflecting the new fees in the Spring of 2025.

Legal/Statutory Authority:

- *Local Government Act*, Imposition of fees and charges, s. 397

Financial:

- Rates as recommended align with existing Capital funding strategies.

- Underfunding capital renewal shifts cost from current to future users.
- Maintaining the status quo will result in an unacceptable risk to the RDCO’s overall cyber infrastructure and may result in impacts to service levels and additional unanticipated expenses.

Recommendation(s):

Option 1

THAT the Electoral Area Service Committees recommends that the Regional Board endorse Option 1, increase rates to cover expenses, for the Deitrich Water System as set out in the Report from the Associate Director Engineering Services dated October 21, 2024.

OR

Option 2

THAT the Electoral Area Service Committees recommends that the Regional Board endorse Option 2, increase rates and divert asset renewal funds, for the Deitrich Water System as set out in the Report from the Associate Director Engineering Services dated October 21, 2024.

Respectfully submitted by: Crystal Mahlmann, Engineering Analyst and Mike Wyman, Engineering Services Manager.

Report Approved by: Travis Kendel, Associate Director of Development and Engineering Services

Approved for Agenda: Sally Ginter, Chief Administrative Officer

Attachment(s): 1. Presentation
