



Regional Board Report

Request for Decision

To: Regional Board
From: Associate Director of Development and Engineering Services
Date: November 28, 2024
Subject: Dietrich Water System Fees and Charges Amendment 2024

Voting Entitlement: All Directors - Unweighted Corporate Vote - Simple Majority (LGA s.208 (1) (a), (b))

Purpose: To consider amending the water system fees and charges for the Regional District owned Dietrich Water System as presented to the Electoral Area Services Committee October 21st, 2024.

Executive Summary:

The Electoral Area Services Committee (EASC) received a report from the Associate Director of Engineering on October 21, 2024 regarding proposed Dietrich Water System Fees and Charges Bylaw amendments. Following the presentation of the report the EASC resolved:

***THAT** the Electoral Area Services Committee receives the Dietrich Water System Fees and Charges Bylaw Amendments Report from the Associate Director Engineering Services dated October 21, 2024, for information;*

***AND THAT** the proposed amendments to the Dietrich water system fees and charges bylaw be forwarded to the Regional Board with no recommendation from the Electoral Area Services Committee.*

The Dietrich Water System user fees were established in 2022 and project out for five years to 2027 and are intended to fund the operation of the water system based on forecasted expenses. Since 2022, the operating costs have increased, hence adjustments are required to align revenue and expenses.

To ensure continuity of the established service levels for the residents, it is recommended (Option #1) 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 \$1,586 per year (35%), and is included in the table below:

Table 1 - Option 1 (increase rates)

2024 Average User Cost		2025 Proposed Total User Cost			
Quarterly	Annual	Quarterly	Annual	Difference	Diff (%)
\$1,119	\$4,478	\$1,516	\$6,064	\$1,586	35%

An analysis to minimize the user rate increase (Option #2) includes diverting up to 65% of asset renewal funds towards annual operating expenses and would reduce the impact to the average customer to a minimum of approximately \$710 per year, which is an approximate overall increase of 16% in 2025. Diverting asset renewal funds will shift expenses onto future users and will result in inadequate funds for future asset replacement or repair, necessitating future borrowing.

Table 2 - Option 2 (increase rates and divert up to 65% of asset renewal funds)

2024 Average User Cost		2025 Proposed Total User Cost			
Quarterly	Annual	Quarterly	Annual	Annual Change	Adjustment
\$ 1,119	\$ 4,478	\$ 1,297	\$ 5,188	\$ 710	16%

Status Quo rates and charges is not feasible. If no changes to rates and fees are made, substantial changes to service levels and immediate consultation with the Interior Health Authority (IHA) will be required as IHA is the regulating authority with final drinking water approval.

Recommendation(s):

THAT the Regional Board endorse increasing fees to cover expenses as outlined in Option 1 for the Dietrich Water System as set out in the Report from the Associate Director of Development and Engineering Services dated November 28, 2024.

AND THAT the Regional Board direct staff to inform users of the Dietrich Water System of their costs and responsibilities should those users express interest in pursuing alternative drinking water services.

 Respectfully submitted by: Mike Wyman, Manager of Engineering Services

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

Approved for Agenda: Sally Ginter, Chief Administrative Officer

Strategic Plan Alignment:

- Emergency preparedness
- Health and wellness
- Regional transportation
- Truth and reconciliation
- Environment and climate – Regional priority only
- Growth and development – Electoral Area priority only

Background:

The Regional District owns and operates 4 water systems in the West Electoral area, the Dietrich water system is in the southernmost end of the Electoral Area on Upper Trepanier Bench just outside Peachland's service boundary area with 8 connected users.

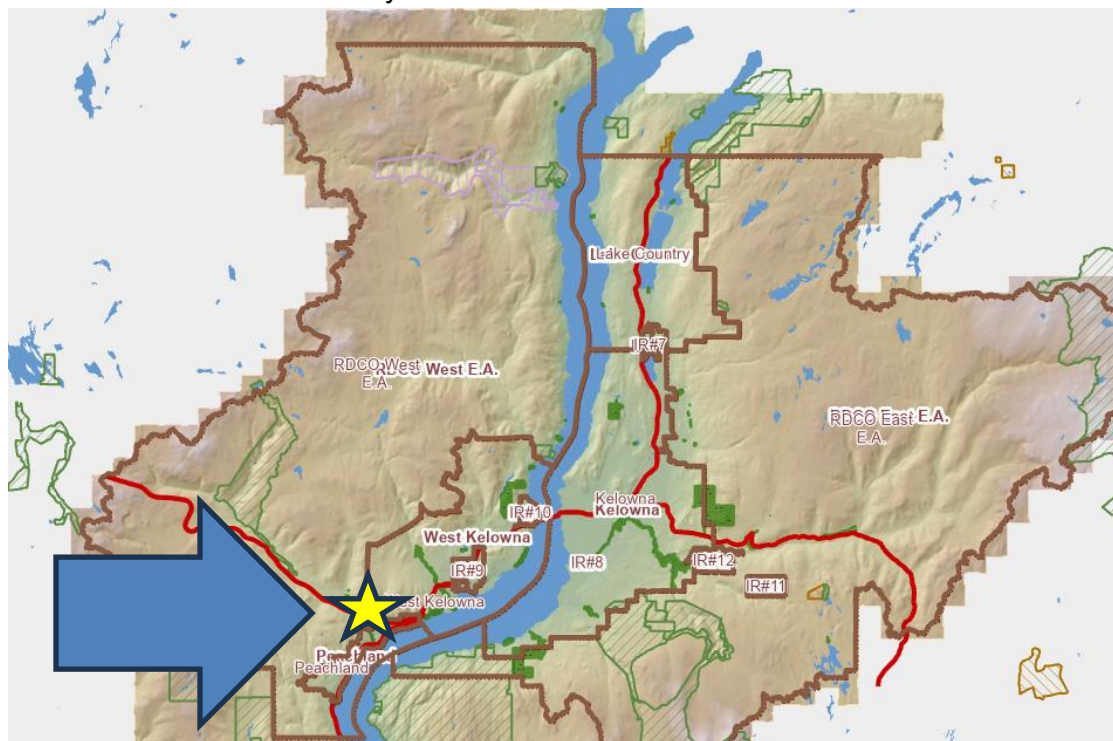


Figure 1 - Star identifies location of Dietrich Water System

Electoral Area Service Committee:

On Oct 21, 2024 the Electoral Area Service Committee (EASC) was presented with two options for consideration:

- Option 1: Increase rates to cover expenses (additional \$1841/yr per household)
- Option 2: Increase rates and divert asset renewal funds (Additional \$1024/yr per household)

The EASC chose to defer the recommendation to the Board, along with a request for more information on the following:

- A summary of the history of the Dietrich Water System.
- Context if other nearby systems are available for connection, and how.

Dietrich Water System Service History:

In 1993, the Ministry of Health approached the RDCO to consider providing water to a proposed 8-lot subdivision owned by Mr. Dietrich. Concurrently, the RDCO received an official request from Mr. Dietrich to establish a local service area. The Board resolved to establish this local service area as requested, stipulating that all costs associated with establishing the water system to provincial standards would be borne by the developer. Those 8-lots within Star Place, (in the Trepanier area, south of the connector) continue to exist and be serviced through the RDCO today.

Between establishment and 2024, various system considerations have been given by District of Peachland Council, Regional District Board, and a citizen group. Summarized details by year are available in the table below:

2010	A consultant-led servicing evaluation was completed, to examine the option of servicing via the District of Peachland and a cost estimate was obtained from a consultant to undertake a governance and service delivery study, which then did not proceed due to cost (\$25,000).
2012	<p>RDCO's Brent Road – Trepanier Official Community Plan (2012) states:</p> <p><i>Some residents of Trepanier Valley have created a community association, called Trepanier Residents Involved in Planning Our Destiny. These residents are engaged in exploring opportunities for water servicing in the rural community and have approached the neighbouring District of Peachland to consider servicing the area.</i></p> <p><i>'The District of Peachland's past policy has been to service only land within their boundaries. Peachland has in the past, expressed that they are not interested in extending their boundaries to include Trepanier Valley. The RDCO may consider investigating the costs associated with delivering community water and fire protection to Trepanier Valley and to discuss options for shared cost arrangements between landowners.</i></p> <p>Community surveys were completed to investigate and explore water and fire protection services in the Trepanier Valley. Fifty-seven out of eighty-six surveys were completed, and the results in support of the water system and fire service were too low for the Regional Board to consider funding the costs of a feasibility study (\$25,000).</p>
2014	Peachland Committee of the Whole received a report regarding a Boundary Extension Request from the citizens of the South Trepanier area. The request specified that this request should be considered 'new and separate' from the previous survey and requests. Peachland COW recommended that Council direct staff to prepare a budget briefing for 2015, to give consideration for staff and financial resources for a boundary expansion for the South Trepanier area.
2016	<p>Peachland Council received a further report from residents of Star Place, requesting municipal water service and a corresponding boundary extension. The Council of the day noted that their policy does not permit services to areas outside the Peachland boundary. Consequently, the Council moved to decline support for the request from Star Place residents to receive municipal water and fire protection services.</p> <p>However, the Council indicated they would consider a request for boundary extension from a geographic area contiguous with the District of Peachland's boundary, on the condition that Peachland does not incur any direct costs for the provision of a boundary extension options study, which was estimated to cost between \$20,000 and \$30,000.</p>

Following a review of the service history, provision of service through the nearby District of Peachland system may be viable and will require a feasibility study and potential corresponding boundary adjustment.

Service Fees:

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.

The fees for all water systems were reviewed in 2022 with the next review scheduled in 2027. The current water fee structure 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 costs (Administration and engineering technical oversight) 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.

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.

Presented for Board consideration are two options, which centre on how best to maintain service levels and invest in the ongoing renewal and maintenance of the Trepanier Water System. Following the October 21st EASC meeting, staff were able to reduce the rate changes by transitioning a larger operating budget item into capital, lessening the impact to the base rate fee increases.

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 \$1,586 per year, and is included in the table below:

Table 3 - Option 1 (increase rates)

2024 Average User Cost		2025 Proposed Total User Cost			
Quarterly	Annual	Quarterly	Annual	Difference	Diff (%)
\$1,119	\$4,478	\$1,516	\$6,064	\$1,586	35%

Option 1 corresponds with following proposed annual percentage increase up to the 2027 rate review:

Proposed annual increases (%)		
2025	2026	2027
35%	9%	5%

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 \$710 per year, which is an approximate overall increase of 16% in 2025. Diverting asset renewal funds will shift expenses onto future users and may result in inadequate funds for future asset replacement or repair, necessitating future borrowing. 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.

Table 2 - Option 2 (increase rates and divert up to 65% of asset renewal funds)

2024 Average User Cost		2025 Proposed Total User Cost			
Quarterly	Annual	Quarterly	Annual	Annual Change	Adjustment
\$ 1,119	\$ 4,478	\$ 1,297	\$ 5,188	\$ 710	16%

Option 2 corresponds with following proposed annual percentage increase up to the 2027 rate review:

Proposed annual increases (%)		
2025	2026	2027
16%	13%	8%

Status Quo Funding & Associated Risks

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

If rates are not increased adequately, service levels and technical supports will need to be reduced, and immediate consultation with the Interior Health Authority (IHA) will be required. Ongoing expenses associated with the purchase of equipment, cleaning, replacing meters, or repairs will be removed from the 2025-2029 Financial Plan. To ensure safety of drinking water concurrent with reduced service levels, the facility can be programmed to ‘turn off’ in the event of an issue and will be resolved during normal business hours.

Further unknown risks may materialize that will compromise system integrity and reliability. RDCO staff will not knowingly permit or enable unsafe drinking water distribution, and this may result in extended periods of time without the provision of drinking water for this service area. This may also impact property values for the system users. Adopting this approach may also result in Compliance Orders, or other action by Provincial Regulators.

COMMUNITY ENGAGEMENT & SERVICE DISCONTINUATION

As noted above for historical reference, back in 2016 the Peachland Council declined the Service Boundary extension request and recommended that the property owners commission a feasibility study before council would consider the extension. At the time, this study was estimated ~ \$20,000 - \$30,000, and all costs of the study would be borne by the area residences. To date this feasibility study has not been completed.

Given cost escalation and inflation since 2016, staff estimate a conceptual budget of approximately \$40,000 to undertake the same level of study considered 8 years ago (cost of approximately \$5000 per system user) payable by service users. If pursued, this would further compound the financial position of these area residences.

Rather than initiate a costly study, staff recommend system users be informed of their costs and responsibilities should they express interest in pursuing alternative drinking water services. This could take place in advance of the 2027 rate review and would allow exploration of options with IHA and others.

As an alternative to a community water system, residents could source water through an alternate source such as a private well or a water hauler and cistern, following consultation with IHA. 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 individual 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.

In summary, 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:

If the Board endorses a rate change, Staff will inform systems users 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
- Individual letters to the 8 system users

Any rate or fee 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.

Considerations:*Organizational/External:*

Service level changes and extreme efforts to minimize rates may result in action from Provincial Regulators.

Financial:

All Water Systems are scheduled for a rate review and update in 2027.

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 unknown risks, impacts to service levels and additional unanticipated expenses.

Attachment(s): 1. PowerPoint Presentation
