

# Reseller Rate for Regional Customers of Saskatoon Water

## ISSUE

The City of Saskatoon (City), through its water utility, currently sells water to regional communities to SaskWater. SaskWater purchases treated water in bulk at select points in the City's distribution network, and then transports it to its customers through SaskWater-owned water main infrastructure.

The commercial water rate structure and contract with SaskWater dates back to 1983 and requires a significant revision. These changes are critical within the framework of Saskatoon's evolving regional partnerships and updates are required to support the proposed joint servicing agreement with the City of Martensville. The creation of a new "Reseller" category for the water rate is recommended, along with an accompanying strategy of collecting equivalent water off-site levies.

## BACKGROUND

### 2.1 History

Original SaskWater Contract – the City has supplied water to surrounding communities through a contract with SaskWater dating back to 1983. This contract assumed SaskWater was a "commercial" client of the City and water was thereby sold to surrounding communities using the commercial rate structure. The contract provided capacities at various supply points of the edges of Saskatoon, and changes to these capacities were managed directly with SaskWater. There have been few significant core contract changes to this arrangement since its inception.

Martensville Memorandum of Understanding – In February 2014, the cities of Martensville and Saskatoon agreed to enter into a joint servicing agreement, whereby the City would directly supply Martensville with water and wastewater services without the involvement of SaskWater. The two cities agreed to finalize a fair and transparent rate structure that accurately reflected costs. In negotiations with SaskWater and the region, it was agreed that this same rate structure would also apply to SaskWater.

Saskatoon North Partnership for Growth Regional Plan (P4G) – In October 2014, the communities of Osler, Warman, Martensville, Saskatoon, and the Rural Municipality of Corman Park agreed to jointly develop a land-use plan and servicing strategy for the P4G region. In September 2017, the five P4G municipal councils endorsed the P4G Regional Plan, corresponding Servicing Strategy, and Governance and Implementation Strategy to establishing the framework for land use and servicing for a regional growth horizon of one million people. The communities agreed to establish a fair and uniform mechanism for sharing and paying for infrastructure services.

SaskWater Memorandum of Understanding – In September 2018, Saskatoon City Council agreed to a joint memorandum regarding the provision of water service within the P4G region. Establishing a new reseller rate was part of the joint agreement.

### 2.2 Current Rate Status

Since 1983, the City's utility rate structure has changed in many respects, including the ratios of fixed and variable costing, levies shared between the water and wastewater rates, and the application of inter-municipal charges. Further, SaskWater is currently treated like a commercial customer with no consideration of the regional implications of supplying water to communities surrounding Saskatoon. In addition, no formal structure for charging water off-site levies currently exists.

### 2.3 Regional Engagement

Saskatoon has engaged our regional partners, within the P4G region, extensively over the past five years with respect to the issue of water rates and water supply. Over this time, conversations have been held directly with the RM of Corman Park and other nearby communities. Although there are individual issues that need to be resolved, to date there is general support from regional municipalities and utilities for the proposed changes.

### 2.4 SaskWater Engagement

The City has been continuing negotiations with SaskWater with respect to the proposed reseller rate and other aspects of a new water servicing contract. SaskWater is in agreement with concepts of a reseller rate and with the proposal to charge water users a direct equivalent off-site fee upon connection.

## OPTIONS

### **Option 1: Status Quo**

No changes to any part of the SaskWater rate structure; therefore, no financial implications to utility rates. However, there would not be any formal agreement for collecting off-site revenues for capacity allocations.

### **Option 2: Phased Reseller Rate Transition (Rate Freeze)**

A new reseller rate would apply to water sales to SaskWater and would apply in the future to any municipality with a direct servicing agreement with the City; specifically, this water rate would apply to Martensville upon completion of the final infrastructure sharing agreement. This rate represents an accurate volumetric and transparent valuation of providing water service outside Saskatoon city limits.

As part of introducing the new reseller rate, all water users outside city limits would agree to pay a connection fee equivalent to the water off-site fees paid by properties within Saskatoon. The new fee would be paid directly to the City as a condition of receiving water services. This has the effect of moving towards an "even playing field" with development in the region for water servicing. This also prepares the possibility for additional off-site fees from the future Growth Pays for Growth off-site initiative.

The new set of principles for calculating the reseller rate will result in a lower water rate for regional resellers estimated in 2019 at \$2.65 per cubic metre (\$6.50 per 100 cubic ft). This will allow a smooth transition for rate payers inside and outside the Saskatoon

boundary and allow for the implementation of the connection fees. The form of this connection fee will vary depending on whether the entity is an independent water utility, city, town, or other form of municipality; however, it will be charged in a uniform manner to properly reflect the full costs incurred by a new customer.

The Administration is recommending the new reseller rate for 2020 and 2021 be “frozen” at the rate paid by SaskWater in 2019. Following the completion of the 2020-21 rate cycle, the reseller rate will be re-evaluated and the next rate cycle will be recalculated for approval by Council.

It is important to note that the effect of a rate freeze does not result in a lower water rate for customers outside Saskatoon. In addition to the Saskatoon water costs, all other water customers must pay a local water rate to their municipality to cover the costs of distribution, a local connection cost, and also pay any applicable costs charged by SaskWater. In all municipalities outside Saskatoon, water customers will continue to have higher water rates than customers within Saskatoon.

### **Option 3: Immediate Reseller Rate Transition**

This option is the same as Option 2, except the reseller rate would be applied immediately and transition to a lower reseller rate (estimated at \$2.30 per cubic metre or \$6.50 per 100 cu ft.) with utility rates rising in conjunction with other Saskatoon Water rate increases. While water users inside and outside Saskatoon would perpetually have the same rate increases, both sets of users would have a “rate shock” applied to them in the first year of implementation.

#### **RECOMMENDATION**

That the Standing Policy Committee on Environment, Utilities and Corporate Services recommend to City Council:

1. That Option 2: Phased Reseller Rate Transition (Rate Freeze) be included in the 2020/2021 Water, Wastewater and Infrastructure rates; and
2. That the Administration negotiate directly with the municipalities and water utilities currently receiving water from the City to pay a fee upon connection comparable to the water off-site fees paid in Saskatoon.

#### **RATIONALE**

Comparing Options 1 and 2, a reseller rate allows a new transparent and principle based utility system to be developed with SaskWater and with all regional customers surrounding Saskatoon. At each water rate cycle, Saskatoon City Council will have the ability to adjust the reseller rate independently of the residential and commercial rates charged within Saskatoon, thereby providing more flexibility and control.

Included in the agreement to freeze the rate for two years, all new properties will then pay an equivalent off-site amount upon connection. This is an important change from the current practice, as it creates a uniform development cost throughout the region with respect to water servicing.

Selecting Option 2 over Option 3 prevents rate shock for customers. The rate freeze also provides a transition time for the necessary agreements with water suppliers.

### **ADDITIONAL IMPLICATIONS/CONSIDERATIONS**

From a financial perspective, it is estimated that the reduction in the water utility revenue would be in the range of \$500,000 annually, which would be offset by the increase in off-site levies generated. However, it should be noted these are two different revenue streams paying for different water components. Revenues from water rates flow through the utility to pay for water production and the rehabilitation and maintenance of existing water infrastructure, while the revenues from the connection fees will support off-site levies to construct new primary water lines

If approved, the new reseller rate will be incorporated in the Water, Wastewater and Infrastructure Rates for 2020 and 2021 Report to be presented at the City Council Budget meeting in November, 2019.

Once the proposed servicing agreement between Martensville and Saskatoon is finalized, a reseller rate for wastewater customers will also need to be considered by both City Councils.

### **COMMUNICATION ACTIVITIES**

If approved, a communication strategy for Saskatoon rate payers will be developed accordingly.

As part of our continuing dialogue, the Administration will work with our P4G regional partners through the existing meetings and activities with administrative staff and political leaders.

The Administration will continue to work with and engage SaskWater with the application of the new rates and fees. The Administration and SaskWater have agreed to develop a joint communication strategy to directly engage communities and water utilities beyond the P4G area to communicate this new water strategy.

### **Report Approval**

Written by: Galen Heinrichs, Water & Sewer Engineering Manager, Strategy & Transformation  
Reviewed by: Reid Corbett, Director of Saskatoon Water  
Approved by: Angela Gardiner, General Manager, Utilities & Environment

Admin Report - Reseller Rate for Regional Customers of Saskatoon Water.