

SaskWater Master Service and Transition Agreement

ISSUE

SaskWater purchases water at seven distribution points on the boundary of Saskatoon and conveys the water through its own rural network to approximately 33,000 people in the Saskatoon region. The current contract with SaskWater does not consider the regional partnerships that are now in place to jointly manage land use and develop servicing strategies for a regional growth horizon of one million people.

RECOMMENDATION

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

1. That the general terms of the Master Service Agreement between the City of Saskatoon and SaskWater be approved;
2. That the general terms of the tri-party Transition Agreement between the City of Saskatoon, City of Martensville and SaskWater be approved; and
3. That His Worship the Mayor, and the City Clerk be authorized to execute the Master Service Agreement and the Transition Agreement under the corporate seal.

BACKGROUND

The City of Saskatoon (City) has supplied water to surrounding communities through a contract with SaskWater dating back to October 24, 1983. This contract considers SaskWater as 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 on the edges of Saskatoon, and changes to these capacities were managed Administratively with SaskWater. There have been few significant core contract changes to this arrangement since its inception. Significant regional growth has necessitated that a new approach should be taken with a revised contract.

The City and Martensville agreed to enter into a joint servicing agreement in 2014, 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.

Furthermore, in September 2017, the five Planning for Growth (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. A Letter of Understanding was agreed to on July 17, 2018, between P4G partners and SaskWater to outline a framework for regional partners to enter into servicing agreements directly with the City.

In November 2019, Saskatoon City Council approved a new water utility rate class apart from the established residential/commercial water rates. The new reseller rate category recognizes the necessity for a transparent water price that correctly reflects the lower cost of delivering water to communities outside Saskatoon boundaries.

DISCUSSION/ANALYSIS

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. Under the current Master Service Agreement, SaskWater is considered a commercial customer with no consideration of the regional implications of supplying water to communities surrounding Saskatoon.

The revised Master Service Agreement includes the following general terms:

- Initial term of 20 years, with opportunity to renew in 10-year increments;
- City to provide potable water at designated delivery points;
- Saskatoon Water will not supply fire flows beyond the City boundary;
- SaskWater customers are responsible for reservoir storage;
- SaskWater to comply with the provisions of the Waterworks Bylaw that relate to Back-Flow Prevention Devices;
- Connection to any other potable water source is not permitted without approval of the City;
- SaskWater to collaborate with the City to encourage voluntary water usage restrictions, compulsory restrictions when necessary, and to encourage the use of industry best practices for water conservation;
- City and SaskWater will collaborate on long-term infrastructure planning and emergency planning;
- Rates to be set by City Council in the Waterworks Bylaw (referred to as the "reseller rate") as part of the regular multi-year budget and business planning process;
- Connection fee or off-site levy fee will be charged upon connection of water service; and
- Transition fee payable to SaskWater will be required when a member of P4G that had been supplied by SaskWater seeks to receive potable water directly from another P4G member.

As noted in the general terms of the Master Service Agreement, a transition fee is required when a member of P4G that had been supplied potable water from SaskWater seeks to receive water directly from another P4G member. Per the agreement in 2014 for the cities of Saskatoon and Martensville to enter into a joint servicing agreement, the general terms of the tri-party Transition Agreement are as follows:

- Cities of Saskatoon and Martensville shall pay SaskWater two-thirds of the net margin loss incurred for a ten-year period after the supply of potable water is transitioned;
- Payment to be made in 120 equal monthly installments of \$39,084.00 (equally split between Saskatoon and Martensville) commencing on the first day of the month immediately following transition date (currently estimated to be in 2024); and
- Amount of transition fee may be reduced to account for SaskWater securing new contracts to resell potable water to new customers or communities to utilize existing infrastructure.

FINANCIAL IMPLICATIONS

As reported in 2019, approval of the reseller rate in the Waterworks Bylaw will shift revenues streams, resulting in a reduction in water utility revenue of approximately \$500,000, which would be offset by an increase in off-site levies. Approval of the Master Service Agreement does not have any further financial impacts.

Approval of the Transition Agreement Transition fee will result in a financial requirement for the City of Saskatoon to pay SaskWater a sum of \$19,542.00 per month for 10 years. This burden has been included in the water utility rate model and will be included in future water rate cycles.

OTHER IMPLICATIONS

A Regional Water Forum was held on November 26, 2020, to present the new reseller rate framework and general terms of the Master Service Agreement to impacted SaskWater customers. In addition, the Administration continues to support SaskWater with engaging their regional customers as necessary.

NEXT STEPS

Individual agreements with P4G members will follow similar general terms if and when they seek to receive water and/or wastewater services directly from the City. More specifically, a servicing agreement between the cities of Saskatoon and Martensville will be developed for City Council's approval.

Report Approval

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Reviewed by: Russ Munro, Director, Saskatoon Water
Approved by: Angela Gardiner, General Manager, Utilities and Environment