

Utilities Business Line

The Utilities Business Line is a collection of various utility related services including Saskatoon Light & Power (SL&P), Storm Water Management, Waste Services Utility, Water Utility and Wastewater Utility.

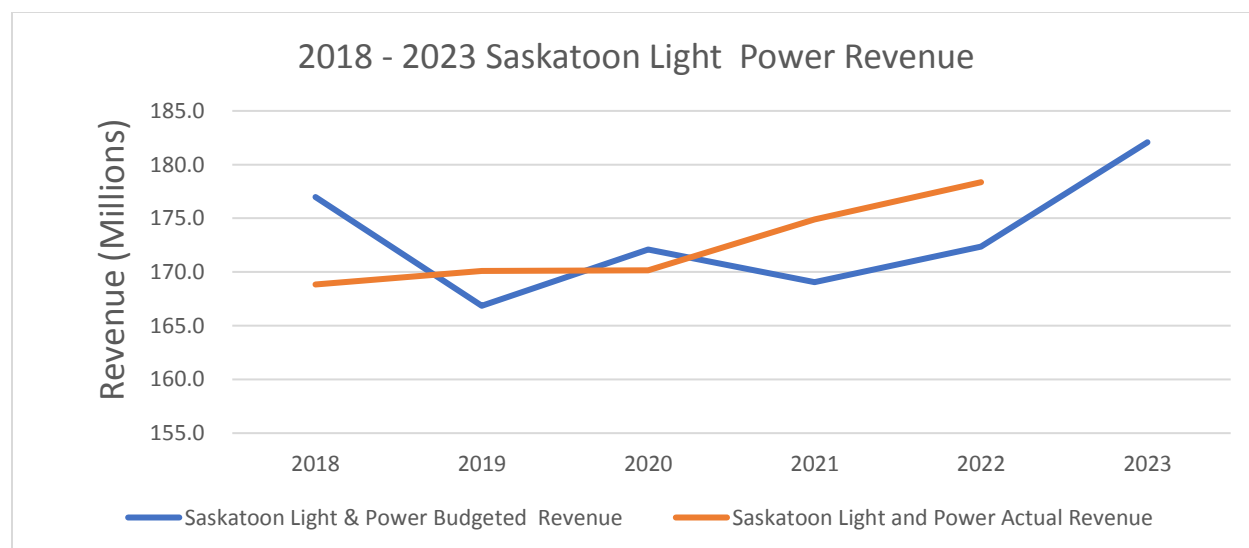
The 2023 Budget for the Utilities Business Line included \$399.27 million in expenditures and \$399.27 million in operating revenues. This results in a net effect of \$0, as this is a self-balanced Business Line.

Revenue Overview

In 2023, the Utilities Business Line was budgeted to generate \$399.27 million in operating revenue. \$182.08, \$103.26 and \$82.25 million comes from SL&P, Water Utility and Wastewater Utility respectively, which is approximately 92% of all operating revenue in this Business Line. A full breakdown of operating revenue can be seen below.

Service Line	2023 Op Rev (in millions)	% of Overall Op Rev.
Saskatoon Light & Power	\$182.08	45.60%
Storm Water Management	\$13.93	3.49%
Waste Services Utility	\$17.75	4.45%
Wastewater Utility	\$82.25	20.60%
Water Utility	\$103.26	25.86%
Utilities Business Line	\$399.27	100.00%

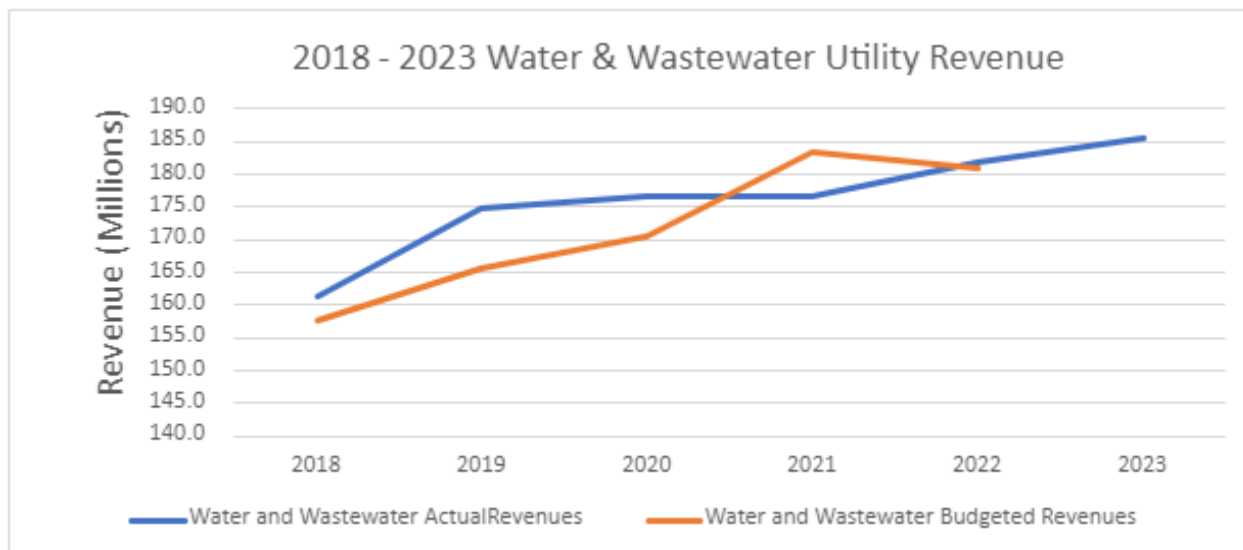
As outlined above SL&P Revenue is the largest operating revenue sources in this Business Line. In 2020, net electricity sales had a negative variance of \$2.15 million due to lower-than-expected sales volumes primarily caused by the Pandemic; however, as illustrated below, actual revenue was higher than budgeted in 2021 and 2022 as volumetric sales have rebounded to pre-pandemic levels:



Although there is an anticipated reduction in revenue in 2023 due to slightly reduced volumetric sales, this is offset by a rate increase which results in an overall revenue

increase of 6% from 2022. As such, Administration has budgeted for an anticipated revenue increase in 2023.

Other significant operating revenue sources for this business line include the Water and Wastewater Utilities. Like SL&P, an unfavorable revenue variance was realized in 2020 as volumetric sales were lower than expected due to both the Pandemic and conservation. Revenues in 2021 and 2022 were above budget as sales volumes slightly exceeded budget in both years. Overall average rate increases were approved for 2.5% in 2022 and 3.4% in 2023. A five-year history of the combined revenue source for the Water and Wastewater Utilities can be seen below:



Expenditure Overview

The three largest service lines SL&P (\$182.08 million), Water Utility (\$103.26 million) and Wastewater Utility (\$82.25 million), make up approximately 92% of all expenditures within this Business Line. An overview of all the service lines 2023 operating expenditures can be seen below:

Service Line	2023 Op. Exp. (in millions)	% of Overall Op. Exp.
Saskatoon Light & Power	\$182.08	45.60%
Storm Water Management	\$13.93	3.49%
Waste Services Utility	\$17.75	4.45%
Wastewater Utility	\$82.25	20.60%
Water Utility	\$103.26	25.86%
Utilities Business Line	\$399.27	100.00%

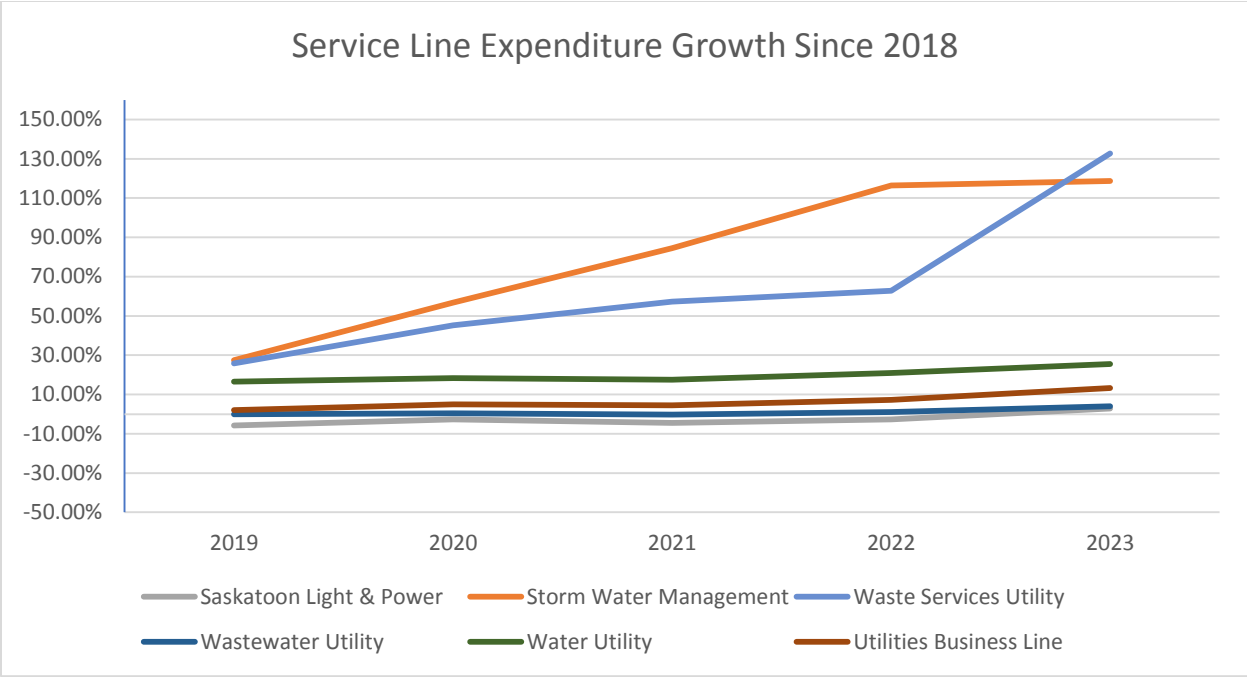
Another way to look at this information is by Budget Category. As seen below, approximately 74% of total expenditures in the Utilities Business Line are for the following: Transfers to Reserve/Capital (36%), Utilities (26%), and Contracted Services (12%).

Budget Category	2023 Budget (in millions)	% of Overall Expenses
Wages & Benefits	\$42.38	10.61%
Contracted & General Services	\$49.61	12.43%
Utilities	\$105.12	26.33%
Materials Goods & Supplies	\$11.98	3.00%
Donations, Grants & Subsidies	\$37.25	9.33%
Finance Charges	\$10.32	2.58%
Other Expenses	\$2.60	0.65%
Transfers to Reserve/Capital	\$142.75	35.75%
Transfers to Other Operating	\$1.75	0.44%
Cost Recoveries	(\$4.49)	-1.12%
Utilities Business Line	\$399.27	100.00%

A couple of additional key observations are:

- 92% of expenses in the Utilities category relate to Saskatoon Light & Power for the purchase of bulk power from SaskPower.
- 66% of all Donations, Grants and Subsidies relate to Saskatoon Light & Power with the balance from both the Water (20%) and Wastewater Utilities (14%). These are largely for grants-in-lieu of taxes paid to the City's general revenues.
- Transfers to reserve/capital for the Utilities Business Line include contributions to various capital reserves and a Return on Investment (ROI) paid to the City. The Water (31%) and Wastewater Utilities (31%) are the largest contributors with the balance attributed to Saskatoon Light & Power (29%), Storm Utility (7%) and Waste Utility (2%).
- In 2023, the Water and Wastewater Utilities are budgeted to contribute \$31.1 million in combined ROI and Grants-in-Lieu, while Saskatoon Light & Power is budgeted to contribute \$49.1 million for both ROI and Grants-in-Lieu.

Overall, since 2018, the expenditures in the Utilities Business Line have grown by 13.33% over the past five years or an average of 2.67% per year. A graphical overview of each service lines expenditure growth can be seen below:



The service lines that have seen the largest expenditure growth over the past five years (greater than 20%) include:

- 132.66% increase (\$7.63 million to \$17.74 million) in Waste Services Utility from 2018 - 2023;
 - This increase is largely due to the implementation of the City-wide Curbside Organics in 2023. Costs relating to this program included 12.9 FTE's which were funded through utility revenues. Other new costs related to this new initiative include growth related costs, inflationary expenses and transfer of some of the operating costs from garbage collections.
 - Additionally, although this service line saw an elimination of the Leaves and Grass subscription program, resulting in a reduction of expenses by \$790K, it was offset by an increase of \$183K in the recycling program budgets attributed primarily to recycling service contract costs.
- 118.66% increase (\$6.37 million to \$13.93 million) in Storm Water Management from 2018 - 2023;
 - This increase is largely related to an increase in Capital Contributions, in both 2022 and 2023, to balance operational and capital requirements. This increased contribution will support the city's portion of shared municipal and federal funding for projects to help mitigate flooding in ten areas of the city. These projects will span an eight-year period, ending in 2027.
- 25.47% increase (\$82.29 million to \$103.26 million) in Water Utility expenditures from 2018 - 2023;
 - Water Utility experienced regular increases of approximately 5% per year from 2019 – 2023 (with the largest increase occurring in 2019 from 2018).
 - Increases in reserve transfers to the Water Supply replacement reserve and the Infrastructure Reserve – Water and Sewer contribute to the overall increase from 2018-2023.

Service Level Overview

Service levels are a key driver for the City's expenditure requirements. The following section provides an overview of key service levels for each.

Saskatoon Light & Power		
Service	Sub-Service	2023 Service Level
Electrical Utility	Maintain Distribution System	Maintain the distribution system in a condition that provides electrical reliability that meets or exceeds the Canadian Urban Average.
	Respond to Power Outages	Provide 24 hour per day emergency service.
		Respond to power outages as quickly and safely as possible and issue service alerts as quickly as possible.
	Tree Trimming	Trim trees away from overhead power lines on a seven-year cycle to reduce risk of power outages from tree contacts.
	Underground Utility Locates	Participate in Sask1st Call and provide underground utility locates upon request.
	Safety & Awareness Education	Provide school tours upon request on electrical education and safety training (800-1,000 students per year).
Metering	Meet Measurement Canada's requirements as an Accredited testing facility. Ensure electricity meters meet national standards for accuracy.	
Storm Water Management		
Service	Sub-Service	2023 Service Level
Storm Sewer Collection System Maintenance	Storm Sewer Mains	Provide 24 hour per day emergency service.
		Flush storm sewers as required on an emergency basis.
		Inspect and clean catch basins each year.
		Inspect outfalls each year.
	Storm Water Retention Ponds	Inspect locations on the Roadways Rehabilitation program.
		Clean Storm Water Retention Ponds shorelines as required.
		Operate and maintain aesthetic fountain features at storm water retention ponds.
Wastewater Utility		
Service	Sub-Service	2023 Service Level
Service Interruptions	Enquiries	24 hour per day emergency telephone service.
	Response	Provide alternate service after eight hours disruption. (i.e. set up a bypass and pumping shift).
Provide a residential emergency sewer connection auguring service between 07:30 hours and 23:30 hours.		

Asset Preservation	Sanitary Sewer Mains	Respond to residential connection blockages within 8 business hours of report. Provide regular cleaning and repairs to the sanitary sewage collection system to maintain it in a free-flowing condition for the protection of community health and property.
		At current funding levels the backlog of Poor and Very Poor mains will be addressed over time.
	Sanitary Sewer Connections	Provide repairs to the sanitary sewer service connections to maintain free flowing sewage drainage from all properties.
Water Utility		
Service	Sub-Service	2023 Service Level
Service Interruptions	Notification	Any disruption in the system will result in a Drinking Water Advisory (DWA) and lab testing before the advisory can be lifted.
	Response	Alternate water supply is provided to those affected within 8 hours if the issue remains unresolved.
		Water will be restored in 1-2 days except for extenuating cases.
Saskatoon Fire Department Requirements	Pressure	American Water Works Association (AWWA) pressure recommendations are maintained when the hydrants are in operation.
	Winter Inspections	100% of Hydrants are inspected
	Summer Inspections	50% of Hydrants are inspected
Lead Service Lines	Replacement	All lead service lines in water distribution system will be replaced by end of 2026.
Water Standards	Water Standards	Saskatoon currently meets or exceeds provincial and federal water quality standards, as required under the Permit to Operate from Water Security Agency.
	Enquiries	80% of water quality enquiries are addressed over the phone. If an enquiry is not resolved over the phone, a home visit will be arranged to test the water within 48 hours. A sample is collected and tested within 48 hours to ensure water is safe for consumption.
	Pressure and Flow	Adequate water pressure and flow for home and business use is maintained in periods of peak demand.

Environmental Standards	Water Conservation	Water conservation initiatives are made available to engage the public through communications on the website, YouTube Videos, conservation education and water week awareness.
Asset Preservation	Water Main Replacement	With current approved funding levels for water main replacement, the number of water mains in “Poor” or “Very Poor” condition is getting smaller over time. Water main replacement is prioritized based on capacity (volume of water), the number of people serviced and the number of historic breaks (last 25 years), the number of recent breaks (last 5 years), as well as optimizing the use of our resources by coordinating with Roadways and Operations and other service areas.
Waste Services Utility		
Service	Sub-Service	2023 Service Level
Recycling Collection	Single Family Curbside	Biweekly collection year-round
	Multi-Unit	Collections occur at least biweekly
Organics Collection	Single Family Curbside	Biweekly collection year-round
Waste and Recycling Education	Online Collection Calendar, App, Waste Wizard, and Game (with info)	Available to all residents online
	Rolling Education Unit	30 events
	Recycling Cart Blitz	3,200 curbside households; 800 multi-households
	Educational materials for Multi-units	30,000 brochures delivered
	Communications Campaigns	2 annual campaigns (Summer- Recycling, Fall - and Holiday - Combined) and 1 social, year-round campaign for all waste and waste diversion programs. Includes billboards, ground-level signage, transit, media outreach, social media, videos, utility bill inserts, and website.
	School education at Recycling Facilities	130 class tours
	Newcomer Workshops	40 workshops (20 recycling, 20 composting)
	Market research Statistically	1 Representative Survey or Focus Groups per year
Glass Recycling	Depot glass recycling	To be determined

Pandemic Challenges

This Business Line is no longer largely impacted by the Pandemic as volumetric sales items such as water, sewer and power sales have returned to expected activity levels.

2024/2025 Pressures Included in the Budget Status Update

While the Administration is still in the process of quantifying the exact pressures that this Business Line is expected to experience in 2024 and 2025, some of the known pressures include:

- As part of the phase-in strategy to address inflation and increase the investment in SL&P assets, a reduction in ROI of \$825,000 in 2024 and \$495,000 in 2025 has been included in the 2024/2025 Preliminary Business Plan and Budget as resolved by GPC at the [July 25, 2023 special budget meeting](#).

In January 2023, the Administration presented a report entitled [Funding Strategy for the Water Treatment Long Term Capital Strategy](#) which outlined a forecasted rate increase requirement estimated to be between 3% to 5%. The Administration has been preparing the property tax supported budget based off a midpoint (4%) forecast on areas impacted by water rates such as utility charges, grants-in-lieu and return on investments. Continued development of the utility rate model are projecting inflationary pressures that are higher than originally anticipated. Based on an analysis of new pressures, the revised forecasted rate is approximately 5.5%.

A 5.5% rate increase forecast results in revised estimates for the property tax supported budget of \$416,000 in 2024, and \$431,000 in 2025, as the revenue increases for the City's grant-in-lieu and return on investment formulas surpass the increased costs for city owned facility utility costs. This positive impact has not been included in the City's funding gap discussions as it is still contingent on a future City Council decision.

It is also important to note that future reports may include various options such as adjusting the contribution to the Roadways Levy for inflation and/or increasing the City's return on investment from the Water and Wastewater Utility. If approved, these would have an impact on utility rates above and beyond the current 5.5% forecast.

Additional 2024/2025 Pressures Not Included in the Budget Status Update

While the Administration is still in the process of quantifying the exact pressures that this Business Line is expected to experience in 2024 and 2025, some of the known pressures are related to unique pressures on the water and wastewater rates. Further reporting will be provided as part of the 2024 and 2025 Business Plan and Budget Deliberations.

Potential Options

If all of the options presented in this report, along with the options previously presented in the [2024/2025 Budget Inflationary & Phase-in Decisions](#) report, were approved, it would reduce the Utilities Business Line by the following:

Utilities 2024/2025 Budget Options Impact		
	2024	2025
Options from the 2024/2025 Budget Inflationary & Phase-in Decisions Report	\$2,475,000	\$495,000
Recommended Options included in this report	\$775,000	-
Other Options included in this report	\$2,116,000	
Total Options	\$5,366,000	\$495,000

An overview of all recommended options as well as options that could further reduce the funding gap are provided below. Given that all utilities are self-balancing, any reductions in expenditures or increases to revenues within utilities would require an increase in ROI to benefit the mill rate. However, given the various pressures within the utilities, the Administration is recommending that any savings due to reduced expenditures be used to offset future utility rate increases and/or be used to address asset management funding gaps.

It is important to note that an increase of ROI without an offsetting rate increase or targeted expenditure reduction would have a negative impact on the utility's ability to maintain or replace its asset base as the impact would be a reduction in the contribution to reserve.

Recommended Options

Option 1 – Eliminate Investment Practice by SL&P for New Street Lighting

There has been an ongoing practice for many decades by Saskatoon Light & Power (SL&P) to provide a \$300 contribution for each new streetlight installed. This practice aligns with SaskPower's investment practice; however, SaskPower no longer installs new streetlights in Saskatoon.

The balance of the cost for installation comes from the land developer for new development areas. For roadway projects such as new interchanges, the roadway capital project pays for the installation costs beyond the \$300 investment from SL&P.

While this practice has been ongoing for a very long time, there is no obligation to continue in the future. SL&P funds the \$300 per light from its Electrical Distribution Extension Reserve (EDER), which takes funds away from being used for the utility's asset management program. The quantity of lights installed annually fluctuates year to year and averages approximately 500 per year unless there is a large roadway project.

The potential savings from this option would be \$150,000 per year annually.

Option 2 – Update Schedule of Fees in Bylaw 2685 – The Electric Light and Power Bylaw, 1940

In addition to the rates for electricity, this bylaw also establishes a schedule of fees for providing special services upon a customer's request. This includes services such as an application for service, cut and reconnect of service, reconnect after cut-off for non-payment, meter reading and testing services, and self-generation customer verification tests and interconnection studies. These fees have not been reviewed in many years and no longer reflect the cost of providing the service.

This option would include directing SL&P to undertake a review of these fees and bring forward the necessary reports. It is estimated that these changes may result in increased revenue of \$60,000 annually.

Option 3 – Change Non-Residential Water and Sewer Connection Boundaries

A change to the bylaw transferring ownership of non-residential water and sewer connections extending to the water or sewer main (not just to the property line) would reduce the number of repairs performed by the City. It is estimated that there are about 30 non-residential repairs of this type annually. With an average cost above \$10,000 each, the resulting annual savings for the City would be about \$300,000. Repairs to the entire service lines would become the responsibility of the non-residential property

owner. Additional reporting would be undertaken to further clarify the implications of this option if directed by City Council.

Option 4 – Adjust Service of Auguring Customer Sewer Connections

The City provides sewer auguring services to approximately 4,500 customers per year.

Option 4a - Eliminating the service for customer connections could save the City \$225,000 annually. If approved, private contractors would provide the services at a cost to the property owner.

Option 4b - Alternatively, a fee for this service could be charged as per Council Policy C07-008 to recover the costs of providing this service. The rate would need to include the expense of administering the program, including processing and collecting the fee. There would also be an initial cost to establish the tracking and billing mechanisms. It is estimated that a \$100 fee would be sufficient to cover the cost of providing the service, resulting in a net positive impact of \$400,000.

Option 5 – Revise Net Metering Incentive Program

In Fall 2019, SaskPower announced a revised Net Metering Program that reduced the energy credit provided to customers generating electricity from solar panels from \$0.14228 per kilowatt-hour (kWh) to \$0.075 per kWh. Customers prior to November 2019 continued to receive the credit at the higher rate until December 31, 2028, but new customers were credited at the revised rate.

City Council chose to continue the credit at the higher rate, providing a “one-to-one” credit matching the residential rate for power. City Council also decided that any existing net metering customers accepted into the program up to that date would be considered grandfathered under the existing program terms and conditions. No decision was made about future net-metering customers beyond that date.

An option would be to adjust the SL&P Net Metering program to match SaskPower’s current net metering rate. Further options would include either grandfathering all existing net metering customers at the higher rate and implementing this change only for new customers or grandfathering only those customers who enrolled in the program before November 2019 (matching SaskPower’s program).

With this option, the Small Power Producer rate would also be revised to match the Net Metering rate so that there is consistency for all self-generating customers.

The cost of the current program is approximately \$160,000 per year. There were 142 customers prior to November 2019 and there are approximately 300 customers currently.

Option 5a - If only the customers prior to November 2019 are grandfathered, the cost saving for this option would be \$40,000 per year. Once the grandfathering period ends at the end of 2028, the savings would increase to \$80,000 per year. This is recommended by Administration.

Option 5b - If all existing net metering customers are grandfathered, there would be no current cost saving associated with this option, but it would reduce the annual incremental cost of this incentive program in future years by approximately an increase of \$10,000 annually, because the one-to-one incentive rate would not be offered to new customers.

Options that Could Further Reduce the Funding Gap

Option 6 – Create ROI from Storm Water Utility

The storm water utility currently does not provide an ROI to the City as the electrical and water/wastewater utilities do. A 0.5% ROI could result in approximately \$71,000 to the City to support general revenues. Creating an ROI for the storm water utility could generate more revenue, but the cost of that benefit would be passed along to many of the same property owners. The difference would be that this revenue would be collected based on the proportions of the storm levy as opposed to property taxes. Further, if the City is successful in applying for mitigation and adaptation funding from other levels of government, an ROI would have a smaller or no impact on the storm water program. As such, if City Council is interested in exploring this option further, the Administration could report back after it is known whether or not the City will receive additional funding for the Flood Control Strategy.

Option 7 – Increase Water and Wastewater Utility Rates to Increase ROI

This option is to add an additional 1.14% average water and wastewater rate increase to increase the ROI from 10% to 11% of metered revenues, resulting in approximately \$2 million in net additional general revenue based on current water demand forecasts offset by increased costs for civic operations. This option could generate more revenue, but the cost of that benefit would be passed along to many of the same property owners. The difference would be that residents have some level of additional ability to control this increased cost compared with property tax.

This option is separate and distinct from the option to increase the contribution to the Paved Roadways Infrastructure Reserve for inflation, which is an option presented in the Corporate Governance & Finance business line report. If approved, that option would require an addition of 0.89% to the rate.

Option 8 – Extend Repair Time on Watermain Breaks

The targeted service level for repair of watermain breaks could be extended from 48 hours to 72 hours. Annual savings is estimated at \$45,000 but would result in longer wait times for water mains to be repaired.