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## Regional Water and Wastewater Update

### Recommendation

That the Governance and Priorities Committee recommend to City Council:  
That the Administration be directed to prepare future water and wastewater utility rate structure based on the approach outlined in this report.

### Topic and Purpose

The purpose of this report is to request City Council approval to provide a regional utility framework to the Governance and Priorities Committee regarding water and wastewater servicing with municipalities in the Saskatoon region.

### Report Highlights

1. SaskWater currently acts as the supplier to all water users in the region. The current City of Saskatoon (Saskatoon) rate structure for water sales to SaskWater dates back to 1983 and does not adequately address the unique costs of selling water (or wastewater) beyond the Saskatoon border.
2. Saskatoon has a unique opportunity to provide water and wastewater services directly to the City of Martensville (Martensville). This project has significant benefits for both cities and the entire Partnership for Growth (P4G) region.
3. As compensation for lost revenue, SaskWater, Saskatoon and Martensville have proposed a Regional Water Supply Transition Fee once a joint water and wastewater project is completed (estimated in fall 2020) and water services formally transition from SaskWater to Saskatoon.
4. A new “Reseller” rate structure is proposed to adequately reflect the costs of Saskatoon providing water and wastewater services beyond the city’s boundary.
5. The changes to the rate structure and the details of the compensation will be part of the regular three-year water and wastewater rate cycle. The next rate structure for 2020-2022 will be considered by City Council in fall 2019.

### Strategic Goals

This report supports the Strategic Goal of Asset and Financial Sustainability by allowing Saskatoon to standardize water rates within the city's regional growth area. This report also supports the Strategic Goal of Sustainable Growth by strengthening and supporting regional development goals.

### Background

Saskatoon supplies water to the surrounding region through the provincial crown corporation SaskWater. The first contract was in 1976 and the current contract with SaskWater was signed in 1983. The contract outlined a rate structure and maximum delivery volumes at seven supply points around the perimeter of the city. Within the P4G region, the cities of Martensville, Warman, and the town of Osler receive Saskatoon water through SaskWater.

Beyond the region, the towns of Aberdeen, Allan, Clavet, Dalmeny, Dundurn, Hague, Hanley, and Hepburn, numerous acreage communities, dairies, light industrial parks, and small water utilities also receive potable water from Saskatoon through SaskWater. In total, the equivalent of 38,000 people outside the Saskatoon boundary use water from Saskatoon.

In February 2014, Saskatoon signed a Memorandum of Understanding with Martensville to build a wastewater and water project connecting the servicing of the two communities. The project was subsequently delayed to determine an appropriate financial arrangement with SaskWater.

In 2014, Saskatoon joined the cities of Martensville and Warman, the town of Osler, and the RM of Corman Park to create the P4G. This partnership was established to jointly plan land uses and the associated infrastructure in the Saskatoon region to a population of one million. In 2017, the partner municipalities endorsed, in principle, the Saskatoon North Partnership for Growth Regional Plan, Regional Servicing Strategy, and Regional Governance and Implementation Strategy.

### **Report**

Saskatoon is working to provide a sustainable and cost effective water and wastewater system for the P4G region with an overarching long-term emphasis on creating the building blocks necessary to provide water and wastewater to a region of one million people. This joint wastewater and water project is of great significance to Martensville as their current lagoon treatment system is reaching its full capacity and additional infrastructure solutions are required in order to enable them to meet growth demand. For Saskatoon, the proposed project has several benefits including:

- Increased wastewater utility revenue,
- Early and strategic placement of required future infrastructure for development expansion,
- Shared costs with regional partners for this infrastructure, and
- A significant milestone in regional cooperative efforts.

### **SaskWater**

Approximately 11.6% of all metered water produced by Saskatoon is sold to SaskWater for distribution outside city limits; this includes the cities of Martensville and Warman which represent SaskWater's largest customers. The two cities each represent 20% of SaskWater's total volume in the Saskatoon region with the remaining 60% primarily comprised of:

- towns
- acreages
- acreage communities
- dairies
- light industries

### Martensville

Martensville has grown from an estimated population of 4,968 in 2006 to 9,645 in 2016 and relies on the lagoon wastewater system which has reached capacity. Martensville has been in discussion with Saskatoon since 2014 about a joint water and wastewater infrastructure project connecting the two cities that would also potentially provide other servicing opportunities within the region. A connection from the Martensville lagoon to the Saskatoon Wastewater Treatment Plant would not only provide the needed capacity for growth in Martensville, it would also provide a significant upgrade to the wastewater treatment process since the lagoon currently discharges effluent to the river. A new large diameter water line is also required to adequately provide services to the growing community and there are many advantages to building both lines at the same time.

### SaskWater Restitution

The P4G partners have developed a financial arrangement to facilitate SaskWater's withdrawal from providing services to Martensville. Martensville wishes to receive both water and wastewater services directly from Saskatoon, and in exchange for the change in water suppliers, Martensville and Saskatoon will provide partial cash restitution in the form of a Regional Water Supply Transition Fee to SaskWater as temporary compensation for the losses in revenue. Effectively, the revenue loss would be split between SaskWater, Saskatoon, and Martensville equally, at an estimated cost of \$234,500 each annually for the next ten years. The financial arrangement details are included in Attachment 1.

### SaskWater Current Rate Structure

The current rate structure dates back to the 1983 contract and requires a significant update to reflect many changes since that time. There are currently five components to the SaskWater bill:

- Connection Service Charge (fixed – same as commercial rates);
- Volumetric charges (same as the commercial rates);
- 30% surcharge on volumetric charges;
- Infrastructure Levy (IS Levy) charges (both water and wastewater); and
- Other fixed connection charges on the meter (i.e. Temporary Flood Protection Program).

The 30% surcharge represents an American Water Works Association best practise for charging customers within a different municipal boundary. It reflects the accrual accounting costs associated with asset depreciation and also reflects the need for the supplying municipality to see a higher return on investment. Typical charges in North America range between 25% and 50%.

Other than the 30% surcharge, the current rate structure simply parallels commercial water bills within Saskatoon. Although this appears to be reasonable, there are considerable problems with applying this system to large entities that then redistribute water to customers beyond the Saskatoon border.

### The Proposed Reseller Rate

The Administration is proposing a new rate independent of the current residential and commercial rate structures called the “reseller rate”. This new water rate would apply to SaskWater but also to Martensville and potentially to the City of Warman should they choose to follow a similar path in the future. The reseller rate would replace the five components of the previous system with a single strictly volumetric charge that reflects only the appropriate costs of producing and distributing water to a customer that then redistributes it through their own local system. Because the rate system has not been updated since 1983, some components of the current rate structure undercharge SaskWater while other components overcharge. Overall, the reseller rate would be lower than the current rate charged to SaskWater but will more accurately reflect the actual costs. The reseller rate represents a principle-based change to how Saskatoon charges customers that do not use the local water distribution system.

### The Regional Wastewater Rate

Currently, Saskatoon does not receive wastewater from beyond its physical boundaries. As a result, a regional wastewater rate will also be proposed in the new 2020-2022 utility rate structure. Wastewater sales to Martensville offer a means of offsetting the restitution paid to SaskWater. Although Saskatoon will be receiving less water revenue as a result of the proposed lower reseller rate, additional future revenue will be received from wastewater treatment provided to Martensville.

There are significant advantages of collective regional planning and eliminating barriers for regional growth. The joint water and wastewater project between Martensville and Saskatoon and the rate agreements that accompany it represent a tangible physical example of cooperation between municipalities. This will demonstrate the commitment of the cities to work together and to inspire further mutually beneficial collaboration on planning and infrastructure within the Saskatoon region.

### **Public and/or Stakeholder Involvement**

Saskatoon has been continually working with all regional partners in developing a long-term water and wastewater strategy.

### **Other Considerations/Implications**

There are no options, communication, policy, environmental, privacy, or CPTED considerations or implications.

### **Financial Implications**

The cost to the City of Saskatoon is estimated at \$234,500 annually for the next ten years, and will be reflected in the three-year utility rate cycle (2020-2022) which will be presented to City Council in fall 2019. In addition, the proposed reseller rate will also negatively impact the utility’s annual revenue by approximately \$2 Million annually. These costs will be partially offset by new revenue from Martensville for wastewater servicing (estimated between \$900,000 and \$1.5 Million annually) and the increased growth of water in the P4G area.

The annual water and wastewater revenue is currently \$155 Million. The proposed Regional Water Supply Transition Fee (\$234,000 annually) is equivalent to 0.15% of the annual revenue. The \$2 Million in reduced revenue from the proposed reseller rate will be offset by new wastewater revenue from Martensville. The net difference is estimated to be 0.7-0.9% of annual revenue.

### **Due Date for Follow-up and/or Project Completion**

A report will be presented to the Standing Policy Committee on Environment, Utilities and Corporate Services once the details of the joint Martensville Water and Wastewater project are finalized.

The changes to the rate structure and the details of the compensation will be part of the regular three-year water and wastewater rate cycle. The next rate structure for 2020-2022 will be considered by City Council in fall 2019.

### **Public Notice**

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

### **Attachment**

1. Regional Water Supply Transition Fee and Service Plan

### **Report Approval**

Written by:	Galen Heinrichs, Water & Sewer Engineering Manager
Reviewed by:	Reid Corbett, Director of Saskatoon Water Angela Gardiner, Acting General Manager, Transportation & Utilities Department
Approved by:	Jeff Jorgenson, City Manager

Admin Report – Regional Water and Wastewater Update