

CITY OF YELLOWKNIFE WATER AND SEWER RATE REVIEW

YELLOWKNIFE, NORTHWEST TERRITORIES | JULY 5, 2023

On June 4, 2023, the City of Yellowknife (the City) released an Interim Report with recommendations for rationalizing City water and sewer rates. Residents were encouraged to provide feedback via the City's PlaceSpeak website by July 4, 2023. A number of comments have been received, and based upon the interest expressed to date, the City is extending the public engagement period to July 21, 2023.

The Interim Report was developed by InterGroup Consultants, a firm that specializes in utility rate design and has over 20 years of experience in the North and in many smaller and remote communities in Canada's south. InterGroup has developed the attached Backgrounder, based upon comments and issues raised to date, to further inform the public discussion.

The recommendations of the Interim Report are based on a detailed Cost of Service model as well as generally accepted principles of utility rate design as stipulated in the American Water Works Association Manual, the industry standard. Recommendations include implementing separate water and sewer rates, simplifying rates to ensure that customers easily understand their monthly bills, and linking rates to the actual cost of servicing various customers.

All input received by July 21, 2023 will be included and addressed in a Final Report, which will be presented to Council to inform their decisions.

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BACKGROUNDER DEVELOPED BY INTERGROUP CONSULTANTS | JULY 5, 2023

A key premise of the recommendations of the Interim Report is that water and sewer rates are based upon costs and that customers can be confident that there is a clear rationale underpinning the rates they are being charged. Based upon a detailed Cost of Service model, it is evident that some customers are currently paying over 20 percent more than the cost of providing them with services, while other customers are paying less than the cost of service. For example, trucked water and sewer rates are only recovering about 75 percent of the cost of service. Best practises dictate that the cost of service should fall into a range of reasonableness of between 90 percent and 110 percent of the cost of service.

In addition to the lack of a clear rationale for rates, there are a number of other issues, such as multiple fixed fees being included in the rate structure and an over-emphasis on floor space as a determinant of rates (known as the 'Equivalent Residential Unit' approach, a dated practice). No other municipalities reviewed take this approach and it is not aligned with industry best practices.

Feedback to date has been focused on the proposed rate increases to those on trucked services. These proposed increases are five percent per year for 2024, 2025, and 2026. For average use customers, this amounts to between \$9 and \$10 per month in 2024, 2025, and 2026 and these increases will result in about a 90 percent cost of service coverage ratio, so a small amount of cross-subsidization would remain. However, the approach to the recommendations was based on minimizing potential rate increases. This issue is addressed in more detail in the analysis below, based upon some of the comments and issues received via public input to date.

Key Issues Raised

- 1) Everyone shares the costs of many City services, including the aquatic centre, recreation facilities, and City-sponsored events. Why differentiate with respect to water and sewer services, based upon where you live?**
 - The objective of the Interim Report was to recommend an approach that is aligned with utility industry best practices. A utility is different from the other services that the City provides. Utility costs can be readily identified and for sustainable utilities, the recovery of these costs is ideally based on cost drivers such as usage.
 - The establishment of rates should be based on a rationale documented in policy for ease of understanding and consistency. Currently, combined trucked water and sewer services pay about 75 percent of their cost of service (82 percent for water and 66 percent for sewer). This was not the result of an informed policy decision, but a situation that evolved over time. The Interim Report endeavors to provide a rationale for City political leadership to consider.
 - It is important to note that the current price disparity between trucked and piped services is not based upon any documented rationale. Political leadership may decide that yes, maintaining a degree of cross-subsidization is appropriate – the question is then, how much? What is the number? While not consistent with municipal utility best practices, political leadership could decide that everyone pays the same rate.
 - Utility best practices dictate that rates should be based upon, or at least informed by, the cost of service. Basing rates on costs sends the correct price signals to customers and informs

development decisions. For example, it is self-evident that piped services are more efficient than trucked services. While there are higher capital costs, there are fewer ongoing costs, such as trucks, fuel and labour.

- It should also be noted that the water and sewer utility in Yellowknife is very unique. Most municipal utilities in Canada do not have different rates for users within the same 'customer class', as it is extremely rare in Canada to find municipalities with different delivery modes for services, such as trucked and piped services. With two distinct services with readily identifiable costs, different rates are appropriate to ensure sustainable program management and planning. Basing rates on the kilometres of pipe between a residence and the source would not be an appropriate approach.
- The Interim Report notes that five municipalities were reviewed, three of which provide both trucked and piped services; Dawson, Yukon, Hay River, NWT, and Iqaluit, Nunavut. All of these municipalities have some degree of cross subsidization between trucked and piped services, although, in discussions, they recognize that this situation is not ideal:
 - In Iqaluit, trucked services accounts for approximately 11% of the demand for water and sewer services, yet use approximately 40% of the Water and Sewer Fund. Considering that both residents served via truck and residents served via pipes pay the same rates, the effect is that piped service residents heavily subsidize those residents on trucked water.
 - Dawson provides both trucked and piped water services. Dawson subsidizes piped services by 20 percent and trucked services by 35 percent. City officials recognize that these subsidies are not sustainable and are working to reduce them over time.
 - Hay River provides trucked and piped water services and piped sewer services. It is up to customers to provide for their own trucked sewer services. There is significant subsidization for trucked water customers, which comes from piped service customers and municipal revenues.
- While all municipalities reviewed recognized that the subsidization of trucked services is not ideal, these examples demonstrate that the situation with respect to cross-subsidization in Yellowknife is not unique. Further, note the following from the Interim report (page 23):
 - *Over time, ideally, rate adjustments are made so that all customers pay rates that fall into the range of reasonableness for the services they are provided. However, as noted in the introduction, there is often no one right answer. Choosing the appropriate approach to rates needs to also be informed by residents, key stakeholders that are familiar with the intricacies of the system, and political leadership.*
- For the reasons illustrated above, and detailed in the Interim Report, InterGroup believes that for a sustainable water and sewer utility in Yellowknife, rates should be transparent, easy to understand, and linked to the cost of service. As it will be City Council that makes the final decision, it will be important that all sides of this discussion are captured within a Final Report to be presented to City Council in the fall of 2023.

2) The Interim Report does not consider all of the capital costs associated with the piped services system and (outside) government contributions towards piped system infrastructure should be shared by all residents.

- The key to municipal utility cost allocation, especially with respect to municipalities the size of Yellowknife, is to consider 'readily identifiable costs'.
- Capital costs associated with the piped services system that are not offset by outside government capital contributions are accounted for in the piped services cost of service model. As reflected in the Interim Report, debt servicing costs are attributed to piped services.
- Trucked services benefit from outside capital contributions. The water provided to trucked services customers is sourced via the submarine water intake line, processed through the Water Treatment Plant, and distributed in part through piped infrastructure.
- There are a number of issues such as costs in planning for peak demand, the distance of pipe servicing various customers, etc., that are not an appropriate consideration in a cost of service model or in establishing rates aligned with industry best practices for a municipality the size of Yellowknife.

3) The city avoided the capital expense in areas with trucked water and shifted the costs to the property owners. Customers on trucked services have made their own infrastructure investments, such as sewage tanks and water storage. Have these investments been factored into the analysis?

- Land development costs include the capital cost of providing infrastructure in areas where there are piped services. This is why the price of land in piped service areas is generally more expensive than in trucked service areas.
- In this context, investments made by residents in trucked services were not factored into the analysis.