



**REPORT TO JUAN DE FUCA WATER DISTRIBUTION COMMISSION
MEETING OF TUESDAY, NOVEMBER 5, 2013**

SUBJECT 2014 CAPITAL AND OPERATING BUDGET

ISSUE

The purpose of this report is to provide a synopsis of the 2014 budget highlighting the proposed significant changes. The report generally follows the sequence of information provided in the draft budget document (Attachment 1).

BACKGROUND

Rate Base

The rate base for 2014 has increased by \$6,124,473 which primarily reflects new infrastructure additions associated with the continuing development in the service area, the water main replacement program, and fire flow upgrade program (Pages 2 & 3 of the budget document).

Revenue Requirement

The revenue requirement for 2014 has increased by \$315,026, resulting from increases in operational expenses totaling \$221,038, an increase in depreciation net of expired depreciation on existing assets of \$183,588, offset by a decrease in the return on the rate base of \$89,600, primarily due to debt refinancing (Pages 4 and 5 of the budget document).

Operating Expenditures Budget

The 2014 operating budget reflects an increase in non-discretionary expenses such as negotiated wage/salary increases, departmental support service allocation increases, maintenance expense increases due to new infrastructure additions, and other operating expense increases such as electricity costs. The net 2014 operating budget increase is \$221,038 (Page 5 of the budget document).

The addition of new assets due to development and the infrastructure renewal program continued in 2013, resulting in new infrastructure being brought into service, requiring operation and maintenance, including the following:

- 3 pressure regulating stations
- approximately 6,000 metres of development related water main additions
- 5,535 metres of water main were replacement
- 27 fire hydrants
- 30 large meters
- 250 residential meters

Capital Budget

There are a number of capital projects planned for 2014 with a total value of \$7,524,000, plus \$677,000 in projects cost shared with the Regional Water Supply Service. The major expenditures in 2014 include the continuation of the annual small diameter water main replacement program (\$2.244 million) and the

five year fire flow upgrade program (\$1.880 million), as well as the replacement of 2,200 metres of 600mm pipe along Sooke Road between Jacklin Road and Veteran's Memorial Parkway (\$1.200 million). (Pages 10-23 of the budget document)

In addition, there are several capital projects planned for 2014 under the Development Cost Charge (DCC) program with a total value of \$2,460,000. The timing of DCC projects is tentative and is dependent on when development proceeds.

A five year capital plan has been presented for information.

Capital and Debt Expenditures

The 2014 capital expenditures will be partially funded through a transfer to the water capital fund in the amount of \$3,200,587, with the balance funded through debt. 2014 debt expenditures for existing and new debt servicing are budgeted to be \$1,356,452. The long term debt obligations are summarized on the attached graphs (Attachment 2).

Water Demand

Water demand in the service area continues to typically decline when looking at year-over-year figures on a monthly basis, largely influenced by less indoor consumption related to low flow fixtures and high efficiency appliances, as well as less outdoor consumption during the summer months. In 2013, the budgeted demand was 8,088,000 cubic metres and the actual demand is projected to be 7,978,000 cubic metres. The proposed 2014 retail water rate has been calculated using a budget demand of 7,840,000 cubic metres, which is approximately 3.1% lower than the 2013 budgeted demand (Page 7 of the budget document).

Proposed 2014 Wholesale Water Rate

The proposed 2014 wholesale rate is \$0.5994 per cubic metre, subject to Regional Water Supply Commission's approval. Currently the wholesale rate accounts for approximately 34% of the retail rate.

Proposed Agricultural Water Rate

The proposed 2014 Agriculture water rate, to be approved by the Regional Water Supply Commission, has been maintained at the 2013 rate of \$0.2105 per cubic metre. The Regional Water Supply agricultural subsidy budget funds the difference between the retail water rate and the agricultural water rate.

Proposed 2014 Retail Water Rate

The proposed retail water rate is \$1.7892 per cubic metre, an increase of \$0.0860 per cubic metre. The rate increase reflects the increase in the operations budget, increase in the wholesale rate and a 248,000 cubic metre reduction in the budgeted demand volume from 2013 to align with the projected actual demand trend. As a result, the cost to the average user will increase by \$20.12 per annum (Page 8 of the budget document).

Five Year Retail Water Rate Projection

The five year retail water rate projection is attached (Attachment 3). As in previous projections, it is assumed that the demand remains constant.

RECOMMENDATIONS

That the Juan de Fuca Water Distribution Commission recommends that the Capital Regional District Board:

1. Approve the 2014 Capital budget and the five year capital plan;
2. Approve the 2014 Operating Budget;
3. Approve the 2014 retail water rate of \$1.7892 per cubic metre, adjusted if necessary by any change in the proposed wholesale rate; and
4. Amend the Water Distribution Local Service Conditions, Fees and charges Bylaw accordingly.

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Attachments: 3