

**Utilities & Environmental Protection Report to
SPC on Utilities and Corporate Services
2018 October 10**

**ISC: UNRESTRICTED
UCS2018-1050**

Regional Water Allocation

EXECUTIVE SUMMARY

The purpose of this report is to provide Council with recommended amendments to the contracted flow rates for The City of Calgary's (The City's) municipal customers for 2019 – 2022. In alignment with Council Policy CP2018-01, The City should continue to provide water servicing to existing regional customers, as per existing servicing agreements, with increased volumes for 2019 - 2022 subject to Council approval.

The recommended amendments align with Council's direction (C2014-0790) to reserve, in principle, up to 27,200 ML of water from the City's Water Licence capacity to provide water services to Airdrie, Strathmore and Chestermere for 20 years in accordance with their new Master Servicing Agreements (2015 to 2035), subject to confirmation and Council approval every four year business cycle.

Roughly three percent (11,400 ML) of Calgary's annual water allocation must be reserved for The City's existing regional customers through 2022. Administration will continue to report to Council prior to each business cycle for approval of contracted water volumes.

The City is dedicated to ensuring reliable and resilient water servicing for Calgary and its regional customers. The City provides drinking water for about one in three Albertans, and has been providing water services outside of its corporate boundaries since approximately 1961 through bi-lateral servicing agreements. Potable water services are provided to seven municipal and commercial customers outside Calgary's boundary, including Tsuut'ina First Nation.

ADMINISTRATION RECOMMENDATION:

That the SPC on Utilities and Corporate Services (UCS) recommends that Council direct Administration to allocate, for 2019 – 2022, 11,400 ML of water within The City of Calgary's Annual Water Licence capacity to provide water services to existing customers outside the City in accordance with their regional servicing agreements (Attachment 1).

And further, that the SPC on UCS forward this Report as an item of Urgent Business to the 2018 October 15 Regular Meeting of Council.

PREVIOUS COUNCIL DIRECTION / POLICY

2014 May 26 (C2014-0353), Council directed Administration to:

- Reserve, for 2015 – 2018, 10,410 ML of water from the City of Calgary's Water Licence capacity to provide water services to Airdrie, Strathmore and Chestermere in accordance with their Master Servicing Agreements.
- Negotiate and execute Master Servicing Agreements with Airdrie, Strathmore, Chestermere and Cochrane based on the attached term sheet (Attachment 1).
- Report to Council prior to each business cycle for approval of regional customer water allocation under contract and overall security of water supply.

2014 July 21 (C2014-0564), Council:

- Amended the 2015 – 2018 annual water allocation for Airdrie, Strathmore and Chestermere to 11,000 ML;

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2014 October 27 (C2014-0790) Council directed Administration to reserve, in principle, up to 27,200 ML of water from the City of Calgary's Water Licence capacity to provide water services to Airdrie, Strathmore and Chestermere for 20 years in accordance with their new Master Servicing Agreements from 2015 to 2035, subject to confirmation and Council approval every four year business cycle.

2018 February 15 (IGA2018-0089), Council adopted a new Policy on Regional Water, Wastewater and Stormwater Servicing (CP2018-01) and directed Administration to return to Council, through the SPC on Utilities and Corporate Services, in Q2 2018 on the 2019 – 2022 Regional Water Allocations.

BACKGROUND

The City's approach to regional service delivery is managed through bi-lateral Master Servicing Agreements (MSAs). The City of Calgary supplies potable water to seven customers outside of The City's corporate boundary. Roughly three percent of Calgary's annual water allocation must be reserved for The City's existing regional customers through 2022. A projected five percent of Calgary's annual water allocation would potentially be allocated to regional customers by the end of 2034. Over the term of these servicing agreements, these customers will draw on The City's water licence capacity. The Town of Strathmore holds its own water rights for a portion of their water supply needs (2220 ML) and the MSA with Tsuut'ina Nation does not address water licences.

MSAs with municipal customers require planned amendments to the contracted flow rates for 2019 – 2022 in alignment with the 2019 – 2022 Cost of Service Study (UCS2018-0884). Due to engagement with the regional customers on the Cost of Service Study, Administration is returning to Council now as opposed to Q2 2018, as originally directed by Council in IGA2018-0089. Administration will continue to report to Council prior to each business cycle for approval of contracted water volumes for regional customers.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The City has committed to providing water to existing regional customers, some of which are growing municipalities. In alignment with Council Policy CP2018-01, The City should continue to provide water servicing to existing regional customers as per existing servicing agreements, with increased volumes for 2019 - 2022 subject to Council approval.

The South Saskatchewan River Basin is closed to new water licences. As a consequence, The City's water licences need to be protected for Calgary's current and future growth. Over the next year, Administration will be assessing drought risks and strategies, and revising peak day water demand targets. This assessment will provide further information on The City's long term water supply needs and licence capacity. While this assessment occurs, Administration will continue to engage the Province, the CMRB and other regional stakeholders to create a shared understanding of The City's water licence constraints and need for a long-term regional water supply strategy.

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Stakeholder Engagement, Research and Communication

Administration works closely with our regional customers on a regular basis on the servicing provisions identified in the MSAs and required MSA amendments. The projected flow rate requirements are provided by each regional customer. The 2019 – 2022 flow rates shown in Attachment 1 have been used to inform the regional utility rates for regional customers in the 2019 - 2022 Cost of Service Study.

Strategic Alignment

Regional water and wastewater servicing demonstrates The City's commitment and obligation to being a regional partner. This work aligns to Action Plan (2015 – 2018) Strategic Action H4 – Work with our regional partners and the Government of Alberta on an integrated approach to the watershed.

Providing water for regional servicing also supports the Province's Water for Life goals.

Social, Environmental, Economic (External)

The City does not profit from regional servicing and rates are based on a cost recovery model. Regional servicing demonstrates Calgary's commitment to being a regional partner and supporting growth in the Calgary Metropolitan Region.

Provision of water services from The City will assure a reliable supply of water for citizens and will protect public health in the region. As is the case within Calgary, regional customers have demonstrated efficient water use, aligning with Calgary's own focus on water efficiency. While regional servicing supports the Provinces Water for Life objectives, The City must also ensure that its water licences are protected to support Calgary's future growth.

Financial Capacity

Current and Future Operating Budget:

Treatment and transmission costs will be recovered through regional fixed and variable rates recommended by the Cost of Service Study (UCS2018-0884) and approved by Council.

Current and Future Capital Budget:

Treatment and transmission costs will be recovered through regional fixed and variable rates recommended by the Cost of Service Study (UCS2018-0884) and approved by Council.

There are no immediate implications to The City's capital budget associated with this report

Risk Assessment

Water usage by regional customers represents a small portion of Calgary's total annual water licence capacity. Regional water provided under all MSAs by 2022 represents roughly two percent of the overall City of Calgary annual water licence capacity, with a projected five percent by the end of 2034. However, Administration will continue to engage the Province, CMRB and other regional stakeholders to create a shared understanding of The City's water licence constraints and need for a long-term regional water supply strategy.

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2018 October 10
Regional Water Allocation**

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Administration will also continue to assess drought risks and strategies associated with peak day water demands.

While The City does not share this opinion, there is a risk of the Province taking action under the Water Act to bring The City into their stated view of compliance.

REASON(S) FOR RECOMMENDATION(S):

Regional servicing aligns with City of Calgary Council Policies on water service beyond The City's boundaries. Regional servicing is an effective and efficient approach for meeting the growth needs of the Calgary region.

ATTACHMENT(S)

1. Attachment 1 – Regional Water Licence Allocations
2. Attachment 2 – Regional Servicing Summary