



# City of San Antonio

## Agenda Memorandum

**File Number:**

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**Agenda Item Number:** 15

**Agenda Date:** December 2, 2021

**In Control:** City Council A Session

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**DEPARTMENT:** Finance Department

**DEPARTMENT HEAD:** Troy Elliott

**COUNCIL DISTRICTS IMPACTED:** District 1, District 4

**SUBJECT:**

SAWS Chilled Water System Rate Increase

**SUMMARY:**

Request Council approval of a 10% base-rate increase for the SAWS Chilled Water System, a recovery mechanism for customer extension costs, and repealing obsolete rate provisions. The proposed 10% demand charge increase is projected to increase SAWS revenues approximately \$560,000. Since the City of San Antonio is a primary customer of the Downtown System, it will increase the City's operating expenses by approximately \$317,000, which has been included in the FY 2022 City Budget.

**BACKGROUND INFORMATION:**

SAWS operates a Chilled Water System which provides air-conditioning service to customers in Downtown and Port SA. The Downtown Chilled Water System was originally created to serve Hemisfair in 1968. When SAWS was created in 1992, the Chilled Water operation was one of the functions consolidated into SAWS. In 2000, the Port SA Chilled Water System was consolidated into SAWS as well.

The system functions by operating centralized water chilling plants and passing water chilled to

near freezing through pipes to heat exchangers in customer buildings, which provide cooling for the customers' air handling systems. The system provides energy efficiency and GHG emission reduction through a large-scale centralized system and shifting electrical demand off peak.

Chilled Water customers benefit from:

1. Avoiding capital cost not having to build their own cooling systems,
2. Avoiding staffing and maintenance cost operating their own systems,
3. Enhancing reliability due to economies of scale and having multiple chillers,
4. Freeing rooftop and building space for other customer uses, and
5. Reducing lifecycle cooling costs.

There are twenty-one customers on the Downtown System, with 70% of the system serving the City of San Antonio, primarily for cooling the Alamodome and Convention Center. The balance of customers are primarily hotels and government buildings in and around the Convention Center area. The Port SA System serves five customers: Boeing, Standard Aero, Chromalloy, United States Airforce, and Port San Antonio. Customers are billed monthly for Chilled Water Services based on the Council approved Chilled Water Rate.

The Chilled Water Rate has two components: a variable commodity charge and a fixed capacity charge. The commodity charge is designed to pass through water and energy cost of operating the system. The capacity charge is designed to recover the remaining cost of the system including labor, operations and maintenance, and debt service. Separate commodity and capacity charges have been established for the Downtown and Port SA Systems. The capacity charges for Downtown and Port SA were last adjusted in 1999 and 2005 respectively.

SAWS met with COSA Public Utilities Office staff and demonstrated that since 2016, the chilled water system's net position has deteriorated despite relying on intercompany loans and has run at a deficit since 2019. Current rates are not generating sufficient cash flow to fund needed capital refurbishments.

In July 2021, SAWS engaged a consultant to assist in developing a rate and business plan to grow the chilled water customer base and provide adequate funding to move the system toward self-sufficiency. The scope of the consultant's work includes: capital expenditures planning, financial planning, energy efficiency, controls/metering, management/staffing, hydraulic modeling, customer contracts, Port SA analysis and marketing/communications. The work is expected to be complete by the summer of 2022. This analysis may lead to a request for further rate support to make the Chilled Water System financially stable and self-sufficient. The proposed 10% rate adjustment is intended to move the system to break even while awaiting the consultant's report. The increase is not a general rate increase impacting SAWS water and wastewater customers. It will only impact the twenty-six customers receiving chilled water service.

Additionally, SAWS is requesting the creation of a fee for the recovery of the capital costs related to the construction of main extensions and the installation of heat exchangers to serve new customers. The Capital Cost Recovery Fee will be negotiated and agreed to by SAWS and the new customer based on the total cost, including interest, to design, construct and install the capital improvements that are necessary to provide chilled water services to the new customer.

An amortization schedule to recover these capital improvement costs shall have a maximum term of twenty (20) years. This Capital Cost Recovery Fee shall not include any infrastructure, fixtures, chattel or appurtenances that will be owned, operated or maintained by the new customer or the owner of the subject property. The SAWS Board of Trustees shall have the discretion to decide whether it will participate in the construction of a main extension and installation of heat exchangers on a case-by-case basis. The fee will facilitate adding new customers.

Lastly, Ordinances 96794 and 100588 contain references to obsolete rate provisions.

1. The ordinances contain fee schedules from when the system provided Steam Service. That service was discontinued in 2014, so SAWS is requesting that the obsolete rate schedules be repealed as shown on Attachment B.
2. Ordinance 100588 contains references to payments to the Greater Kelly Development Authority (now Port San Antonio) for the sale of the chilled water facilities to SAWS under a separate contract. Those payments were complete in March 2021; therefore, the provision on Scheduled A is no longer operative.

#### **ISSUE:**

City Council approves all SAWS rates and charges. SAWS is requesting Council approve an ordinance modifying Chapter 34 of the Municipal Code and amending ordinances No. 96794 and No. 100588 to:

1. Increase the Chilled Water demand charge rates for the Downtown and Port SA chilled water systems by 10% as set forth in Attachment A, necessary to improve the financial condition of the Chilled Water System; effective for consumption on or about January 1, 2022;
2. Add a fee for the recovery of the capital costs related to the construction of main extensions and the installation of heat exchangers to serve new customers as set forth in Attachment A;
3. Repealing obsolete rate provisions on Attachments A and B;

The Supervisor of Public Utilities and his staff in the Office of Public Utilities has reviewed the SAWS request, considers it reasonable, and recommends Council approve the request.

#### **ALTERNATIVES:**

If Council chooses not to approve the rate request, the financial condition of the Chilled Water system will continue to deteriorate.

#### **FISCAL IMPACT:**

The proposed 10% demand charge increase is projected to increase SAWS revenues approximately \$560,000. Since the City of San Antonio is a primary customer of the Downtown

System, it will increase the City's operating expenses by approximately \$317,000, which has been included in the FY 2022 City Budget. City Payment associated with the additional SAWS revenue is expected to increase \$22,400.

**RECOMMENDATION:**

The Supervisor of Public Utilities, SAWS Board of Trustees, and City Staff recommend approval of the ordinance.