



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 6

Agenda Date: November 10, 2022

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

SAWS Chilled Water System Rate Increases

SUMMARY:

An ordinance approving an adjustment to the chilled water demand charge rates for calendar year 2023 of 12.0% and to make the following maximum “up-to” annual percentage adjustments to chilled water demand charge rates for 2024 (12.0%), 2025 (10.0%), 2026 (8.0%) and 2027 (8.0%), respectively; and approve two new chilled water rate components, a Delta T Adjustment Charge and a Capacity Charge Ramp Up Schedule effective on or about January 1, 2023, and amending Chapter 34 of the City Code and prior City Council Ordinance No. 96794 and No. 100588.

BACKGROUND INFORMATION:

SAWS operates a Chilled Water System which provides air-conditioning service to customers in Downtown and Port San Antonio (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 by 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 Air Force, and Port San Antonio. Customers are billed monthly for Chilled Water Services based on the Council approved Chilled Water Rates.

Chilled Water Rates currently have two primary components: a variable commodity charge and a fixed capacity (demand) charge. The commodity charge is designed to pass through water and energy cost of operating the system. The demand charge is designed to recover the remaining cost of the system including labor, operations and maintenance, and debt service. Separate commodity and demand charges have been established for the Downtown and Port SA Systems.

In 2022, a 10% increase was approved for both the Downtown and Port San Antonio demand charges. Prior to that increase, there had been no increase in the demand charge rate for Downtown Chilled Water customers since 1999 and no increase in the Port San Antonio Chilled Water demand charge since 2005. In 2022, it was recognized that even with the 10% increase, the Chilled Water System would not generate sufficient cash flow to fund needed capital improvements; however, SAWS committed to develop a long-term business and rate plan for the Chilled Water System to move it towards self-sufficiency.

In July 2021, SAWS engaged a consultant to develop a long-term business and rate plan. 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. To continue its commitment to moving the Chilled Water System towards self-sufficiency, SAWS proposes to implement an additional demand charge rate increase of 12.0% for both Downtown and Port San Antonio customers on or about January 1, 2023. Authorization is also requested allowing further maximum "up-to" annual percentage adjustments to demand charge rates for 2024 (12.0%), 2025 (10.0%), 2026 (8.0%) and 2027 (8.0%), respectively.

Additionally, Council is being asked to approve two new Chilled Water rate components, a Delta T Adjustment Charge and a Capacity Charge Ramp Up Schedule on or about January 1, 2023, amending City Council Ordinances No. 96794 and No. 100588. The Delta T adjustment charge adjusts the commodity portion of a customer's chilled water bill based on their average Delta T,

which is determined by the difference in water temperature between its delivery to the customer and return to SAWS and incentivizes the efficient management of the customer’s system. The Contract Capacity Ramp Up Schedule allows a new customer to ramp up their capacity tonnage by 10% per month for up to 10 months.

The proposed demand charge increases and two new Chilled Water rate components are not a general rate increase impacting SAWS water and wastewater customers. It will only impact the twenty-six customers receiving chilled water service.

ISSUE:

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

A. Increase the Chilled Water demand charge rates for the Downtown and Port San Antonio chilled water systems by 12.0% to improve the financial condition of the Chilled Water System; effective for consumption on or about January 1, 2023;

B. Approve two new chilled water rate components, a Delta T Adjustment Charge and a Capacity Charge Ramp Up Schedule effective on or about January 1, 2023; and

C. Authorize maximum “up-to” annual percentage adjustments to Chilled Water demand charge rates for the Downtown and Port San Antonio Chilled Water Systems for 2024 (12.0%), 2025 (10.0%), 2026 (8.0%) and 2027 (8.0%), respectively consistent with the long-term SAWS Chilled Water business and rate plan.

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 12% base rate increase for 2023 is projected to increase SAWS revenues approximately \$739,000.00. The City Payment associated with the rate increase will be an additional \$22,000.00 for Fiscal Year 2023 and \$30,000.00 for a full 12-month period. In addition, since the City is a primary customer of the Downtown System, it will increase the City’s operating expenses by approximately \$310,182.00 for its Fiscal Year 2023, and \$414,000.00 for a full 12-month period. Over the 5-year plan, with the 2023 increase and the assumed maximum pre-approved “up-to” rate increases, the City’s chilled water bill will increase by approximately \$1,997,713.00 in year five. Table I below illustrates the increase in City demand charges (does not include commodity charges) under the pre-approved plan compared to the current demand rate.

Table I – City Bill Impact*

| | Total Demand Bill | Annual Increase |
|----------------|--------------------------|------------------------|
| Current | \$3,446,467 | |
| 2023 | \$3,756,649 | \$310,182 |
| 2024 | \$4,207,447 | \$450,798 |
| 2025 | \$4,647,492 | \$440,045 |
| 2026 | \$5,040,908 | \$393,416 |
| 2027 | \$5,444,180 | \$403,273 |
| 5- Year Change | | \$1,997,713 |

* Assumes maximum “up-to” rate increases each year compared to the current demand rate over the 5-yr. period and on a City Fiscal Year basis whereas SAWS changes are on a calendar year.

If the proposed rate increase is approved, the fiscal impact will be incorporated into the budget during the City's mid-year budget adjustment process for FY 2023 as well as be incorporated in the City budgeting process for future years.

RECOMMENDATION:

SAWS Staff and Board of Trustees recommend approval of the ordinance.

The Supervisor of Public Utilities and his staff in the Office of Public Utilities have reviewed the SAWS request, considers it reasonable, and recommends Council approve the request and establish the following accountability procedures. SAWS shall:

1. Provide the City’s Office of Public Utilities with quarterly financial reports on the Chilled Water System including:
 - a. Financial sources and uses report with year-to-date tracking to budget
 - b. Progress on the capital plan
 - c. Detailed status of marketing efforts
2. Develop a detailed plan based on the Chilled Water consultant’s report,
3. Perform customer outreach on the plan to include existing and potential growth customers in both Downtown and PortSA.
4. Update the plan for growth scenarios based on the customer feedback.
5. 60 days prior to the implementation of any previously approved “up-to” rate increase, SAWS will provide to the City’s Office of Public Utilities:
 - a. The proposed increase and the calculation method,
 - b. Underlying support for the increase, and
 - c. Any additional information requested by Public Utilities
6. Annual adjustments under the pre-approved “up-to” maximum amounts require concurrence of

the Supervisor of Public Utilities.