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CITY OF SAN ANTONIO AGENDA ITEM NO. _____
Finance Department
Interdepartmental Correspondence Sheet

TO: Mayor and City Council
FROM: Ben Gorzell Jr. CPA, Public Utilities Supervisor/Assistant Director, Finance Department; Eugene E. Habiger, General, USAF (Ret.), President/Chief Executive Officer, San Antonio Water System
THROUGH: Terry M. Brechtel, City Manager
COPIES: Melissa Byrne Vossmer, Assistant City Manager; Edward C. Garcia, Director of Convention Facilities; Mike Abington, Alamodome Director; Malcolm Matthews, Director of Parks & Recreation; Thomas Wendorf, Director of Public Works; file
SUBJECT: An Ordinance Authorizing the Adjustment of the San Antonio Water System's Downtown Chilled Water and Steam Rates
DATE: November 21, 2002

SUMMARY AND RECOMMENDATION

This Ordinance approves an amendment to Chapter 34 of the City Code to provide an adjustment to rates for chilled water and steam service provided by the San Antonio Water System (SAWS) to customers in the downtown area effective beginning with billings in December 2002.

Approval of this Ordinance is recommended.

BACKGROUND INFORMATION

SAWS currently provides chilled water and steam service to 21 customers in the downtown area of which 70% are governmental. A majority of the service is utilized by the City of San Antonio with chilled water and steam service being provided to facilities such as the Convention Center and the Alamodome. Service is provided to the downtown area from facilities located at SAWS downtown headquarters and the new chilled water facility, located at the Alamodome property, which became operational in 2001.

SAWS rates for chilled water and steam service consist of two components: 1) commodity charge that is adjusted monthly to recover variable utility costs in the provision of chilled water and steam service; and, 2) a fixed capacity charge that recovers all other direct expenses, system overhead, and debt service for the financing of capital improvements.

These chilled water and steam rates for customers served in the downtown area were most recently amended on October 21, 1999 with City Council approval of Ordinance No. 90734. It had been determined that the commodity charge methodology in place at that time was ineffective in the pass-through of fuel and energy costs. As such, included in the amendment was a revision for the pass-through of utility costs incurred in providing chilled water and steam service. Due to an administrative error in the fuel and energy cost indexing methodology, this component of the approved 1999 rate change was not implemented by SAWS.

Since 1999, SAWS has billed customers in the downtown area based upon an adjusted rate which allowed SAWS to more closely recover utility costs through the commodity charge. However, as the adjusted rate had not been formally approved by City Council, this resulted in over billings to downtown customers of \$239,318 over the past three years based on the rate currently adopted by Ordinance. SAWS intends to refund this amount to all downtown chilled water and steam customers through its billings in December 2002 or January 2003.

This Ordinance will implement a revision to the commodity charge component of the rate to allow for the full pass-through of utility costs incurred in providing chilled water and steam service. The proposed rate eliminates the indexed base year cost and implements a commodity charge which utilizes actual monthly utility costs (electricity, gas, water, etc.) and production to develop a commodity factor to be applied to monthly metered consumption. No changes are being made with regard to the monthly capacity charge for chilled water or steam service.

Implementation of the revised consumption charge is anticipated to result in an average increase of 2.5% to downtown customers above the adjusted rate which had been billed by SAWS since 1999. The proposed rate schedules for chilled water and steam service for the downtown area are included as Attachment I. The following is a brief summary of the proposed revision:

Commodity Charge applied to Monthly Metered consumption based
upon the following formula:

Commodity Charge = Actual Monthly Utility Costs / Total Monthly Production
(units in 1,000 lbs. for Steam or Ton Hours for Chilled Water) plus Payment to the
City's General Fund

SAWS has provided briefings on the proposed rate change for downtown customers. Additionally, it is also important to note that SAWS manages the Chilled Water and Steam System as a separate core business. For rate purposes, the chilled water and steam system for the downtown area is also accounted for separately from the chilled water and steam system serving KellyUSA.

Additionally, for your information, the City and SAWS have an agreement approved by Ordinance No. 91622 related to costs associated with the new chilled water facility located on Alamodome property. This agreement includes a monthly surcharge of 0.85% of the costs of the new plant in excess of \$6.5 million to be paid by the Convention Facilities Department to SAWS. SAWS plans to take advantage of the low interest rate environment by issuing long-term debt to refund the commercial paper that was utilized to fund the project. To date, SAWS has only billed the City for costs related to the outstanding commercial paper, however, the change to long-term debt would result in an increase in the monthly surcharge. SAWS and City staff continue to discuss and review options related to the monthly surcharge to mitigate the impact to the Convention Facilities Department. If a feasible adjustment or alternative is identified, it will be brought forward in the near future for consideration by City Council.

FISCAL IMPACT

The proposed Ordinance is projected to have an annual impact to chilled water and steam downtown customers of an average 2.5% increase above the adjusted rate billed by SAWS since 1999. SAWS projects annual revenue under the proposed rates for chilled water and steam service as follows:

<u>Service</u>	<u>Capacity</u>	<u>Commodity</u>	<u>Total</u>
Steam	\$ 680,000	\$ 720,000	\$ 1,400,000
<u>Chilled Water</u>	<u>\$ 3,380,000</u>	<u>\$ 1,620,000</u>	<u>\$ 5,000,000</u>
Total	\$ 4,060,000	\$ 2,340,000	\$ 6,400,000

No significant change in the City's payment (2.7% of Gross Revenues) is anticipated from the proposed rate change. As noted earlier, the City of San Antonio utilizes a majority of the chilled water and steam service in the downtown area. For City departments which utilize chilled water and steam service, the proposed rates and refund for overbillings will impact the FY 2003 budget. A review of the FY 2003 Adopted Budget for chilled water and steam service indicates that the adopted budget can absorb the projected overall increase from the proposed rate change exclusive of the impact of the surcharge paid by the Convention Facilities Department.

COORDINATION

This item has been reviewed and approved by the Board of Trustees of the San Antonio Water System with the passage of a resolution on September 10, 2002. SAWS has also provided briefings for downtown chilled water and steam customers on the proposed rates.

SUPPLEMENTARY COMMENTS

The requirements of the City's Ethics Ordinance are not applicable.

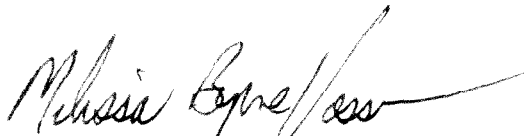


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City of San Antonio



Eugene E. Habiger
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President/Chief Executive Officer
San Antonio Water System

Approved:



Melissa Byrne Vossmer
Assistant City Manager



Terry M. Brechtel
City Manager

SCHEDULE "A"

CHILLED WATER SERVICE RATE SCHEDULE FOR DOWNTOWN AREA

SAN ANTONIO WATER SYSTEM

San Antonio, Texas

Effective December 1, 2002

Billings for chilled water service shall be produced on a monthly basis and shall consist of both a capacity charge and a commodity charge as follows.

CAPACITY CHARGE

The capacity charge shall be \$18.40 per ton hour of demand. The demand shall be the largest number of tons of cooling demanded in any of the twelve months ending with the month next preceding the month in which the bill is dated or the connected load specified in the contract with the customer, whichever is the greater of the two.

COMMODITY CHARGE

A commodity charge will be applied to the monthly metered consumption. The commodity charge will provide for the pass-through of the Utility Costs, including water and energy costs. No commodity charge shall be made if the metered use of the customer is zero (0) during the month.

The commodity charge will be computed as follows; all utility costs of the previous month will be recovered through an allocation to the consumption of the billing period. In addition, the Payment to the City's General Fund will be added where applicable.

$$\frac{\text{Utility Costs}}{\text{Consumption}} + \text{Payment to General Fund} = \text{Commodity Charge}$$

ADJUSTMENT FOR PAYMENT TO THE CITY GENERAL FUND

The City of San Antonio may change the Percentage for payment to the City General Fund pursuant to City Ordinance No. 75686, which is currently established at 2.7% of Gross Revenues. At that time, the commodity and capacity charge will be revised to include the new Percentage of Payment to the City of San Antonio.

DEFINITIONS

A ton is defined as 12,000 Btu's per hour.

An hour is defined as 60 consecutive minutes.

Gross Revenues is defined in City Ordinance No. 75686

SCHEDULE "B"

STEAM SERVICE RATE SCHEDULE FOR DOWNTOWN AREA

SAN ANTONIO WATER SYSTEM

San Antonio, Texas

Effective December 1, 2002

Billings for steam service shall be produced on a monthly basis and shall consist of both a capacity charge and a commodity charge as follows:

CAPACITY CHARGE

The capacity charge shall be \$88.42 per 100 pounds per hour of demand. The demand shall be the largest number of pounds of steam demanded in any hour of the twelve months ending with the month next preceding the month in which the bill is dated or the connected load specified in the contract with the customer, whichever is the greater of the two.

COMMODITY CHARGE

A commodity charge will be applied to the monthly metered consumption. The commodity charge will provide for the pass-through of the Utility Costs, including water and energy costs. No commodity charge shall be made if the metered use of the customer is zero (0) during the month.

The commodity charge will be computed as follows; all utility costs of the previous month will be recovered through an allocation to the consumption of the billing period. In addition, the Payment to the City's General Fund will be added where applicable.

$$\frac{\text{Utility Costs}}{\text{Consumption}} + \text{Payment to General Fund} = \text{Commodity Charge}$$

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DEFINITIONS

An hour is defined as 60 consecutive minutes.

SCHEDULE "C"

CHILLED WATER SERVICE RATE SCHEDULE FOR DOWNTOWN AREA

SAN ANTONIO WATER SYSTEM

San Antonio, Texas

Effective December 1, 2002

Rates under this schedule have been developed in accordance with the Stadium Chilled Water Facility Contract passed and approved by the City of San Antonio, VIA Metropolitan Transit, and the San Antonio Water System in May 1991. Billing for chilled water service shall be produced on a monthly basis and shall consist of both a capacity charge and a commodity charge as follows.

SPECIAL CAPACITY CHARGE

The capacity charge shall be \$11.40 per ton hour of demand. The demand shall be the largest number of tons of cooling demanded in any of the twelve months ending with the month next preceding the month in which the bill is dated or the connected load specified in the contract with the customer, whichever is the greater of the two.

COMMODITY CHARGE

A commodity charge will be applied to the monthly metered consumption. The commodity charge will provide for the pass-through of the Utility Costs, including water and energy costs. No commodity charge shall be made if the metered use of the customer is zero (0) during the month.

The commodity charge will be computed as follows: all utility costs of the previous month will be recovered through an allocation to the consumption of the billing period. In addition, the Payment to the City's General Fund will be added where applicable.

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DEFINITIONS

A ton is defined as 12,000 Btu's per hour.

An hour is defined as 60 consecutive minutes.