



City of Saint Paul
Interdepartmental Memorandum

To: Mayor Melvin Carter
Members of the City Council

From: District Energy Rate Review Team

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Date: September 22nd, 2023

Subject: Staff Report for Proposed District Energy St. Paul, Inc. Rates,
Effective for FY 2024

This memorandum provides an analysis of District Energy's proposed cooling and heating rate changes for fiscal year 2024, in accordance with the procedural requirements specified in District Energy's franchise agreements.

I. District Cooling Rates:

District Cooling proposes the following changes to Schedule A:

Demand Rate:

Increase from \$32.80 to \$33.36 per ton per month

Energy Rate:

Increase from \$0.092 to \$0.110 per ton-hour

Transition Rate:

Increase from \$0.413 to \$0.444 per ton-hour at 1200 utilization hours

All other service charges will remain at the 2023 levels as indicated in the attached District Cooling Schedule A.

Comparison of Cooling Rates: 2020– 2024

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Forecast FY 2023	Budget FY 2024
Rates					
Demand (\$/ton/mo)	\$29.28	\$30.02	\$30.85	\$32.08	\$33.36
Energy (\$/ton hr)	\$0.086	\$0.084	\$0.103	\$0.108	\$0.110
Overall cost at 1200 hrs (\$/ton hr)	\$0.378	\$0.384	\$0.411	\$0.429	\$0.444
Increase as %					
Demand (\$/ton/mo)	2.49%	2.53%	2.76%	3.99%	3.99%
Energy (\$/ton hr)	-14.00%	-2.33%	22.62%	4.85%	1.85%
Overall cost at 1200 hrs	-2.07%	1.59%	7.03%	4.38%	3.5%

The proposed District Cooling *average overall cost* (at 1200 utilization hours) shows an increase of 3.5% from forecasted 2023 to budgeted 2024.

The proposed *demand rate* increase is 3.99%. The demand rate covers operations and maintenance, general and administrative, research and development, debt and capital expenses. Total budgeted demand related costs are expected to increase by \$392,198 (net of capital expenditures).

The *energy rate* shows a large increase. The energy rate is a pass through to the customer. The rate is based on the projected cost of electricity, which is the major fuel source for cooling. The 2024 budgeted rate is \$0.110.

The *average overall cost* increase (at 1200 utilization hours) of 3.5% is due to two factors. On the *demand rate* side, an increase in property and equipment, and operation and maintenance costs, are contributing to the increase. On the *energy rate* side, increases in the cost of electricity is contributing to the rate increase.

District Cooling Comparison to Similar Utility Provider

<u>FY2024 Cooling Cost</u>	<u>Cooling Cost*</u> (\$ / Ton-Hour 1200 Hrs)
Energy Park Utility 2022	\$0.34
District Energy St. Paul - Cooling	\$0.44

*Excluding City fees and sales tax.

II. District Heating Rates:

District Heating proposes the following changes to Schedule A:

Single rate & Transition Rate:

Increase from \$0.0763 to \$0.0771 per kilowatt hour

Two-part rate:

Demand rate increase from \$6.03 to \$6.28 per kilowatt per month

Energy rate increase from \$20.40 to \$32.75 per megawatt hour

All other service charges will remain at the 2022 levels as indicated in the attached District Heating Schedule A.

Comparison of Heating Rates: 2019 – 2023

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Forecast FY 2023	Budget FY 2024
Rates					
Demand (\$/kW/mo)	\$5.63	\$5.63	\$5.80	\$6.03	\$6.28
Energy rate	\$19.90	\$21.83	\$30.55	\$32.75	\$32.75
Fuel adjustment rate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Energy (\$/MWh)	\$19.90	\$21.83	\$30.55	\$32.75	\$32.75
Single Rate (\$/KWH)	\$0.0596	\$0.0616	\$0.0715	\$0.0753	\$0.0771
Increase as %					
Demand (\$/kW /mo)	1.81%	0.00%	3.02%	3.97%	4.15%
Total Energy (\$/MWh)	-11.56%	9.70%	39.95%	10.41%	-2.91%
Single Rate (\$/KWH)	-3.09%	3.36%	16.07%	6.71%	1.05%

The proposed District Heating *overall single rate* is projected to increase 1.05% between forecasted 2023 and budgeted 2024.

The proposed *demand rate* represents a 4.15% increase for budgeted 2024. The rate has remained relatively flat since 2013. The demand rate covers operations and maintenance, general and administrative, research and development, debt and capital expenses.

The budgeted *total energy rate* represents a -2.91% decrease in 2024. The energy rate is a pass through to the customer. The rate is based on projected cost of fuels utilized.

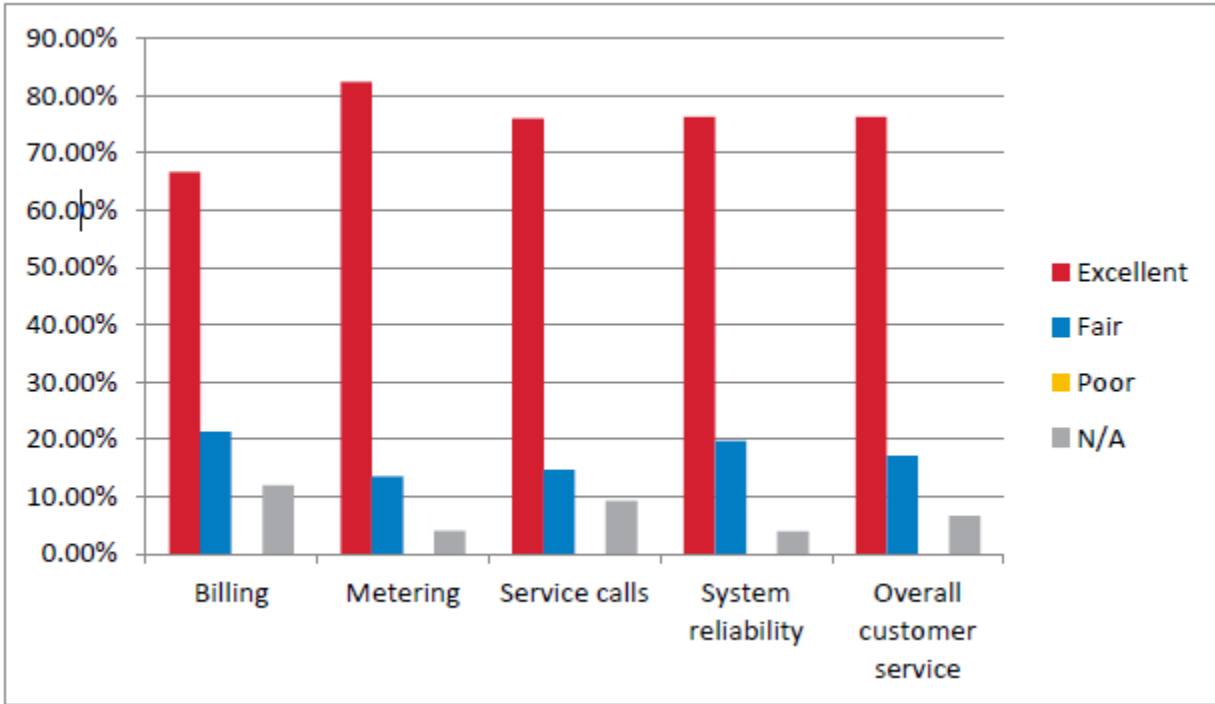
District Heating Comparison to Other Similar Utilities

<u>FY 2024 Heating Cost</u>	<u>Heating Cost*</u> <u>(\$ / MMBtu 1700 Hrs)</u>
Energy Park Utility Company 2022	\$25.24
District Energy St. Paul - Heating	\$32.75

*Excluding City fees and sales tax.

III. Customer Survey

In 2023, District Energy conducted a customer satisfaction survey. Of the survey responses received, approximately 75% rated District Energy’s overall customer service as excellent, as well as 75% rated the system reliability as excellent.



IV. Staff Recommendation

District Cooling:

From an internal perspective, looking at the City’s own district cooling expense trend for the past five years (see table below), District Energy’s requested rate increase does not seem unreasonable. The City’s own trends in cooling costs are likely similar to District Energy’s other customers. Given that customer survey results reflect that most customers are satisfied with the service, and given that the average rate increase request at 3.5% is relatively small, staff recommends approval of the rate increase request.

City District Cooling Expenditures by Department:

Department	Description	2018	2019	2020	2021	2022
Police	Building Maint.	92,556.00	83,465.59	100,291.82	86,629.94	98,884.09
Fire	Station Maint.	28,046.00	28,246.71	30,634.89	30,239.74	33,405.12
Real Estate	Real Estate CHA	66,595.00	65,294.62	67,985.37	75,016.01	73,718.13
Library	Maint. Service	63,218.00	53,543.24	57,766.90	55,680.98	59,510.42
Total		250,415.00	230,550.16	256,678.98	247,566.67	265,517.76
% Change		9.24%	-7.93%	11.33%	-3.55%	7.25%

District Heating:

From an internal perspective, looking at the City’s own district heating expense trend for the past five years (see table below), District Energy’s requested rate decrease does not seem unreasonable. The City’s own trends in heating costs are likely similar to District Energy’s other customers. Although the average rate increase request is for 1.05%, it is related to increased energy costs. Despite this year, the annual heating average rate has been stable over the last several years, including rate cuts in 2019 and 2020. Given that customer survey results reflect that most customers are satisfied with the service, staff recommends approval of the rate increase request.

City District Heating Expenditures by Department:

Department	Description	2018	2019	2020	2021	2022
Police	Building Maint.	75,326.00	55,156.59	84,757.22	56,385.90	82,139.34
Fire	Station Maint.	33,981.00	31,821.37	36,079.47	33,810.57	41,537.92
Real Estate	Real Estate CHA	108,619.00	130,017.48	128,647.03	126,059.10	123,945.91
Library	Maint. Service	50,599.00	58,729.31	46,917.12	49,346.93	55,803.20
Total		268,525.00	275,724.75	296,400.84	265,602.50	303,426.37
% Change		-1.38%	2.68%	7.50%	-10.39%	14.24%