Information Item:
Proposed Industrial SAC Changes

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Environment Committee: June 12, 2018

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Background

- Industrial Sewer Availability Charges (SAC) accounts for about 2% ($750,000) of all SAC units collected annually
- Of industrial customer SAC units:
  - 40% are commercial
  - 60% are process

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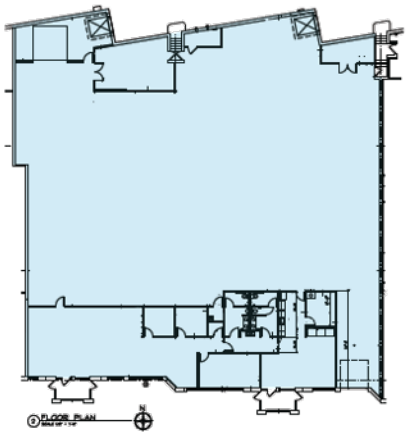
Current Industrial SAC Program



Commercial SAC
Size & Type of Facility

plus

Industrial SAC
Maximum Discharge

- Industrial flow is composed of commercial and industrial processes and is generally mixed prior to discharge:
  - SAC for commercial areas is based on MCES' standard commercial criteria
  - SAC for process area flow is determined separately, and is based on an initial SAC determination

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Current Industrial SAC Program (continued)

- Each industry assigned a **SAC baseline** (in SAC units) that includes both portions
- Every 3 years, current capacity demand is reviewed to see if baseline is exceeded
- If flow exceeds baseline, the industry is given one year to implement process changes to reduce flow before additional SAC is charged
  - Flow is reviewed one year prior to permit renewal

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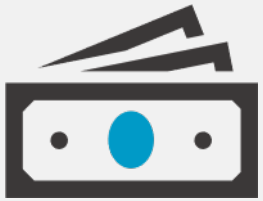
Problems with the Current Program

Baseline flow could be exceeded for up to three years before capacity demand is reviewed

- Approximately 3,000 SAC units per year are owed due to baseline exceedances
- Only about 175 units per year for process flow are collected

Requires significant staff time for both MCES & industries for processing and review



Industries are dissatisfied with large SAC bills resulting from rare or infrequent increases in process flow

- Example: a brewery that doubles its production for the week of the Super Bowl

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Proposed Changes

- Eliminate the 3-year review and collect an ongoing Industrial Capacity Charge (ICC) for flow that exceeds baseline
- ICC provides industries with two options:
  1. **An industry can pay an ICC whenever volume exceeds baseline**
     - ICC would be paid at each industry's regular reporting period (quarterly, half-yearly, or annually)
     - ICC rate for 2019 would be $2.10 per 1,000 gallons over baseline
  2. **The industry can buy SAC to increase their baseline**
     - Currently, one SAC unit pays for 100,000 gallons per year of flow (no change)

or

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Options for Industrial Customers

- Industries can choose to pay SAC or ICC at any time:
  - Existing baseline remains constant unless industry decides to increase it by paying SAC
  - Paying SAC increases an industry's baseline, but paying ICC does not
  - If volume is projected to always exceed baseline, it might be better to pay SAC (SAC has an approximate 11 year payback period)

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Benefits of the Change

- Reduces up-front costs while an industry's production is being established
- Ongoing costs will better match the business cycle
  - When process flows are greater, costs will rise accordingly
  - When flows are lower, costs will be lower
- Permit renewals will not include SAC payments
- Water conservation efforts will provide a SAC benefit, as well as savings from reducing volume costs
- Over time, this change is revenue neutral to MCES

Industrial SAC
Maximum Discharge

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Next Steps

- **Outreach to communities that charge local SAC and water availability charge (WAC)**
- After outreach, proposed changes will be formally taken to the Metropolitan Council
- If approved, likely to become effective January 1, 2019

The proposed changes were well-received when shared with industrial customers at our spring workshops

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Schedule

- Industrial Workshops – Metro 94*
  - March 22: Liquid Waste Haulers
  - April 19: Industrial Waste Customers
  - April 24: Industrial Waste Customers
- March-July: Solicit City Input
- Municipal Customer Forums*
  - May 24: Minnetonka Community Center
  - June 7: Eagan Community Center Oaks Room
- August-October: Environment Committee Recommendation
- Two Weeks Later: Council Rate Adoption
- January 1, 2019: New Rate and Process Effective

* *public input*

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Questions

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