Business Item 2018-292: Proposed Change to Industrial SAC Program

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Environment Committee: October 23, 2018

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Proposed Action

That the Metropolitan Council approve a change to Sewer Availability Charge (SAC) assessments for process flows from industrial customers, effective January 1, 2019.

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Background

- Industrial Sewer Availability Charges (SAC) accounts for approximately 2% ($700,000) of all SAC units collected annually
- Of industrial customer SAC units:
  - 40% are commercial
  - 60% are process

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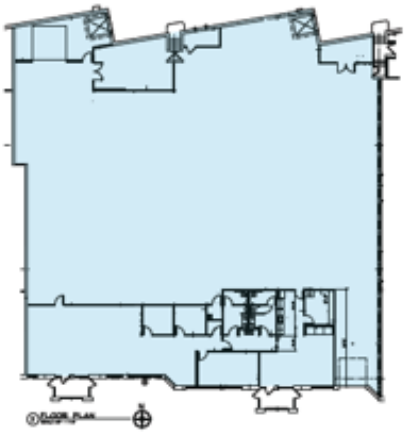
Current Industrial SAC Program



Commercial SAC
Size & Type of Facility

plus

Industrial SAC
Maximum Discharge

- Industrial flow is comprised 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 Capacity Demand Review

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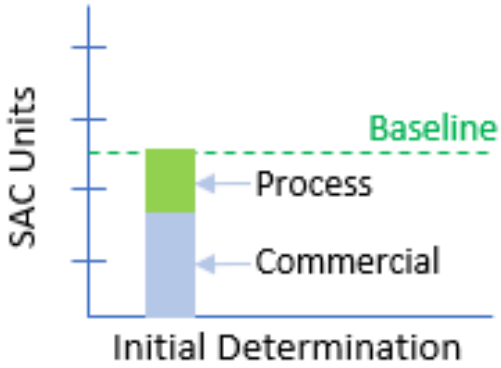
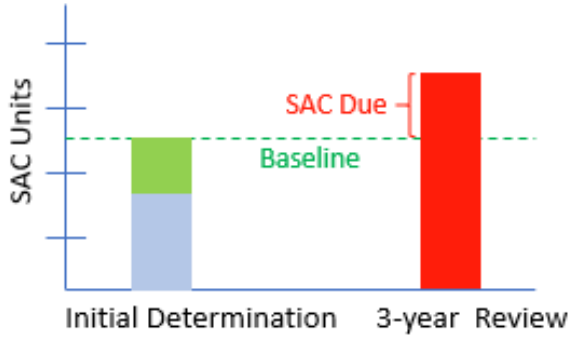
Current Industrial SAC Program Cont'd

- Each Industry is assigned a **SAC baseline** (in SAC units) that includes both portions (commercial & industrial)
- Every 3 years, flow volume is reviewed to see if baseline is exceeded
- If flow exceeds baseline, the industry is given one year to reduce flow or additional SAC is charged
  - Flow is reviewed one year prior to permit renewal





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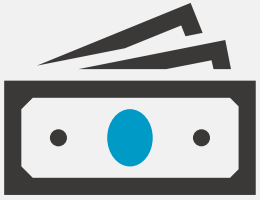
Problems with the Current Program

SAC Baselines can be exceeded for up to three years before identified during review

- Approximately 3,000 SAC units/year are owed due to baseline exceedances
- Only about 175 units/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

- E.g., 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
     - ICC invoiced from MCES directly to industry
  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)
     - MCES sends SAC bill to community and payment verification form to industry (current procedure)

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.
    - A SAC unit costs $2,485 versus an annual ICC of $210 (2485 / 210 = 11.8 years).

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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 renewal fees 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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Rate Calculation

- SAC rate of $2,485 is based on maximum potential flow per household of 274 gallons per day or 100,000 gallons per year
- MCES also has a Temporary Capacity Charge (TCC) of $1.25 per 1,000 gallons (usually used for temporary water reclamation projects)
  - TCC is 1/20th of SAC (based on 20-year debt term)
  - A TCC collected for 20 years on 100,000 gallons per year equals $2,485
- ICC needs to be higher than the TCC because it is applied to actual flow and isn't based on maximum flow
- The average flow per Residential Equivalent Connection over the past 20 years is 59,400 gallons per year
- **Therefore, the ICC is 100,000/59,400 X $1.25 = $2.10**

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Outreach

- The proposed changes were well-received by industrial customers at the 2017 & 2018 spring workshops
- Industrial Waste and Metro Cities newsletters in 2018
- Letter campaigns to top 10 industrial cities in 2017, and all 114 communities in 2018
- **October 4 met with city staff (from Chaska*, Eagan, Shakopee Public Utilities, Anoka, Rosemount, Metro Cities) to discuss city impacts**
  - They were supportive of the change and appreciated being asked to participate

*Separate phone conversation

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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
- October 4 met with city staff
- October 23: Environment Committee Recommendation
- November 14: Council Adoption
- January 1, 2019: New Rate and Process Effective

* *public input*

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Thrive Lens

- Outcomes:
  - Prosperity – industrial customers will have a choice when starting or expanding their business and face lower administration fees
  - Sustainability – industrial customers who choose ICC may have incentive to implement water conservation improvements, since the benefits will be realized sooner
- Principle:
  - Collaboration – this change is a request from our customers and has been vetted with MCES customer cities as well as Metro Cities

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Questions

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