



City of Saint Paul
Interdepartmental Memorandum

To: Mayor Melvin Carter
Members of the City Council

From: District Energy Rate Review Team

John McCarthy, Director, Office of Financial Services
Sarah Brown, Treasurer, OFS
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Date: September 23, 2024

Subject: Staff Report for Proposed District Energy St. Paul, Inc. Rates,
Effective for FY 2025

This memorandum provides an analysis of District Energy's proposed cooling and heating rate changes for fiscal year 2025, 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 \$33.36 to \$34.19 per ton per month

Energy Rate:

Increase from \$0.110 to \$0.113 per ton-hour

Transition Rate:

Increase from \$0.444 to \$0.455 per ton-hour at 1200 utilization hours

All other service charges will remain at the 2024 levels as indicated in the attached District Cooling Schedule A.

Comparison of Cooling Rates: 2021– 2025

	Actual FY 2021	Actual FY 2022	Actual FY 2023	Forecast FY 2024	Budget FY 2025
Rates					
Demand (\$/ton/mo)	\$30.02	\$30.85	\$32.08	\$33.36	\$34.19
Energy (\$/ton hr)	\$0.084	\$0.103	\$0.108	\$0.110	\$0.113
Overall cost at 1200 hrs (\$/ton hr)	\$0.384	\$0.411	\$0.431	\$0.444	\$0.455
Increase as %					
Demand (\$/ton/mo)	2.53%	2.76%	3.99%	3.99%	2.49%
Energy (\$/ton hr)	-2.33%	22.62%	4.85%	1.85%	2.73%
Overall cost at 1200 hrs	1.59%	7.03%	4.87%	3.02%	2.48%

The proposed District Cooling *average overall cost* (at 1200 utilization hours) shows an increase of 2.48% from forecasted 2024 to budgeted 2025.

The proposed *demand rate* increase is 2.49%. 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 \$250,567.

The *energy rate* shows a 2.7% increase from 2024 to 2025. 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 2025 budgeted rate is \$0.113.

The *average overall cost* increase (at 1200 utilization hours) of 2.5% 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> <u>(\$ / Ton-Hour 1200 Hrs)</u>
Energy Park Utility 2024	\$0.348
District Energy St. Paul - Cooling	\$0.445

*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 2023 levels as indicated in the attached District Heating Schedule A.

Comparison of Heating Rates: 2021 – 2025

	Actual FY 2021	Actual FY 2022	Actual FY 2023	Forecast FY 2024	Budget FY 2025
Rates					
Demand (\$/kW/mo)	\$5.63	\$5.80	\$6.03	\$6.28	\$6.44
Energy rate	\$21.83	\$30.55	\$33.73	\$26.490	\$28.000
Fuel adjustment rate	\$0.00	\$0.00	\$0.00	\$0.000	\$0.000
Total Energy (\$/MWh)	\$21.83	\$30.55	\$33.73	\$26.490	\$28.000
Single Rate (\$/KWH)	\$0.0616	\$0.0715	\$0.0763	\$0.0708	\$0.0735
Increase as %					
Demand (\$/kW /mo)	0.00%	3.02%	3.97%	4.15%	2.55%
Total Energy (\$/MWh)	9.70%	39.95%	10.41%	-21.46%	5.70%
Single Rate (\$/KWH)	3.36%	16.07%	6.71%	-7.21%	3.81%

The proposed District Heating *overall single rate* is projected to increase 3.81% between forecasted 2024 and budgeted 2025.

The proposed *demand rate* represents a 2.55% increase for budgeted 2025. The rate has remained relatively flat since 2013 except for 3-4% increases in 2022, 2023 and forecast 2024. The demand rate covers operations and maintenance, general and administrative, research and development, debt and capital expenses.

The budgeted *total energy rate* represents a 5.70% decrease in 2024. The energy rate is a pass through to the customer. The rate is based on projected cost of fuels utilized.

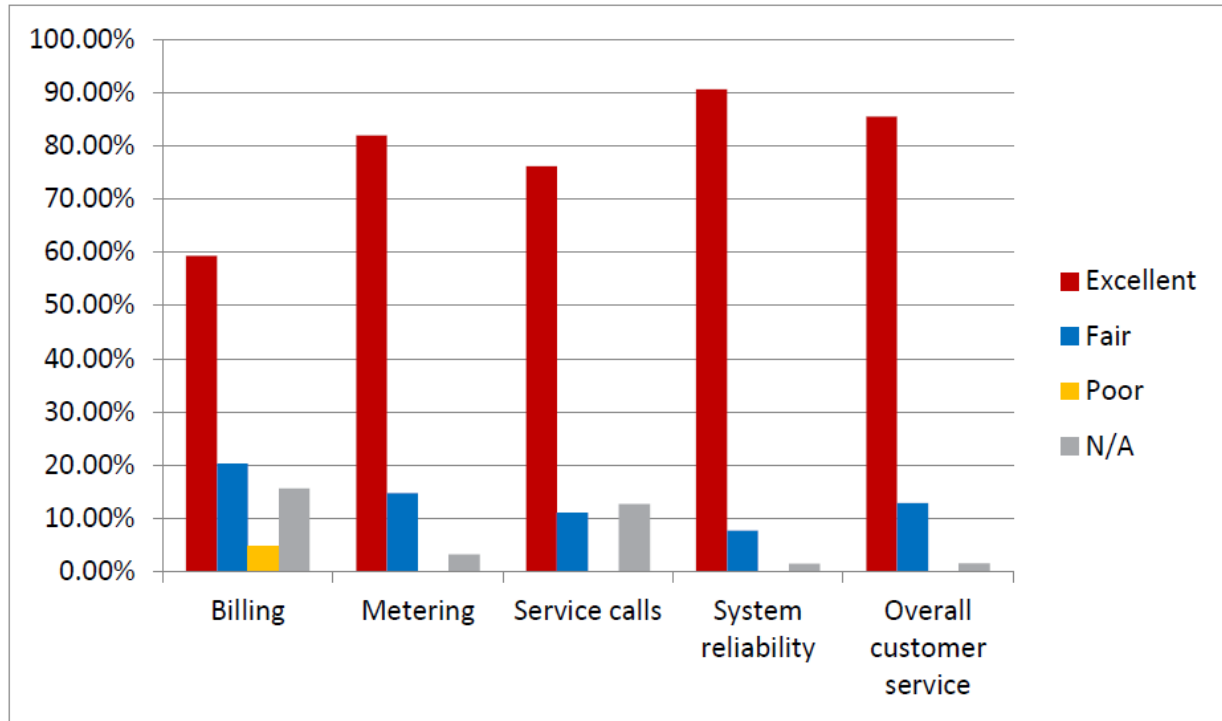
District Heating Comparison to Other Similar Utilities

<u>FY 2024 Heating Cost</u>	<u>Heating Cost*</u> <u>(\$ / MMBtu 1700 Hrs)</u>
Energy Park Utility Company 2022	\$30.48
District Energy St. Paul - Heating	\$20.52

*Excluding City fees and sales tax.

III. Customer Survey

In 2024, District Energy conducted a customer satisfaction survey. Although a small sample size, the survey responses were generally positive. Approximately 85% rated District Energy's overall customer service as excellent, as well as 90% rated the system reliability as excellent. Fewer than 60% of survey respondents rated billing 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, over the past 5 years, at less than 3% is relatively small, staff recommends approval of the rate increase request.

City District Cooling Expenditures by Department:

Department	Description	2019	2020	2021	2022	2023
Police	Building Maint.	83,465.59	100,291.82	86,629.94	98,884.09	93,894.01
Fire	Station Maint.	28,246.71	30,634.89	30,239.74	33,405.12	40,480.24
Real Estate	Real Estate CHA	65,294.62	67,985.37	75,016.01	73,718.13	79,965.34
Library	Maint. Service	53,543.24	57,766.90	55,680.98	59,510.42	60,852.92
Total		230,550.16	256,678.98	247,566.67	265,517.76	275,192.51
% Change		-7.93%	11.33%	-3.55%	7.25%	3.64%

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 increase 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 3.17%, over the past 5 years, 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	2019	2020	2021	2022	2023
Police	Building Maint.	55,156.59	84,757.22	56,385.90	82,139.34	71,205.02
Fire	Station Maint.	31,821.37	36,079.47	33,810.57	41,537.92	34,968.33
Real Estate	Real Estate CHA	130,017.48	128,647.03	126,059.10	123,945.91	107,859.00
Library	Maint. Service	58,729.31	46,917.12	49,346.93	55,803.20	52,263.44
Total		275,724.75	296,400.84	265,602.50	303,426.37	266,295.79
% Change		2.68%	7.50%	-10.39%	14.24%	-12.24%