

A PATH TO NON-CURTAILMENT FOR INDUSTRIAL CUSTOMERS

- The City's drought management plan achieves demand reductions from residences by prohibiting specified types of water uses (such as landscaping) and surcharging usage above specified levels. It achieves demand reduction from industries by mandating curtailment (10%) and punishing failure to curtail with surcharges.
- These curtailment surcharge could lead to cost-spikes for industrial water when 10% curtailment is mandated pursuant to the City's drought contingency plan.
- Industries asked City for relief from the potential for curtailment. Such relief could be provided through construction of a desalination plant.
- Desalination plants currently produce water at a higher cost than the City obtains water otherwise. Consequently, the City desires its residential ratepayers not subsidize industries achieving freedom from potential curtailment surcharges.
- City asked for state assistance for a desalination project to provide an uninterrupted water supply. City applied for low-interest financing from Texas Water Development Board.
- Texas Water Development Board authorized a \$2,750,000 State Water Implementation Revenue Fund (SWIRFT) 0% interest 8-year loan for pre-engineering and permitting of a desalination facility.
- The City's SWIRFT loan is scheduled to close on November 21st. The Texas Water Development Board has already issued bonds to support issuance of debt. Therefore, the City is liable for approximately \$150,000 of transactional costs even if it backs out of the loan at this point.
- Texas Water Development Board (TWDB) requires an engineering contract to issue the SWIRFT loan.
- The City worked with industrial stakeholders and our economic development corporation to select Freese and Nichols (F&N) as the City's owner's representative for the industrial desalination project.
- The TWDB requires, as a condition of the SWIRFT loan, that City have an engineer contracted for completion of pre-engineering to permit stage. To provide for this, the City must (1) appropriate funds from Utility Revenue Bonds to pay for the Seawater Desalination Project and (2) authorize Amendment No. 1 to Professional Service Agt w-Freese & Nichols to provide for completion of the pre-engineering and permit application for a complete Seawater Desalination Project. This will provide for the following actions on October 31st and November 7th, the latest possible dates to meet the TWDB guidelines:
 - o appropriating \$2,750,000 of Series 2017 Utility Revenue Improvement Bonds for the Seawater Desalination Project;
 - o authorizing the City Manager to execute Amendment No. 1 to the Professional Services Agreement with F&N for the Seawater Desalination project for the following scope:

§ MAXIMUM CONTRACT \$2,627,000

BREAKDOWN OF CONTRACT BELOW:

§ BASIC SERVICES TASKS

••	Project Procurement Methodology	\$ 102,000
••	Concentrate Management Strategies	\$ 168,000
••	Seawater Desalination Project Siting	\$ 459,000
••	Site Surveys and Studies	\$ 193,000

.. Source Water Characterization	\$ 180,000
.. Confirmation of Plant Size, Water Users, Water Demand, and Points of Product Water Delivery	\$ 40,000
.. Infrastructure Integration Plan	\$ 281,000
.. Conceptual Design of Intake and Outfall Facilities	\$ 82,000
.. Power Supply Agreement	\$ 65,000
.. Project Delivery Technical Strategy	\$ 190,000
.. Filing of Owner's Permit Applications	\$ 334,000
.. Supplemental Project Definition Summary Report and Project Procurement Plan	\$ 144,000
.. TWDB Financial Assistance (SWIFT #1)	\$ 21,000
.. Project Management, Meetings, and Coordination	\$ 202,000
§ BASIC SERVICES SUBTOTAL	\$ 2,461,000
§ ADDITIONAL SERVICES: Communications & Public Outreach	\$ 166,000
TOTAL MAXIMUM CONTRACT \$ 2,627,000	

- The City seeks to concentrate the desalination cost on industries who are seeking freedom from the potential of a surcharge imposed for failure to curtail water usage during a drought,
- Paying a non-curtailment rate would enable a participating industry to avoid a surcharge during a drought for failure to curtail.
- Non-curtailment rate funds would be placed into a restricted account that could be used only for drought-proof water supplies, such as desalination.
- To be able to pursue desalination cost-effectively, desalination water should be potable, to allow the City to use its drinking water system to convey desalinated water to customers,
- Prior to starting engineering work, (ie: COUNCIL APPROVAL TO PROCEED) the City desires a commitment from industries with sufficient load to provide for repayment of this SWIRFT loan,
- The City-desired commitment is flexible, with multiple options:
 - o Non-curtailment rate class for industries desiring greater reliability. Membership in rate class allows industries freedom from danger of curtailment surcharge --- Possibility---Opt-out rate class to allow industries to opt to remain in rate class that is subject to potential curtailment surcharge.
 - o Contract without specified amount – industries agree to pay non-curtailment rate established by City. Paying non-curtailment rate allows industries freedom from danger of curtailment surcharge
 - o Contract with specified amount – industries agree to pay contractually-specified non-curtailment rate. Paying non-curtailment rate allows industries freedom from danger of curtailment surcharge
- Possible future scenario---energy costs stay low or decline further and desalination technology advances – The state-financed desalination project engineering & analysis could provide reliable cost scenarios that allow for a determination that desalination is lowest cost option for new supplies for all ratepayers, not just industries. This determination would give City flexibility to apply new source charge to all ratepayers.
- Desalination effort will not negatively impact the City's pursuit, consideration, and analysis of additional water sources.