Quarterly Report to the State Building Commission
Metro Nashville District Energy System
Advisory Board Meetings
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The following section of the State Building Commission Policy and Procedures sets the reporting requirements:

13.01 METRO NASHVILLE DISTRICT ENERGY SYSTEM
The Commission, in accordance with the Metropolitan Government of Nashville and Davidson County requirements relating to the Metro Nashville District Energy System, will appoint for a term of two years, by name and State title, an individual to serve as the Representative of the government of the State of Tennessee on the Advisory Board for the Metro Nashville District Energy System, and the Representative shall report on the meetings of the Advisory Board to the Commission on a quarterly basis, or at any other such times the Commission requests.

Facilitators: Dan Coyle, DES Project Contract Administrator and Kevin Jacobs, Thermal Engineering Group (TEG)

This report addresses the Advisory Board meeting held on August 19, 2021. The meeting was held via Webex teleconference and in person at the Sonny West Conference Room in the Metro Howard Office Building. Below are key issues that were stated at this meeting:

August 19, 2021 meeting

- Freddie O’Connell, Board Chair, called the meeting to order at 10:02 a.m. Mr. O’Connell proposed accepting the previous meeting minutes. Heidi Hoeffner moved to accept the minutes and Bill McKnight seconded the motion. The minutes were approved unanimously by verbal acceptance. Mr. O’Connell acknowledged the presence of new Board members, Bill McKnight with Hyatt Centric and Chris Proctor with Fifth + Broadway and thanked them for their service on the Advisory Board. Mr. O’Connell then asked TEG to proceed with its presentation.

- Kevin Jacobs reviewed the Customer Sales Cost Comparison table. Mr. Jacobs, comparing data from the pre-pandemic period with the pandemic period, explained that customer sales were down in nearly every category except for the State. Steam sales were down, and chilled water sales were down due to lower occupancy in the public buildings and few events at the major venues. Chilled water sales at private facilities were also down, but as the hotels have increased occupancy and hosted more events, the use of chilled water is starting to recover to the five-year average. Steam sales are approximately the same as this time last year.

- In response to nCOVID-19, the Advisory Board decided to waive late fees through the second quarter of the year. The two customers that opted for the deferrals plan are on-schedule with payments. There were no additional requests for deferral, and there are no customers in arrears. Constellation continues to maintain its COVID protocols.
• Mr. Jacobs noted that this review of the performance guarantees for Constellation reflect the 4th quarter of FY2021 and the full fiscal year performance. Constellation did not meet all of the performance guarantees for 12 consecutive months, as required by contract. The steam electric conversion performance exceeded the guarantee only in August. However, the steam fuel efficiency is an issue in that the fuel usage exceeded the guarantee. Mr. Jacobs noted that the new guarantees for steam water conversion did not change and the plant performance is consistent with historic performance. The winter variation is typical, and the exceedances are by a very small amount. Constellation worked to improve the chilled water electric conversion efficiency and met the new guarantee for all 12 months. The chilled water-water conversion is a new calculation for both the actual performance and the guarantee. Performance exceeded the guarantee for seven months of the year by 5-8%. Regarding water treatment, Constellation has done a very good job. Constellation contracted with Chem Aqua as the new vendor for water treatment services beginning in January. The Chem Aqua system is different from the previous process, particularly in addressing biological control. The new system appears to be working well. For steam and condensate, prior condensate leaks have been addressed.

• Mr. Jacobs stated that based on the quarterly EGF Walkthrough, Constellation has improved the EGF building and grounds and equipment maintenance. Trees to be replaced on the west side of the EGF will be planted in the fall. Brian Taylor requested interpretation of the plus and minus signs attached to the rating dots. Mr. Jacobs explained that these signs indicate positive and negative trends in the performance rating. That is, a “dot-plus” indicates improvement but not 100% achievement of the next level.

• Dan Coyle next discussed the slide on the EDS Walkthrough. Mr. Coyle noted that yellow dots for insulation do not indicate a lack of performance by Constellation, but rather affirmation of deficiencies in the insulation that will be addressed by future repair projects. Safety issues are “all-green,” and there have never been any safety concerns.

• Mr. Jacobs reviewed the natural gas spending. FY2021 was a good year for gas spending versus budget. Each year, customers are sent a budget of their respective pro-rata shares based on their historic sales. Total gas cost is 8% below budget [excluding contingency and FEA]. Propane is purchased as a backup fuel and stored offsite until needed. This year, the surplus of propane was sold back at a higher price than purchased; therefore, customers will see a “Propane Credit” on the year-end true-up calculation.

• The projected gas budget for FY2022 includes the unit cost of gas plus transportation costs. However, the currently anticipated market price of gas greatly exceeds our budget. Hedging positions for future purchases will try to capture better costs. Prices may fall over winter if there is a mild autumn. Building owners can reduce internal thermostat or control point temperatures to reduce the amount of steam needed – which can save fuel costs.

• Mr. Jacobs reviewed the FY2021 Budget slide. Mr. Jacobs noted that the system is over-budget for water due to one chilled water leak and three condensate leaks last year that have been repaired. He also noted that we are at 97% on the Debt Service budget: the budget included an allowance for an additional debt service payment that was never realized, thus the amount paid is less than 100%. The new debt service payment will appear in FY2022. The Fuel Contingency budget line item was
added to compare the contingency to the base fuel cost, but none of the contingency amount was used during this fiscal year. For the FY2022 Budget, the Metro Funding Amount (MFA) is anticipated to remain the same: $630,700. The new chemical vendor’s rates are slightly lower than in previous years. The customer contracts and Constellation’s contract limit the escalators that can be used. Therefore, where applicable, the 3% CPI will be used for Constellation and utilities will be escalated based on allowances, contingencies, and volumes used. Debt service payments will be approximately the same, according to the payment schedules for previous years. In future years, those figures will rise and fall. Overall expenses are expected to be 3% higher in FY2022 than in FY2021, and revenues will follow suit. Mr. Taylor asked why the MFA is not going down, whereas it has slowly declined over several years. Mr. Jacobs responded that the actual MFA required may come down, but the budget reflects anticipation of potential need.

- Mr. Jacobs reviewed the marketing efforts and explained that, although there have not been any recent new connections, conversations continue with the developers of Peabody Union [to be located adjacent to the EGF] regarding the potential use of chilled water and no steam. The Peabody Union development includes a proposed new road from Peabody Street to KVB along the EGF east property line. Additional developments under discussion include the Peabody Street Hotel, a new development north of KVB, the Union Street Hotel, and a development on Molloy Street. The capital expenditures through the end of July were reviewed to capture the end of the FY2021 expenses. There are approximately $2.6 million remaining for FY2022 projects.

- Mr. Coyle explained the details of active capital projects. There is an ongoing legal effort to recover blasting damages from the Fifth + Broadway construction. Thermal Engineering is working with Metro on a review of options for efficiency improvements and business growth. The Peabody Union development [a potential customer] will impact DES physically due to the proposed elements of the design and changed traffic patterns. There are several manhole and tunnel projects addressing water intrusion, insulation problems, and metal corrosion. The hot spot in Printers Alley has been corrected. Correction of another hot spot near the Metro Public Library is in progress, as is another condensate leak. Mr. Coyle also listed the projects that have been completed and closed.

- Mr. Taylor asked if there had been any discussion with the Congress Group regarding two or three developments around Lea/Peabody south, between 2nd and 3rd. Mr. Coyle was not aware of such discussions.

- Mr. O’Connell invited the new Board members to ask questions regarding this review or any Board activity. With no further questions, Mr. O’Connell encouraged Board members to review the schedule of upcoming meetings. Ms. Creech moved to adjourn, and Mr. McKnight seconded the motion. The Board voted unanimously to adjourn at 10:38 a.m.

- The next regular Board Meeting will be held Thursday, November 18, 2021 at 10:00 a.m.

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