

# Quarterly Report to the State Building Commission

## Metro Nashville District Energy System

### Advisory Board Meetings

By Ann McGauran, State Architect

Advisory Board Representative of the Government of the State of Tennessee

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.

This report addresses the Advisory Board meeting held on May 21, 2020. The meeting was held via Webex teleconference. Below are key issues that were stated at this meeting:

#### May 21, 2020 meeting

- Freddie O'Connell read a statement in which he proposed to accept a motion that the Advisory Board meeting agenda constituted essential business of the Metro District Energy System Advisory Board and that meeting electronically is necessary to protect the health, safety and welfare of Tennesseans during the nCOVID-19 outbreak consistent with the Governor Lee's Executive Orders. The motion was seconded and approved without stated objections and abstentions. Mr. O'Connell stated that votes would be counted as accepted unless objections or abstentions were stated due to meeting electronically.
- The meeting was called to order consistent with the Executive Orders by Freddie O'Connell at approximately 10:06 A.M
- Mr. O'Connell asked for and received a motion to accept the meeting minutes of the February 26th Advisory Board Meeting. The minutes were approved unanimously without discussion.
- Mr. O'Connell asked that all members "raise their hands" electronically through the Webex interface and he would call on members to comment or ask questions.
- At the request of the Chair, Mr. Jacobs proceeded with the presentation to the Board.
- Mr. Jacobs reviewed the Customer Sales Cost Comparison table for the previous twelve-month period. Due to the low natural gas prices, steam costs are also down. Chilled water costs have also decreased largely due to a decrease in consumption.
- Mr. Jacobs explained the graphs showing the steam and chilled water sales for the past five years. The chilled water sales for April 2020 are 36% below the average April sales over the past five years. Sales were also down in March 2020 believed to be due to the Stay at Home order and the shutdown of businesses throughout Nashville. The steam sales for April 2020 are 9% below the average April sales over the past five years and is not the lowest amount of steam sales for April.

- Mr. Jacobs discussed that CNE and TEG had spoken with some customers about ways to reduce their steam and chilled water usages in order to reduce monthly costs. The recommendations including shutting down some portions of their building that are not occupied and changing the thermostat settings for areas with reduced occupancies as long as the relative humidity does not become too high. Some customers have reduced their usages while others have had typical March and April usages.
- Mr. Jacobs explained the DES nCOVID-19 response plan that includes not charging customers late fees (through the end of May), not disconnecting customers for not paying (through the end of May) and allowing a deferment of 75% of two monthly invoices that would be repaid over the course of the following twelve months. One customer requested deferment but then withdrew the request. Another customer intends to request a deferral but has not done so to date. Three customers are in arrears with their invoices. One of these customers has occasionally paid late and may pay within the next week. Following CDC guidelines, Constellation NewEnergy (CNE) has limited access to the EGF and limited construction and activities outside the plant. CNE continues to address emergencies and issues at customer buildings when they arise.
- Mr. O'Connell asked if the DES policy was having an impact on Metro's financial contribution by customers being in arrears or with reduced usages. Bob Lackey explained that the reduction in usages does not have an impact on Metro or the DES nor does the reduction in cash flow due to late payments and the deferrals. Most customers are current with their payments.
- Ann McGauran asked if the reduction in usage has a financial impact on Metro or the DES. Mr. Lackey responded that all of the utility usage is a pass-through cost to the customers. If the usage is down, the utility usage would also be down, resulting in lower utility costs. The capacity charges are borne by the customers and stays constant, independent of their usage.
- Mr. Jacobs reviewed the DES Contractor Performance for the previous year. Mr. Jacobs explained that the steam electric conversion was normal relative to the historic values. The steam plant efficiency graph shows a slight decrease in efficiency in recent months that may be due to lower than normal usage. The steam plant water conversion factor remained similar to the historic values. (The wrong graph was included on the original presentation for the steam plant water conversion factor.) The chiller plant efficiency continued to be less than the three and five-year averages (shown on the chart) but remained below the guarantee value of 1.05 kWhrs per tonhr. Mr. Jacobs explained that CNE has been making some effort over the winter months and into May to attempt to improve the chiller plant efficiency. TEG is continuing to monitor the efforts by CNE in improving the plant's performance. The chiller plant efficiency graph showed a "yellow dot", implying a need for improvement from CNE. The three and five-year averages for the chiller plant water conversion factor were also presented with the actual conversion factor for the previous year. An issue with one of the water meters in the chiller plant could have contributed to some of the increase in the water conversion factor, but this issue occurred in the September/October timeframe and was resolved within a four-week period. The chiller plant water conversion graph also showed a "yellow dot." The repairs were completed by CNE in October/November and a reduction in water usage is noted on the graph. TEG will continue to monitor the issue, but the "yellow dot" may return to green for the next meeting if the current trend continues.
- Mr. Jacobs reviewed the water treatment slides. All green dots are noted on the slide and Mr. Jacobs noted that CNE was continuing to report zero or near zero colony counts for biologicals in the chilled water. All tests that have been performed by taking samples from the water at the plant and from several customer buildings continue to show zero presence of the bacteria.

- Mr. Jacobs discussed the EGF (Energy Generating Facility) Walkthrough. The yellow dot on the equipment maintenance is related to the decrease in chiller plant efficiency. Mr. Jacobs explained that CNE is making an effort in improving the maintenance of the chiller plant equipment and that equipment maintenance may revert back to a green dot in the Fourth Quarter. The Building and Grounds is due to an issue with the trees on the west side of the EGF. CNE has not yet addressed this issue due to the nCOVID-19 issue and is waiting on the Stay at Home order to be suspended in order to have contractors on-site.
- Mr. Coyle reviewed the EDS Walkthrough. There are no significant changes from the previous quarter, but problems remained with water infiltration and corrosion of structural metal components. Several ongoing projects continue to address these issues but CNE has suspended construction activities due to the nCOVID-19 outbreak and the Stay at Home order. Some of the noted issues may be addressed by the next quarter if construction activities resume.
- Mr. Jacobs moved onto the Natural Gas Purchasing review. Mr. Jacobs explained that all criteria items are well below budget, even without the contingency (which is not included in the slide). The recent prices for natural gas are the lowest that the DES has ever paid. Plant efficiency is higher than budgeted. Even when the price of purchased propane is included, the total fuel cost for the year to date is approximately 35% below budget.
- Mr. Jacobs discussed the trends for the natural gas futures. Mr. Jacobs explained that the cost of natural gas is around the market price and that the DES is currently paying about \$2.25 per dekatherm delivered. Mr. Jacobs explained that Metro's natural gas consultant, FC Stone, has indicated that the market shows a relatively low unit cost for natural gas in the near future, but that the price may increase to around \$3 this winter.
- Mr. Jacobs began discussing the FY20 Costs to Date report and explained that all expenditures appear to be consistent with the budget. One line from the table in the slide from last quarter was expanded at a board member's request to show the Administrative Costs, Chemicals and R&I Fund Transfers as separate line items. Some costs are not regularly re-occurring and may occur quarterly. The table may include some April 2020 costs.
- Mr. Jacobs presented the FY20 Budget report. Mr. Jacobs pointed out that the DES is making an effort to reduce the Metro Funding required for the system each year.
- Mr. Jacobs continued with the Marketing update. Since the Hyatt Centric is now a DES customer, they have been removed from the Marketing slide and the Marketing slides remain largely unchanged, otherwise. The piping to the Hyatt Centric is completed and the metering station is expected to be completed in late summer. Chilled water usage during construction is anticipated to occur in late summer or early autumn. 5th and Broadway's chilled water service is complete. The remaining other customers appear to be on hold in progressing along with their projects due to the uncertainty of the economy.
- Mr. Lackey discussed the status for the RFP and sale of the DES. Mr. Lackey explained that after considerable analysis, the Mayor had decided that it was in the best interest of Metro and the DES customers to maintain ownership and control of the system and that by doing so, Metro, the taxpayers, and all of the DES customers will save money. The Mayor then authorized Metro Legal to proceed with negotiating a contract extension with CNE as system operator. The result of this negotiation, if approved, is the five-year extension of their contract and a reduction in the fixed operating cost to operate the system. The contract extension will provide Metro more time to evaluate the viability of the system and reduce costs long-term. The Mayor has included the retention of the DES and CNE's contract extension as part of the FY21 budget.
- Mr. Lackey further explained that the Mayor has asked Metro Water Services to take over the Metro Liaison duties since Mr. Lackey is retiring on June 12. Adrienne Fancher with Metro Water will be taking over as Metro Liaison for contract oversight.

- Mr. O'Connell provided a partial history of the past few years and his experience related to the DES and the need for the RFP. DES issued an open-ended RFP for the disposition of the system or for a new system operator with the expectation of resolving the constraints on the DES to reduce its costs and expand the system. Metro has issued a letter to Engie with the Intent to Award the sale of the system to them. CNE appealed the decision of the sale and that appeal remains on hold. Mr. O'Connell pointed out that the Advisory Board has yet to provide a position and advice to the administration on the Intent to Award. Mr. O'Connell asked if the Board would like to have a special meeting to discuss what their recommendations and position are to the administration.
- Ann McGauran asked if Mr. Lackey could explain how Metro could proceed with the CNE contract extension without going through the regular procurement process. Mr. Lackey deferred the question to Metro Legal.
- Mr. O'Connell stated that he had previously asked a similar question and was informed that the contract could be extended and that such an extension would result in better terms for a savings to the system.
- Ms. McGauran asked if the terms of the contract extension were less favorable than those received during the RFP process. Mr. O'Connell asked if Ms. McGauran could submit written questions to Mr. Lackey so that he could find the answers prior to a special meeting. Ms. McGauran asked how the contract extension reduces the cost to the customers. Mr. Lackey replied that the customer costs would be reduced through the fixed operating cost component of the customer invoices [i.e., pass-through costs] depending on each customer's contract.
- Brian Taylor stated his concern that beyond the recommendation for Metro to begin the RFP process, the voice of the Advisory Board has not been heard or received by Metro. Mr. Taylor asked to have more details regarding the contract extension with CNE and that those details should be discussed by the Board.
- Nick Woolen stated his concerns with the DES water quality and asked what standards are being followed for the water being delivered to the customers and what are the new standards that will be followed under the contract extension. Mr. Woolen stated that he did not want the reduction in costs related to the contract extension to adversely affect the systems' water quality. Mr. Jacobs stated that there is a water quality standard that is being observed and that there is nothing in the contract extension with CNE that would change those standards. Mr. Jacobs explained that there are some changes to the water treatment that have been discussed and that these changes are outside of CNE's contract and related to capital improvement projects. DES has been working with CNE on implementing some of those changes. Mr. Coyle explained that most of the changes to the contract have involved improving the performance guarantees and maintenance requirements for which CNE has agreed to accept.
- Mr. O'Connell asked Mr. Woolen to submit his questions to Mr. Lackey so that they could be discussed in a subsequent meeting.
- Mr. O'Connell discussed that 100% of the customers had agreed with issuing the RFP and wondered if 100% of the customers would agree with an ongoing Metro operation with Metro Water administering the contract as the Liaison. Mr. O'Connell further discussed his opinion that the administration should delay cancelling the procurement until after Metro Council has time to complete its budget review for FY21. Mr. O'Connell asked that a special meeting be held prior to Mr. Lackey's retirement to discuss the concerns of the Board regarding the RFP process and contract extension so that the Board can provide a recommendation to Metro.
- Ms. McGauran asked about the timing for cancelling the procurement. Mr. Lackey stated that he understood that the procurement would not be cancelled until after the budget process. Ms. McGauran and Mr. O'Connell discussed that they thought the customers should know what the impact on the individual customers costs and contracts are if the CNE contract extension is implemented.

- Mr. Jacobs continued with the Capital Expenditure Update report. Mr. Jacobs discussed that CNE has elected to delay most of the projects listed due to the Stay at Home order. The Mayor has also requested a delay in capital expenditures from Metro departments. CNE has performed some work at customer buildings and at the EGF. Only a few projects have had expenses in the past few months.
- Mr. Jacobs explained that many of the delayed projects are expected to restart in late June or July. Some projects are currently in the design phase.
- On behalf of the Board, Mr. O'Connell offered hearty congratulations for Mr. Lackey's retirement and warm thanks for his service to DES and the Advisory Board. Mr. Lackey thanked the Board members for their kind words and for their dedication to the system.
- Without further discussion on new items, and upon a motion, the meeting was adjourned at approximately 11:11 A.M.
- The next regular Board Meeting will be held Thursday, August 20, 2020 at 10:00 A.M.

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