



Legislation Text

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Proposed Water Service Contract with St. Clair County Board of Public Works

Agenda of: January 26, 2022
Item No.: **2022-015**
Amount: Revenue Contract

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Suzanne R. Coffey, P.E.
Interim Chief Executive Officer
Great Lakes Water Authority

DATE: January 10, 2022

RE: Proposed Water Service Contract with St. Clair County Board of Public Works

MOTION

Upon recommendation of Randal Brown, General Counsel, the Board of Directors (“Board”) of the Great Lakes Water Authority (“GLWA”), **authorizes the Interim Chief Executive Officer (“ICEO”) to execute a 30-year water service contract with St. Clair County Board of Public Works;** and authorizes the ICEO to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

The St. Clair County Board of Public Works (“Member Partner”) contracts with GLWA for water services for the benefit of one user in its service area, the DTE Energy Greenwood Energy Center (“GEC”). The GEC is a natural gas-fueled power plant designated as a “cyclor” during the peak summer months. It uses GLWA water for cooling equipment when it’s operating. Its use is dependent on demands in the electric market and the price of natural gas. Over the past 10 years, the GEC has run as many as 124 days and as few as 32. As explained by the plant manager, the GEC has little to no control over the frequency of its operation and, moreover, its long-term operations cannot be guaranteed for the duration of the 30-year Contract. As a result, GLWA agreed to two concessions in its model contract to accommodate the significant financial risk to the Member Partner under this factual situation.

The first concession is the addition of Section 3.06, Sole Account. This new section provides that if,

for the duration of the contract, the Member Partner maintains only one retail account within its service area (in this case, the GEC), and that business closes or moves its operations outside the Member Partner's service area, then the Member Partner has the right to terminate the contract upon payment of all outstanding charges. Should any other GLWA member partner have the same circumstances, they, too, would be entitled by the terms of Article 14 of their respective contracts to take advantage of this new contract provision.

The second concession is the elimination of the minimum take or pay ("MTP") clause found at Section 5.06. This clause requires a member partner to purchase from GLWA not less than the minimum annual volume of water specified in the contract or otherwise pay for the minimum amount. Under the model contract, the minimum annual volume is calculated as 50% of the annual volume. Because this is a substantive change that will affect all member partners equally, GLWA proposes that Section 5.06 be removed from all member partner contracts through the reopener process scheduled for CY 2022.

The rationale for removing the MTP requirement from all wholesale contracts is based on the current GLWA charges methodology. When the model contract was issued in 2008, the charges methodology was based on a commodity-only rate and the inclusion of a MTP provision made sense to ensure that the utility could maintain a minimum revenue stream. Since that time, the charges methodology has shifted to the recovery of 60% of the water revenue requirement on a fixed cost basis. This methodology change renders moot the need for a MTP clause because regardless of the amount of water used, the member partner is still responsible for payment of the monthly fixed charge.

On 12/7/2021, the Member Partner approved the terms of a new Water Service Contract ("Contract") with GLWA. Aside from the two exceptions discussed above, the Contract is based upon the model water contract presented to all other member partners, as subsequently amended, which was developed in partnership with the former Technical Advisory Committee, now One Water Partnership. Like all other model water contracts, the Contract has a thirty-year term and provides for, in part, pressure commitments by GLWA; maximum day and peak hour commitments by the Member Partner; the establishment of the One Water Partnership for a minimum term; notification and payment of charges; maintenance responsibilities of the Member Partner and GLWA; and water quality commitments by the Member Partner and GLWA. Only Exhibit B, containing the agreed upon levels of service, is attached for review.

Additionally, Exhibit A of the Contract establishes, as applicable, the Member Partner's service area boundaries, meter locations, emergency connections, retail customers served by the Member Partner outside of Member Partner's corporate limits, and each party's respective ownership and maintenance responsibilities. Exhibit A is not attached for homeland security reasons.

JUSTIFICATION

Approval of this Contract provides a mutually beneficial, stable, long-term framework for interactions between GLWA and the Member Partner and incorporates annual system planning volumes, pressures, and maximum day and peak hour values that better reflect future Member Partner usage.

BUDGET IMPACT

The revenues expected to result from this Contract will be reflected in the FY 2023 schedule of

charges.

COMMITTEE REVIEW

This matter is being presented directly to the full Board of Directors for consideration and approval.

SHARED SERVICES IMPACT

This item does not impact the shared services agreement between GLWA and DWSD.