



OFFICE OF THE CITY MANAGER

September 16, 1999

TO: City Council

FROM: City Manager

RE: Clarifications to September 20, 1999 Agenda Report "Customer Service, Utility and Meter Reading".

The following clarifies points raised during the Deregulation Committee meeting on September 15, 1999 regarding the Agenda Report entitled "Customer Service, Utility Billing and Meter Reading.

1. Pursuant to Item E of the Recommendation, the following will be reflected in the adopted Supplemental Agreements with the Unions representing employees performing the functions of meter reading, utility field services, call center, billing and credit services:

If the benchmarks are not met and the functions are contracted out, there shall be severance packages offered to the impacted employees as stipulated in the current MOU's.

2. It was confirmed by the Unions that it is their understanding that the language contained in the Supplemental Agreements referring to..."Meet and Confer over any incremental cost that may be incurred by the City if it were to outsource the customer service functions"... clearly means "Meet and Confer to mitigate any financial impact to the City"
3. The attached sheet marked Exhibit C entitled "Cost Comparison, PWP and SCE, Pricewaterhouse Basis" is to replace the existing Exhibit C in the Agenda Report. The new Exhibit C reflects corrected PWP budgeted projections, the inclusion of Energy Theft projections by SCE, increase in severance pay for the SCE cost projection and

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reduction in projected contract administration cost in the SCE cost analysis.

4. With the inclusion of the new Exhibit C, Exhibit D no longer is applicable.

Respectfully Submitted

A handwritten signature in black ink, reading "Cynthia Kurtz". The signature is written in a cursive style with a large, sweeping flourish at the end.

Cynthia J. Kurtz
City Manager

Attachment

EXHIBIT C

**COST COMPARISON
PWP & SCE
PRICEWATERHOUSE BASIS**

Pasadena Water and Power
Customer Services Outsourcing
Ten Year Cost Comparison

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	TOTAL	Discounted
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"MIDLINE" COST ESTIMATES

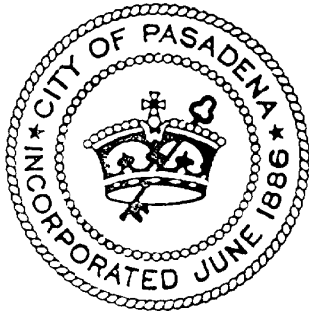
PASADENA WATER & POWER

Direct costs												
- Budgeted	\$ 2,739	\$ 2,799	\$ 2,883	\$ 2,970	\$ 3,059	\$ 3,151	\$ 3,245	\$ 3,342	\$ 3,443	\$ 3,546	\$ 31,177	
- Staff reduction		(97)		(323)	(333)	(343)	(353)	(363)	(374)	(386)	(2,971)	222
- Transition costs (severance)				222							100	
- Technical support	100											
- Skill enhancement												
- CIS implementation costs												
- Incremental maintenance												
Indirect costs	96	99	102	105	108	111	115	118	122	125	1,101	
CIS system	2,935	2,898	2,888	2,974	2,834	2,919	3,007	3,097	3,190	3,286	30,028	
	450	464	477	492	506	522	537	553	570	587	5,159	
	1,349	-	172	-	-	-	-	-	-	-	1,521	
	4,734	3,362	3,537	3,465	3,341	3,441	3,544	3,651	3,760	3,873	36,708	\$ 27,131

SOUTHERN CALIFORNIA EDISON

Proposed	3,600	3,654	3,764	3,877	3,993	4,113	4,236	4,363	4,494	4,629	40,721	
Adjustments												
- SCE transition cost	200										200	
- Contract negotiations	200										200	
- Contract administration & audit												
- Severance pay	409	(135)	(204)	(272)	(340)	(409)	(476)	(544)	(612)	(680)	409	
- Energy theft savings	(68)	3,518	3,560	3,605	3,653	3,705	3,760	3,819	3,882	3,949	(3,740)	
	4,341	3,518	3,560	3,605	3,653	3,705	3,760	3,819	3,882	3,949	37,791	\$ 27,811
Net cost (savings)	\$ (993)	\$ 156	\$ 22	\$ 139	\$ 312	\$ 264	\$ 216	\$ 169	\$ 122	\$ 76	\$ 1,083	\$ 680

Excitation	3.00%
Discount	6.00%



Agenda Report

September 20, 1999

TO: City Council
THROUGH: Deregulation Committee
FROM: City Manager
SUBJECT: Customer Service, Utility Billing and Meter Reading

RECOMMENDATION:

It is recommended that the City Council:

- A. Authorize the General Manager of the Water and Power Department (Department) to enter into an Agreement with the City of Lodi's municipal utility, Lodi Electric Utility (LEU) for the joint and cooperative operation of an Orcom Customer Information System incorporating the principles in Attachment A.
- B. Authorize the General Manager of the Department to enter into an agreement with Orcom Solutions, Inc. incorporating the principles outlined in Attachment B for the purchase and installation of a deregulation-ready utility billing hardware and software, Customer Information System in an amount not to exceed \$1,500,000.
- C. Approve an amendment to the FY 2000 Capital Budget for Water and Power to add \$1,500,000 for the purchase and implementation of the Customer Information System.
- D. Adopt the Supplemental Agreements signed by the Unions representing employees performing the functions of meter reading, utility field services, call center, billing and credit services.
- E. The above recommendations A., B., C., and D. are contingent upon the Supplemental Agreements with the Unions being amended to contain language that, in the event benchmarks are not met and as a result, the functions are contracted out, there will be no severance packages offered to the impacted employees.

BACKGROUND:

On April 26, 1999, City Council approved a Direct Access Plan to allow Pasadena electric customers to choose their energy supplier. Direct Access began for customers of investor owned utilities on March 31, 1998 and the Department will begin taking applications for direct access for its customers on January 1, 2000 with choice beginning March 31, 2000.

In order to implement direct access and improve the service levels to Pasadena customers, the existing Customer Information System (CIS) must be replaced. The existing CIS is cumbersome, time consuming, and not capable of supporting the requirements of the Council's approved Direct Access Implementation Plan.

The Department's CIS provides the City and the utility the capability to bill the residents and businesses of Pasadena for over \$170 million in revenues for services such as water, power, refuse, sanitation, street lighting, and utility taxes. The CIS maintains all customers' billing information, payment records, and most importantly, customer information on energy and water usage. In the new environment of deregulation, the CIS will be a critical part of the infrastructure needed to serve core customers and direct access customers. The CIS must be deregulation ready and capable of electronically interfacing with Electric Service Providers (ESPs), Scheduling Coordinators, Meter Data Management Agents (MDMAs), and the Independent System Operator (ISO).

On July 12, 1999, the City Council, directed the City Manager to:

“...continue to provide customer service, billing and meter reading service with city employees contingent upon the City of Pasadena negotiating an agreement with Glendale for joint use of their Harris billing system or purchase a joint billing system with the City of Burbank or any other municipal city...”

“...present written and signed agreement between management and impacted labor unions delineating performance measures (benchmarks) that must be met on a specified schedule, and what actions would be triggered in the event that these performance measures are not met...”

In response to the City Council's directive, the Department issued a Request for Interest (RFI) to the thirteen municipal utilities belonging to the Southern California Public Power Authority (SCPPA) to solicit interest in sharing an existing deregulation ready CIS system and/or pursuing an arrangement to jointly purchase one. The Department received one formal response from the Riverside Public Utilities Department (RPU). Additionally, the Department contacted and held discussions with Northern California utilities and

with the Burbank and Glendale municipal utility management regarding possible joint use of a CIS.

After reviewing and evaluating the RPU proposal and discussions with Glendale and Burbank, the Department determined it would experience:

- A. Significant costs in excess of proposals the Department received from CIS vendors through a Request For Proposal process; and
- B. Significant delays in implementing the City's Direct Access Implementation Plan.

The following summarizes the highlights of the offers and/or discussions by staff:

Riverside Alternative

RPU purchased their CIS through a citywide contract with SCT as part of a software conversion and upgrade of their current SCT software with a Y2K compliant version. The purchase of the new SCT software and related hardware includes a new accounting system, record management, and other municipal information management software and a new CIS. The CIS portion of the total SCT package represents approximately \$4.9 million. RPU has no immediate plans to offer direct access to their customers, therefore, when the new CIS system goes "live" in October 1999, it will not have the necessary modules to support direct access. Staff is not aware of the SCT software being used in the California deregulation environment.

RPU's pro-rata cost sharing proposal would cost Pasadena an additional \$1.7 million over bids received by the Department from Orcom Solutions, Inc. for its CIS. Additionally, RPU has not developed their deregulation implementation plan and therefore any partnering arrangement with RPU would likely delay the City's implementation of direct access for its customers.

Glendale Alternative

Glendale Water and Power (GWP) purchased the Harris CIS in September 1998 and went "live" in May 1999. The Harris CIS does not currently offer deregulation modules that would allow the user to conduct deregulation transactions in California. GWP did not offer the use of their CIS system but rather suggested that the Department contact Harris directly to explore the development of deregulation modules for Pasadena using an over-the-wires solution. The Department contacted Harris to explore this option and was informed that Harris did not offer this type of arrangement. As the Department had already received a proposal from Harris under its formal RFP process (Refer to the "Vendor furnished CIS discussion"), it did not pursue this alternative.

Burbank Alternative

Burbank Water and Power (BWP) has not formalized their direct access implementation plan or established a direct access implementation date. BWP currently uses an IBM mainframe computer to operate their CIS. The system is Y2K compliant and they do not have plans to purchase a new CIS at this juncture. BWP realizes that the current system will require retrofitting to handle deregulation transactions. BWP plans to hire a consultant to assist them in developing their CIS requirements. BWP suggested that the Department consider using the funds that it would expend on a new CIS and pool them with BWP's to retrofit their mainframe to make it deregulation ready. In the Department's investigation of possible CIS alternatives, retrofitting of existing mainframes to make them deregulation ready is very costly and time consuming. Therefore, this option was judged to be not feasible or not an economically viable alternative.

BWP would like the Department to keep open the option to join its CIS as BWP continues to evaluate its options. BWP is aware of the Department/LEU joint CIS operating and disaster recovery arrangement and requested that the Department keep them apprised of developments and possible opportunities.

Additionally, the Department held discussions with Lodi Electric Utility, which had recently completed the installation of a state-of-the-art Orcom Solutions CIS.

CIS Cooperative Operating Agreement with LEU:

The Department and LEU, a Northern California municipal utility, held discussions to explore the feasibility of establishing a cooperative operating arrangement. LEU recently went "live" with the Orcom Enterprise Customer Information System (E-CIS) in June 1999 (two months ahead of schedule). LEU serves the City of Lodi with a population 55,000 and provides utility billing and customer services for electricity, water and refuse collection.

LEU selected the Orcom E-CIS through an RFP process using the comprehensive functionality specification developed through a SCP/PA/NCPA joint development project. LEU's evaluation determined that the Orcom E-CIS was the most competitively priced offering for the required functionality to support its direct access plan and meet its Y2K readiness objectives.

Both the Department and LEU share common objectives regarding offering direct access to their customers. Additionally, it is recognized that the need for disaster recovery has become more critical by the added responsibility to maintain billing and other customer information that will be relied upon by other participants and organizations/agencies in the new deregulated electric marketplace. Through the proposed CIS Cooperative Operating Agreement, the Department and LEU will establish an out-of-the-area disaster recovery capability. This will allow ability for each utility to operate its

CIS software on the other's computer system in an emergency. Also, the data link that would be established would provide the utilities with system back-up capability to be back on line quickly in the event of a natural disaster without the loss of critical customer information or billing data.

Estimated ten-year disaster recovery cost savings over that of establishing a similar plan through a commercial arrangement with a vendor is approximately \$600,000. First time cost to install the necessary hardware for the Department and LEU is estimated to be \$30,000 to \$50,000 each.

The immediate cost sharing savings to the Department through the CIS Cooperative Operating Agreement is estimated to be in excess of \$100,000. Additionally, as opportunities arise to automate more customer service functions or enhance the Department customer service delivery through customized programming, the Department and LEU can acquire these enhancements through a cost sharing arrangement. The total ten-year savings to the Department with the CIS Cooperative Operating Agreement is estimated to be in excess of \$500,000.

Attached (Attachment A) is a Memorandum of Understanding that details the synergies that exist between the Department and LEU as well as specific principles that would be addressed in the formal CIS Cooperative Operating Agreement.

Union Agreements:

The Department and the three Unions representing employees responsible for the management and operations of the customer service functions have in near agreement on (Supplemental Agreements) affirming their commitments to providing superior customer service (Attachment C). Through these Supplemental Agreements, the department has secured agreement from the Unions on a number of items which will help to ensure the Department's competitiveness, including:

- Staff reductions to reduce cost and increase productivity
- Re-classification of jobs to achieve greater flexibility (broader work responsibilities) to respond to customer needs and reduce labor cost
- Cross-training and reassignment of employees within their job classifications, to achieve greater flexibility
- The need for extended business hours, including weekends, to better serve customer needs
- Benchmark requirements which will place the Department in the 1st quartile of the marketplace, as well as an obligation to meet and confer over the consequences for not meeting specified
- Risk/reward metrics

Orcom CIS Selection and Features:

In October 1997, municipal utilities belonging to the Southern California Public Power Authority and Northern California Power Authority (SCPPA /NCPA) established a joint CIS evaluation task force to define the CIS requirements necessary for deregulation and ease of operation.

At the completion of the NCPA/SCPPA evaluation process, PWP and the Department of Public Works (Public Works), issued an enhanced RFP with functional specifications to meet the specific functional needs and requirements of the Department and Public Works. The top three vendors in the SCPPA/NCPA RFP overall functionality evaluation were Orcom (91%), Harris (82%), and SCT (87%). In addition, Orcom scored 90% functionality on the sanitation requirements, Harris and SCT scored 52% and 57% respectively.

The results of the RFP process determined that Orcom Solutions, Inc. was the best qualified vendor offering the most cost competitive bid that could meet the Department's and the other City department's functional needs. The purchase price of \$1,500,000 includes the cost of software and hardware, the data conversion, the software modifications, implementation services, testing, training and taxes. The Orcom E-CIS system modules and/or interfaces are:

- Interactive Voice Response
- Credit check processing(Equifax)
- Credit Card payments
- Internet Access
- Rate modeling
- Peoplesoft
- Itron meter reading
- Electronic transaction gateway (ESP/ISO/MDMA)

The new CIS will provide Department customers with new features such as Internet access, flexible payment plans, automated credit checks, ability to easily access account information, etc. Additionally, the new CIS will provide the flexibility for new rates, service order processing to support field operations, and interfaces for automatic meter reading devices. A description of Orcom's system and its features can be found in Attachment D.

Orcom Solutions, Inc. Company Profile:

Orcom Solutions, Inc. is headquartered in Bend, Oregon and supplies CIS software with clients throughout the United States and Canada. Their diverse client base is made up of municipal and investor owned utilities serving an aggregate utility customer base of over 6 million electric, gas, water and refuse customers. Orcom has approximately 40 clients "live" on the E-CIS software. According to OrCom, the E-CIS was the first de-

regulation ready software to be used in California's deregulated electric marketplace by an ESP. Orcom's E-CIS is presently used to bill and support over 270,000 direct access customers in California. Additionally, Orcom's E-CIS software is used by their clients in states where deregulation has occurred both electric and gas. The E-CIS software was developed and first introduced 1996 to replace Orcom's Classic CIS software, which has been in use for over 15 years. (The Department currently uses Orcom's Classic CIS software.)

Orcom Contract Terms:

After reviewing the City Council's directive to the City Manager to mitigate perceived technology risks (obsolescence) that may occur after the initial implementation of a new CIS. Orcom sent the Department a signed "contract terms sheet" indicating certain contract principles that would provide certain guarantees and assurances, extended over a ten-year period, to be embodied in the context of a formal purchase agreement (Attachment B). Accordingly, the stated principles address contract terms that will:

- Provide the Department with E-CIS performance guarantees
- Guarantee that specified functionality requirements are met
- Fix prices for products supplied by Orcom under the purchase contract
- At no additional cost to the Department, provide future versions of E-CIS that may be developed to meet the customer service needs of their clients.
- Over a ten-year period and at no additional cost, entitle the Department to three new versions of Orcom's E-CIS
- Over a ten-year period and at no additional cost, entitle the Department to a free software upgrade in the event the California legislature were to require new information protocols or impose state mandated requiring the E-CIS to be modified

Fiscal Impact

The purchase of the Orcom E-CIS would require an amendment to the FY2000 capital budget of \$1,500,000 to cover expenditures for this capital project. These funds are available in the Light and Power fund.

Respectfully submitted,



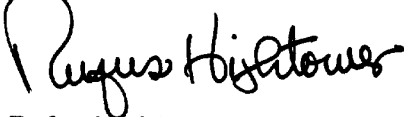
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