

OFFICE OF THE CITY MANAGER

July 8, 1999

To the Honorable City Council
of the City of Pasadena

Mayor and Councilmembers:

Customer Service, Billing and Meter Reading

The Deregulation Committee supported the City Manager's recommendation with the following amendment:

The Manager is also directed to return to the Council within 60 days to present a written and signed agreement between management and impacted labor unions delineating performance measurers (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.

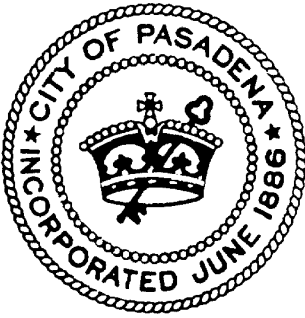
Respectfully submitted,

CYNTHIA J. KURTZ
City Manager

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07/12/99

5.B.(1)



Agenda Report

Through Deregulation Committee

TO: CITY COUNCIL

July 11, 1999

FROM: City Manager

SUBJECT: Customer Service, Utility Billing and Meter Reading

RECOMMENDATION:

It is recommended that the City Council:

1. Direct 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 utility.
2. Direct the City Manager to guarantee that any customer service, billing or meter reading employee who's position is impacted by the plan to reduce in-house costs is guaranteed an interview for any like position in the city.
3. Direct the City Manager to benchmark the progress of the city's utility against industry standards and using an independent review report to the City Council bi-annually on progress in reducing costs and increasing service levels.

BACKGROUND:

The City of Pasadena is considering the best way to provide customer service and meter reading for it's utility customers and billing for all municipal services. Under review are two options. The first would be to contract for these services from Southern California Edison (SCE). The second proposal under consideration is one prepared by the management of the City's Water and Power Department and would retain the services in-house with city employees. An analysis prepared by Price Waterhouse evaluated the two options from a series of stand points including technology, services preparedness for deregulation, future investment, cost, control, employee/labor acceptance and customer service. Neither proposal ranked superior in all categories. Neither are all of the categories necessarily equal in importance. For purposes of the City Manger's recommendation, the categories considered of most importance were further evaluated and used for this recommendation.

1. Cost

The Price Waterhouse evaluation ranked the difference of cost as neutral. It determined that the Pasadena management might be able to reduce its costs marginally below Southern California Edison's (SCE), however SCE's costs are known and Pasadena needs to make further reductions in order to reach or exceed the SCE efficiencies. It appears that cost differential alone is not sufficient to reach a decision on which proposal is best for Pasadena.

2. Risk

There are several elements of risk. The first is preparedness for deregulation. This applies primarily to preparing the utility bill for deregulation as the full implementation of direct access is dependent on a billing system that allows electric service to be unbundled. SCE was judged to be superior since their system is operational. However, discussion with the City of Glendale, who has recently invested approximately \$1.5 million plus staff time into a billing system, conveyed that off the shelf billing systems are available and seemingly can be implemented without undo delay or cost overruns.

A more critical risk factor concerning cost appears to be future investments. Technology is moving so rapidly that any computer system is considered antiquated within four to five years and needs at a minimum major investment and in some cases, total replacement. The SCE proposal protects against this risk in that the offered contract would be for a ten year period and SCE would assume the risk of any computer upgrades or replacement costs. The cities of Glendale and Burbank are also facing deregulation of municipally owned utilities. Discussions with the City Managers in these cities evidenced much interest in entering into a shared arrangement for billing systems in order to reduce both the up front costs and risk of future costs to all cities involved. Instead of purchasing a billing system for Pasadena alone, this recommendation is to purchase a joint system with another municipal utility. This will assist in reducing and controlling the risk in this area. Staff will report back to the City Council in 60 days or less concerning their success in partnering with a municipal utility.

A final risk factor is how an alliance with an independently owned utility may allow the Public Utility commission (PUC) to have some influence and/or control over a municipal utility's services. Legal review by Fullbright and Jaworski determined that it is clear that an alliance will not allow the PUC direct control over the Pasadena utility, however to the extent that the PUC chooses to control and regulate the services provided; those services could become PUC regulated. This could impact the City Council's future control over utility related issues in the areas being contracted.

3. Employee/Labor Acceptance

When Pasadena began investigating strategic alliances there was a commitment made to employees that in any case where serious consideration was being given to a contract that would impact city employees, those employees would have an opportunity to reduce internal costs and increase service levels to meet or exceed the alternative option. In this case, employees were offered the opportunity to match the SCE proposal. While not equal in service level or costs at this time, the staff has made substantial and impressive progress. They have agreed to reduce positions further and work with management in new work rules that will extend hours of service and increase efficiencies. SCE has offered to hire any employee that would be impacted because of contracting with SCE for these services.

The City requires an employee/management partnership. The employees have not agreed that these changes are needed but have agreed to make the changes. It is therefore recommended that they be given the opportunity to continue to provide these services. However, it is also recommended that benchmarking systems be institutionalized. If progress is not made, the City will need to take additional steps. While SCE's proposal will not necessarily be available in the future, other opportunities for contracting would be and those would need to be considered if Pasadena's utility fails to meet its goals within one year.

4. Customer Service/ Satisfaction

Edison offers more services for customers and is at the top of industry standards. It is unlikely that a small utility such as Pasadena's could ever provide this same standard and variety of services efficiently. This standard of service requires economies of scale that simply aren't possible with a utility of 57,000 utility meters, 37,000 water meters, and 29,000 solid waste customers.

Pasadena can still increase services significantly over its current level and provide all the necessary services to unbundled services and provide customer support. Partnerships with other municipal utilities may also provide future opportunities to add more services.

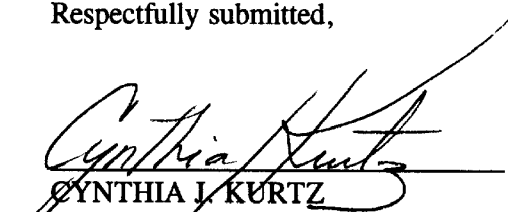
SUMMARY:

In summary, the costs of the two proposals are approximately equal. The cost risk of the in-house management proposal is higher but can be somewhat neutralized by purchasing a billing system with another municipal utility. The risk of PUC influence from a contract is unclear and therefore needs to be considered a significant risk. Employee acceptance is higher if the management proposal is accepted even though there is the potential for layoffs under the management proposal while SCE has offered employment to all impacted employees. Clearly the SCE proposal offered more services than the management proposal, however the necessary services for deregulation and direct access are available through the management proposal.

FISCAL IMPACT:

In order to prepare for direct access and deregulation, the Pasadena utility must invest in a new billing system, and upgrade its customer service and meter-reading functions. This will require an investment in technology. The direct cost of the investment needed is estimated at \$1.4 million however it is hoped that the cost will be reduced by purchasing a billing system with another municipal utility.

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager