

Agenda Report

DATE: JULY 13, 1998

TO: ATTENTION DEREGULATION COMMITTEE
CITY COUNCIL

FROM: ACTING CITY MANAGER

SUBJECT: AUTHORIZATION TO ENTER INTO CONTRACTS WITH PRICE WATERHOUSE AND DHW CONSULTING FOR THE NEGOTIATION OF STRATEGIC ALLIANCE CONTRACTS FOR THE WATER AND POWER DEPARTMENT, FOR AMOUNTS NOT TO EXCEED \$150,000 AND \$120,000, RESPECTIVELY

RECOMMENDATION

It is recommended that the City Council authorize the Acting City Manager to enter into contracts with Price Waterhouse LLP and DHW Consulting for the negotiation of strategic alliance contracts for the Water and Power Department, for amounts not to exceed \$150,000 and \$120,000, respectively. Competitive bidding is not required pursuant to City Charter section 1002[F], contracts for professional or unique services.

It is further recommended that the City Council exempt these contracts from the competitive selection requirement of the Affirmative Action in Contracting Ordinance, pursuant to section 4.09.060[C], contracts for which the City's best interests are served.

BACKGROUND

In February 1997 the City issued a request for proposals in order to identify agencies interested in forming "strategic alliances" with the City's Water and Power Department. A total of 24 responses were received. Over the past several months staff has carefully evaluated these proposals, held discussions with several proposers and developed a "short list" of potentially viable alternatives.

The decision as to which, if any, proposal to select will have significant consequences for not only the Water and Power Department, but for the City and its citizenry. In order to ensure a level of analysis and deliberation commensurate with such a critical decision, staff has sought the benefit of experts in the field.

In January 1998, the City selected Price Waterhouse LLP and DHW Consulting through an informal selection process, to assist in evaluating strategic alliance proposals. Additionally, Fulbright & Jaworski LLP was retained through the City Attorney's office to provide legal advice regarding tax exempt bond restrictions. All three firms have extensive experience in the field of utilities and deregulation.

The negotiating team has completed Phase 1 of the strategic alliance project, and they submitted their report to the Deregulation Committee on May 20, 1998. The negotiating team recommended that the Department move forward to Phase 2, which is the negotiation and delivery of executable contracts in the areas of: i) Energy Supply and Management; ii) Gas Supply and Retail Business; and iii) Energy Related Products and Services. It was recommended that these negotiations take place with the most likely strategic alliance partner in each respective area.

The negotiating team has invested a significant amount of time and effort analyzing Pasadena's business position and it would be counterproductive to change the composition of the negotiating team at this time. For this reason and the fact that the strategic alliance proposals have projected savings, or new revenues, of \$2.2 to 4.4 million per year, it is recommended that the City Council authorize the City Manager to enter into contracts with Price Waterhouse LLP and DHW Consulting in amounts not to exceed \$150,000 and \$120,000, respectively. Fulbright & Jaworski LLP will also be retained through the City Attorney's office in an amount not to exceed \$150,000 for Phase 2.


FISCAL IMPACT

Adequate funds are budgeted in the Light and Power Fund operating budget for these strategic alliance negotiations. The alliance areas recommended for the Phase 2 negotiations are projected to yield approximately \$2.2 to 4.4 million per year, therefore the additional \$420,000 cost of the Phase 2 contracts is commensurate with the benefit of the potential strategic alliances. Phase 1 was completed at a cost of \$225,000.

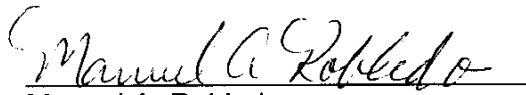
City Council
July 13, 1998
Page 3

Staff has implemented a cost control system to ensure that these negotiations are completed under budget. Staff will also present a three-month progress report to the Deregulation Committee at its October 14, 1998 meeting.

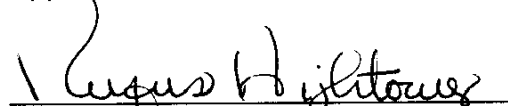
Respectfully submitted,


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