

Agenda Report

Date: October 4, 1999

TO: CITY COUNCIL
FROM: CITY MANAGER
SUBJECT: Water and Power Department Business Plan

Recommendation

It is recommended that the City Council: (1) approve the Water and Power Department (Department) Business Plan as the future direction for the Department; (2) direct the City Manager to bring back to Council for approval the necessary proposals for its implementation; and (3) direct the City Manager to return to Council from time-to-time with the necessary changes to the Business Plan to assure success of the Department as the marketplace changes.

Background

At its September 22, 1999 meeting, the Deregulation Committee recommended that staff prepare an Agenda Report for City Council recommending approval of the Business Plan.

The Business Plan is a look forward and also a reflection of the accomplishments of Council, staff, labor, and the community during the past 4½ years in the areas of planning, verifying the Department's stranded investment, developing a financial plan, cost reduction, and validating the need of the utility, all in response to the deregulation of the electrical industry.

These accomplishments over the last 4½ years has taken the Department from one of the least prepared municipal utilities for deregulation, mainly because of its debt, to one of the best prepared municipal utilities for deregulation in California. This was and will be done by: (1) Implementing the Council approved plan to free the Department and its customers as quickly as possible from its stranded investment; (2) reducing service delivery costs while increasing service levels; and (3) approving plans to provide and deliver products and services our customers expect at competitive prices.

Attached is an Executive Summary of the Business Plan that profiles the accomplishments and future plans. Also attached is the Business Plan that provides details of the Department's future and its plan of achievement.

At its September 15, 1999 meeting the Utility Advisory Commission (UAC) by resolution (copy attached) to the City Council requested clarification of the following points before approving or disapproving the business plan:

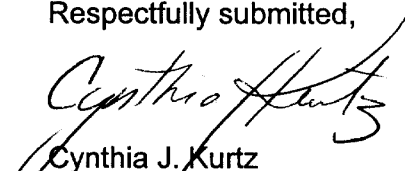
- “1. Profitable Retention of existing large commercial customers;
2. A revenue and profit analysis by product category; and
3. An individual analysis of the services added to potential liability, taxes, and so forth.
 - a. Behind the meter services – more thorough market analysis that would indicate the consumer is seeking the bundled purchases of services (water power technology and other behind-the-meter services) and
 - b. A discussion of potential liability for offering services such as security, HVAC, etc. and
 - c. Analysis of potential royalties that the utility would be confronted with in offering such services.”

The answer to items 1 and 2, profitability and revenue and profit analysis, will depend on the rates approved by the City Council for large customers and the products offered, if any. Item 3 will be discussed in detail when the recommendation is brought to Council seeking approval to supply behind-the-meter services and establish rates. Staff will provide the proposals to the UAC prior to the Deregulation Committee.

Fiscal Impact

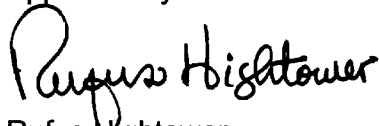
The Business Plan is consistent with the implementation of the Financial Plan, which provides for the recovery of the Department's stranded investment, a transfer to the general fund and a 30% or more system wide average rate reduction on or before July 1, 2002.

Respectfully submitted,



Cynthia J. Kurtz
City Manager

Approved by:



Rufus Hightower
General Manager
Water and Power Department



Utility Advisory Commission

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Officers

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William Sullivan
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September 28, 1999

To: Honorable Members of the
City Council

From: Jeanette Henderson *J.H.*
Chair, Utility Advisory Commission

Re: Water and Power Department Business Plan

The following resolution was made at the regular meeting of the Utility Advisory Commission on September 15, 1999, wherein the Commissioners requested clarification of the following points before approving or disapproving the Water and Power Department Business Plan:

1. Profitable Retention of existing large commercial customers;
2. A revenue and profit analysis by product category; and
3. An individual analysis of the services added to potential liability, taxes, and so forth.
 - a. Behind the meter services -- more thorough market analysis that would indicate the consumer is seeking the bundled purchases of services (water power technology and other behind-the-meter services) and
 - b. A discussion of potential liability for offering services such as security, HVAC, etc. and
 - c. Analysis of potential royalties that the utility would be confronted with in offering such services.