

# UTILITY COMMITTEE MINUTES

February 16, 1999

The Utility Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on February 16, 1999 at 4:05 p.m.

## COMMITTEE PRESENT

Bill Jaffa, Chairman  
Dennis Kavanaugh  
Pat Pomeroy

## COMMITTEE ABSENT

None

## COUNCIL PRESENT

Jim Davidson  
John Giles  
Keno Hawker

## STAFF PRESENT

C.K. Luster  
Denise Bleyle  
Steve Burg  
Linda Crocker  
Cynthia Diaz  
Mike Hutchinson  
Jeff Martin  
David Plumb  
Bryan Raines  
Tom Remes  
Jenny Sheppard  
Others

## OTHERS PRESENT

Tom Gould  
Others

1. Hear a presentation and consider a recommendation on the electric utility rate unbundling study.

Tom Gould, Vice President of Economic and Engineering Services, Inc., a consulting firm hired to analyze and present recommendations regarding a proposal to provide comprehensive electric rate unbundling services to residents within Mesa's service area, addressed the members of the Committee on this issue.

Mr. Gould informed the Committee that the three task objectives he was assigned included: 1) performing a comprehensive rate study; 2) preparing a comparison of the City's costs and rates and how they compare with deregulation legislation; and 3) reviewing the City's competitiveness in electric rates.

Mr. Gould explained that the analysis was based on a review of the City's revenue requirements from which a breakout and review of costs for bundled and unbundled services was developed. Mr. Gould presented a comparison of the City's costs and rates in relation to current deregulation legislation and findings in regard to the City's ability to compete in this market.

Mr. Gould discussed the history of electric utility deregulation and stated that following a slow start five years ago, the movement picked up rapidly three years ago and then lost momentum about a year ago. Mr. Gould

stated that the deregulation movement is still moving forward at a slower pace with the exception of 13 states, including Arizona, where legislation restructuring is already in place.

In response to a question from Committeemember Pomeroy relative to reasons for the slowdown of the deregulation movement, Mr. Gould expressed the opinion that it is due in part to closer scrutiny of the industry and a growing number of mergers involving utility providers.

Mr. Gould explained the difference between bundled and unbundled rates, and noted that the traditional approach has been to provide services as a bundle, or complete package of services for a predetermined rate. Mr. Gould stated that unbundled rates allow customers to select and purchase only the services they are interested in. Mr. Gould stressed that unbundled rates are more complex to design and that they should be comparable to bundled rates.

Mr. Gould reported that no Federal legislation exists at present regarding deregulation and cited Arizona's HB 2663 as the basis for deregulation in the state. Mr. Gould expressed the opinion that deregulation provides a competitive environment and presents opportunities for the City. Mr. Gould added that the disadvantages of deregulation include incurring stranded costs for which no market exists.

In response to a question from Chairman Jaffa relative to the absence of Federal legislation, Mr. Gould stressed the importance of the state being proactive rather than reactive on the issue of deregulation. Mr. Gould stated that in order for the City of Mesa to be competitive, it will be necessary for City rates to be market based, and to provide the best services.

Discussion ensued relative to HB 2663, an overview of the rate study process, which is comprised of revenue requirements, cost of service, and rate design, an explanation of the relationship of bundled to unbundled rates, the City's revenue requirements based on the historical period of FY 1997-1998, and the fact that the City's power supply costs are approximately one-half of its total revenue requirements, reflecting that the City is in a strong financial position at this time.

Mr. Gould suggested that the City's rate design criteria and considerations include simplicity in administration and understanding, adequate yield of total revenue requirements, stability and predictability, freedom from controversy over interpretation, efficiency in allocation of resources, continuity, policy considerations, customer financial status, and fair and equitable costs of service.

Mr. Gould presented a comparison of City rates to Salt River Project's (SRP's) residential rates and stated the opinion that the City's rate design is well-structured and fosters competitiveness and incentive to encourage energy conservation. Mr. Gould expressed the opinion that the City's commercial rates should be reviewed and simplified and suggested that staff consider implementing a two-part rate; one for commercial customers without demand meters and one for commercial customers with demand meters.

In response to a question from Chairman Jaffa, Mr. Gould affirmed that SRP sets its own rates and added that the City's slightly lower summer rates and slightly higher winter rates ensure a comparable average. Mr. Gould recommend to the Committee that the City implement non-bypassable rates which would ensure a fee to the City for use of services such as Fire and Police, regardless of where the power was purchased.

Mr. Gould stated that additional costs that could be incurred by the City as a result of retail wheeling transactions include stranded and transition costs, ancillary costs, administrative costs, and emergency power supply backup expenses.

Utilities Manager Dave Plumb concurred with Mr. Gould's opinion regarding the benefits of examining the City's commercial rates in an effort to simplify the rates while maintaining revenues. Mr. Plumb suggested that in an effort to provide additional information to the City's customers, unbundled rates be printed on customer billing statements.

It was moved by Committeemember Kavanaugh, seconded by Committeemember Pomeroy, to recommend to the Council that staff pursue the simplification of the City's commercial utility rates and that unbundled rates be printed on customer billing statements.

Carried unanimously.

Committeemember Kavanaugh stated his intention to present the two Utility Committee recommendations at the ensuing February 16, 1999 regular Council meeting.

Chairman Jaffa thanked Mr. Gould for his presentation.

2. Update on electric deregulation issues.

Assistant to the City Manager Jeff Martin referred the Committee to copies of a letter and legislation sent to Mike Gardner, Chairman of the Government Operations Committee (GOC) of the Arizona House of Representatives, regarding HB 2641, requesting that the proposed amended bill be added to the agenda of the House GOC's February 17, 1999 meeting.

Mr. Martin stated that the approval of amended HB 2641 would allow the City to compete for utility customers, changes the effective date to December 31, 2000, and eliminates the 10% rate reduction mandated in the original House bill. Mr. Martin explained that when the City of Mesa decided to "opt-out" of competition in August 1998, that decision was based on concerns regarding the structure of HB 2663. Mr. Martin added that the City indicated at that time their intention to revise the legislation and said that HB 2641 contains the changes and revisions necessary to ensure that Mesa "opts-in" to the program. Mr. Martin reported that he has been working with House Speaker Jeff Groskost and his staff to eliminate the rate reduction as long as the City's rates are lower than or equal to Salt River Project's rates.

Mr. Plumb commented that an issue has arisen regarding the City's rate design and suggested that based on the fact that the City has maintained the right to set its own rates for the past 80 years, a provision be added to allow the City to maintain that ability.

In response to concerns expressed by Chairman Jaffa regarding the opt-in date, the continued opportunity to opt-out, the possibility of opting-in after the effective date, and the possibility of the City selling off its utility interests, Mr. Martin stated that the amended bill would provide the City two years in which to finalize plans to compete.

Mr. Plumb commented that due to time constraints, the letter was forwarded without the Committee's review but emphasized that the City can continue to explore other options.

In response to a suggestion from Chairman Jaffa that the Committee reconvene at a later date to discuss the matter further, Committeemembers Pomeroy and Kavanaugh indicated their willingness to proceed at this time. Committeemember Kavanaugh stated that sufficient time exists in which to explore other options.

3. Adjournment.

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It was moved by Committeemember Kavanaugh, seconded by Committeemember Pomeroy, that the meeting adjourn at 5:05 p.m.

Carried unanimously.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Utility Committee Meeting of the City of Mesa, Arizona, held on the 16th day of February 1999. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this \_\_\_\_ day of \_\_\_\_\_ 1999

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BARBARA JONES, CITY CLERK