

# UTILITY COMMITTEE MINUTES

March 25, 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 March 25, 1999 at 9:13 a.m.

## COMMITTEE PRESENT

Bill Jaffa, Chairman  
Dennis Kavanaugh  
Pat Pomeroy

## COUNCIL PRESENT

Keno Hawker

## STAFF PRESENT

C.K. Luster  
Kevin Adam  
Denise Bleyle  
Linda Crocker  
Mike Hutchinson  
Barbara Jones  
Jeff Martin  
David Plumb  
Jenny Sheppard  
Others

## OTHERS PRESENT

None

(Chairman Jaffa excused Committeemember Kavanaugh from the beginning of the meeting.)

1. Discuss and make recommendations concerning a study to analyze the pros and cons of selling the City's electric utility.

Chairman Jaffa commented that the purpose of the meeting today is to discuss the pros and cons of selling the City's electric utility. Chairman Jaffa explained that the reason he requested that this item be placed on the agenda is based on his belief that, as part of the entire deregulation issue, the City of Mesa should analyze all available options prior to deciding whether to enter into electric competition. Chairman Jaffa noted that although the Committee has discussed maintaining or expanding the current utility, the possibility of selling the electric utility has not been the subject of review.

(Committeemember Kavanaugh joined the meeting at 9:15 a.m.)

Chairman Jaffa stated that as part of the deregulation discussion, he has requested that staff define potential risks associated with participating in the deregulation process and indicated his concern regarding the potential loss of revenue to the City. Chairman Jaffa stated that the possibility of marketing the City's utility to the public has also been discussed and indicated concern regarding the City's marketing skills compared to those of the private sector.

Utilities Manager Dave Plumb advised that staff was directed to prepare a report on the various steps that would be involved in the sale of the City's utility. Mr. Plumb emphasized that the initial step in preparing for a possible sale would be to determine the utility's actual value and stated that although staff does not have the in-house expertise to perform such an evaluation, Mr. Plumb has contacted the nationally recognized consulting firm of R. W. Beck, which has performed a number of these valuation studies across the country, and outlined the information that the City would require. Mr. Plumb reported that the firm has indicated that preparing the analysis would take approximately four weeks to complete and the approximate cost of the study would be \$35,000. Mr. Plumb informed the Committee that once this information has been determined, staff will be in a position to provide the Committee with additional data on which to base a decision relative to the possible sale of the utility.

Mr. Plumb expressed concern regarding staff's reaction upon hearing that the Committee is considering the possible sale of the City's electric utility and emphasized that electric lineman positions are particularly difficult to fill. Mr. Plumb said that rumors regarding a possible sale may result in the loss of valued, hard to replace employees and may create a difficult hiring situation for the department. Mr. Plumb also stressed the importance of determining whether the sale is a feasible option so that staff can pursue the development of a strategic plan relative to the ultimate goal for the City's utility.

Committeemember Pomeroy commented on the fact that Mesa's electric utility has been a consistent source of revenue for the City and stated the opinion that this should continue in the future. Committeemember Pomeroy spoke in opposition to expending \$35,000 to determine the value of the utility and indicated that he does not perceive any benefits for the City as a result of the proposed sale. Committeemember Pomeroy added the opinion that staff is capable of providing sufficient information upon which to base a determination and said that it is not necessary at this time to hire a consultant to determine the actual value of the utility. Committeemember Pomeroy concurred with Mr. Plumb's remarks relative to the fact that rumors of a potential sale may negatively impact the department's employees.

Chairman Jaffa expressed the opinion that the Committee and the Council has an obligation to pursue all potential options and cautioned against rendering a decision prior to a thorough review and consideration. Chairman Jaffa added the opinion that a potential sale does not necessarily mean that the employees would lose their jobs and stressed the importance of performing due diligence at this time.

Committeemember Kavanaugh noted that the trend across the country, which is evident in poll results, is for cities and/or communities to manage utility-type services rather than sell to private industry. Committeemember Kavanaugh expressed the opinion that the sale of the electric utility is an option that will remain in existence but stated that at this time he does not support proceeding with the value analysis. Committeemember Kavanaugh said that he is personally excited about the prospect of meeting the challenge of deregulation and added that an adequate amount of time exists in which to plan for this to occur.

Discussion ensued relative to the possibility of enhancing electric utility revenues in the future, the fact that the utility positively impacts the City's budget process, the fact that should a sale occur, revenues from that sale would be invested and provide the City with a continuous flow of revenues as a result of a significant return on the invested dollars, the fact that pending legislation would require the City to opt into the program by January 1, 2001 and the fact that should the legislation be approved within the next few weeks, no provision exists for the City of Mesa to opt out of the process.

Mr. Plumb emphasized that should he determine in the future that entering into electric competition is not in the best interest of the City, he would approach the Committee and/or the Council relative to pursuing alternative options. Mr. Plumb added that although the process is not without risk, in his opinion the City of Mesa has the capability to effectively compete in the market.

Committeemembers Pomeroy and Kavanaugh commented that although they do not support proceeding with the preparation of a value study and/or initiating any other steps toward the sale of the City's utility, they would not hesitate to pursue such an option in the future should that alternative be determined appropriate.

Chairman Jaffa stated that based on the Committee's input, no recommendations will be forwarded to the Council at this time relative to proceeding with analyzing the potential sale of the City's electric utility. Chairman Jaffa requested that his concerns regarding the potential loss of revenue to the City as a result of electric competition be made part of the public record in addition to his recommendation that all alternative options, including the possible sale of the utility, be explored prior to rendering a final decision on this matter.

Chairman Jaffa thanked Mr. Plumb for his input.

2. Hear an update on various deregulation strategies.

Utilities Manager Dave Plumb addressed the Committee regarding this agenda item and the issue of General Fund transfer security under deregulation. Mr. Plumb noted that the transfer to the General Fund is what Mr. Tom Gould, the consultant who was hired by the City to prepare an unbundling study, referred to as a non-bypassable charge when he presented the study to the Utility Committee. Mr. Plumb explained that this term refers to the fact that the City of Mesa would collect a charge regardless of who the customer purchases energy from. Mr. Plumb stated that although this revenue appears secure unless the City experiences a massive loss of customers, a potential risk does exist to the extent that the City of Mesa is required to reduce rates on bundled service to match, by customer class average, Salt River Project's rates. Mr. Plumb explained that this match requirement was developed in order to allow the City to avoid the otherwise mandated 10% reduction in electric bundled rates which House Bill 2663 mandated.

Mr. Plumb emphasized that a strong possibility exists that the City may generate additional revenue based on the sale of energy outside of the current service territory. Mr. Plumb added the opinion that the potential gains outweigh the potential risks involved.

In response to a request from Committeemember Kavanaugh, Government Relations Assistant Kevin Adam stated the opinion that the proposed deregulation legislation will pass in its current form.

Additional discussion ensued among the members of the Committee relative to the rate match stipulation with SRP and the fact that the agreement between the City and SRP will expire in approximately the year 2008.

Mr. Plumb noted that staff has developed a three-pronged approach to preparing for electric energy sales competition, namely: 1) branding, 2) resource acquisition, and 3) new service addition. Mr. Plumb informed the Committee that branding is a term used to describe the creation of increased customer awareness of the benefits of purchasing energy from the City of Mesa. Mr. Plumb added that the benefits include the fact that the monies generated also support additional services and facilities such as police, fire, libraries, and parks and the fact that the generated revenue eliminates the need for the City to implement a property tax.

Mr. Plumb stated the opinion that greater citizen understanding of the utility's contribution will result in increased participation by the citizens in purchasing their power needs from the City of Mesa.

Discussion ensued relative to the importance of developing marketing programs and educating the citizens on the benefits of purchasing power from Mesa, the fact that the City's natural gas marketing and utility education staff, with the assistance of consultants, will develop and implement appropriate outreach programs, the fact that additional staff may be required to implement necessary programs and meet increasing needs, the importance of resource acquisition in order to efficiently and effectively manage increased loads, and the fact that staff will discuss the issue of resource acquisition in detail at a future Committee meeting.

Mr. Plumb emphasized the importance of becoming a full-service City offering a complete range of services in order to effectively compete in the market, efforts to remain competitive, and the possibility of partnering with SRP in the future and/or the other additional 60 power marketers that are in existence.

Committeemember Kavanaugh stated the opinion that Council attendance at the annual Arizona Public Power Association (APPA) Conference may be both informative and beneficial and requested that Mr. Plumb forward materials to the Council on the conference as soon as they are available.

3. Adjournment.

It was moved by Committeemember Kavanaugh, seconded by Chairman Jaffa, that the meeting adjourn at 10:05 a.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 25th day of March 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

**memo**

**Date:** 3/22/99  
**To:** Utility Committee  
**Through:** Mike Hutchinson, Assistant City Manager  
**From:** David Plumb, Utilities Manager  
**RE:** A study of the sale of the Electric Utility

Mr. Jaffa has asked staff to review the requirements for studying the sale of the Electric Utility. If the City Council wishes to proceed with an analysis of the potential sale value of the Electric Utility, staff would recommend retaining a nationally recognized consultant with prior experience in similar studies. Staff resources are not available for such a study. Based on discussion with one such firm, we estimate the cost of such a study to be a minimum of \$35,000 and the time frame required to be at least four weeks.

DP/dm  
Dp0121

**memo**

**Date:** 3/19/99  
**To:** Utility Committee  
**Through:** Mike Hutchinson, Assistant City Manager  
**From:** David Plumb, Utilities Manager  
**RE:** General Fund Transfer Security Under Deregulation

Mr. Jaffa asked me several weeks ago to share with the Utility Committee my assessment of the revenue security of the Electric Utility, especially with regard to the transfer to the General Fund. I apologize for the delay in responding to that request, which unfortunately got buried in the recent move of my office to the Electric Utility building.

The transfer to the City General Fund is what Tom Gould referred to as a non-bypassable charge when he presented the unbundling study to the Committee. What that means is we collect that charge regardless of who the customer buys energy from. On the surface, that would seem to indicate that we have no General Fund revenue exposure from deregulation.

However, the Speaker of the Arizona House of Representatives, who has been the driving force behind deregulation legislation, insisted that, in order to avoid the otherwise mandated 10% reduction in electric bundled rates required by HB2663 (last year's deregulation bill), we must match, by customer class average, Salt River Project's rates. These terms are included in this year's bill, which will include Mesa in the deregulated electric energy universe. Consequently, to the extent that we must reduce rates on bundled service to watch SRP, we entertain some risk for reduction of the transfer. Of course, to the extent that we can sell additional energy outside of our current service territory at more than its cost, we can increase the potential transfer. We believe the latter's potential outweighs the former's risk.

DP/dm  
dp0115

**memo**

**Date:** 3/19/99  
**To:** Utility Committee  
**Through:** Mike Hutchinson, Assistant City Manager  
**From:** David Plumb, Utilities Manager  
**RE:** Deregulation Strategy

Mr. Kavanaugh asked me via e-mail if I could discuss the Department's strategy for preparing for deregulation and our capability for carrying out that strategy. Recall that competition for Mesa will occur January 1, 2001.

We have a three-pronged approach to preparing for electric energy sales competition. These three processes, which will parallel each other, are branding, resource acquisition, and new service addition.

Branding is our term for creating an increased customer awareness of the benefits of purchasing energy from the City of Mesa, namely that doing so supports other City services and facilities such as police, fire, libraries and parks, and eliminates the need for a City property tax. Recall, 67% of citizens surveyed said they would be interested in having the City expand its offering of electric energy. The greater citizen understanding of the utility's contribution is, we believe, the greater their willingness to buy from the utility that will be. Our natural gas marketing and utility education staffs, with some consultant assistance, are able to develop and implement appropriate outreach programs. Some additional staff may be anticipated in these areas.

Resource acquisition will be essential for us to serve greater loads. Our current array of resources is nearly in balance with our current peak load. We have several options for additional resources, and our power operations staff, with possible consultant assistance, is prepared to do the negotiating and contract development. Some additional support (administrative/clerkical) staff is likely in this area.

The prior two processes are targeted at the electric energy market. New service additions may complement or go beyond our current service offerings. For example,

3/19/99

*Deregulation Strategy*

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we might offer distributed generation, (i.e., using natural gas to generate electricity on site) to complement our electric energy sales, for those customers who might benefit from it. Additional revenue may be generated by the sale of natural gas. We might also offer cable or satellite TV service (59% of citizens surveyed were interested in having the City provide that service) which would be a new service. Staffing requirements will, of course, be determined by the number and complexity of new services, as well as the ability to partner with private service providers.

DP/dm  
dp0120