

UTILITY COMMITTEE MINUTES

June 24, 1998

The Utility Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on June 24, 1998 at 3:00 p.m.

COMMITTEE PRESENT

Bill Jaffa, Chairman
Dennis Kavanaugh
Pat Pomeroy

COMMITTEE ABSENT

None

COUNCIL PRESENT

Keno Hawker

STAFF PRESENT

C.K. Luster
Denise Bleyle
Jerry Brouwer
Stephen Burg
Mike Claspell
Linda Crocker
Bill Haney
Mike Hutchinson
Barbara Jones
Karl Kohlhoff
Harry Kent
Jeff Martin
Beth Miller
David Plumb
Tom Remes
Jenny Sheppard
Ursula Strephans

OTHERS PRESENT

Others

1. Hear a presentation on the City's water resource planning activities.

Water Resources Coordinator Beth Miller addressed the Committee relative to this agenda item. Ms. Miller provided the Committee with a brief overview of the City's Water Resources Strategic Plan and outlined staff's efforts to ensure that the City complies with State assured water supply requirements. Ms. Miller advised that the City has recently been notified that sufficient water exists for the next 100 years. Ms. Miller explained that this designation occurs every fifteen years and added that the process limits the amount of water the City can pump out of its surface wells.

Discussion ensued relative to the Groundwater Management Act, current and future water supplies and demands, population forecasts, the Pinal County Waterfarm, water recharge activities, recovered reclaimed water, the importance of continuing efforts to reduce the City's groundwater usage, and the fact that sufficient water exists to meet the City's current and long-range demands.

Committeemember Kavanaugh discussed his attendance at the Arizona Town Hall meeting last year and advised that the issue of water use in Arizona was a topic of discussion. Committeemember Kavanaugh stated that he received many compliments on the efforts expended by City of Mesa staff to ensure the long-range availability of water supplies. Committeemember Kavanaugh commended staff for their continuing efforts in this area.

In response to a request from Councilmember Hawker, Ms. Miller advised that staff will provide him with charts containing information on recharge activities.

Ms. Miller stated that the City is currently involved in a water-rights adjudication with the Gila Indian Reservation and explained that the Indian Community has filed significant claims to the water of the Gila River and the Salt River. Ms. Miller informed the Committee that the City is currently in the process of litigating those claims and added that the possibility exists that the City may lose approximately 10% of the Salt River Project supplies as a result of this action. Ms. Miller noted that settlement possibilities are also being discussed and said that the Committee will be updated on this issue at future meetings.

In response to a request from Chairman Jaffa, City Manager Charles Luster advised that the issue of multiple uses for canals will be the topic of a future Council Policy Session.

Chairman Jaffa expressed appreciation to staff for their input.

2. Hear an update on electric deregulation issues.

Assistant City Manager Mike Hutchinson briefly discussed staff's efforts relative to electric deregulation and stated that Assistant to the City Manager Jeff Martin, Special Assistant to the City Manager Jenny Sheppard and Utilities Manager David Plumb will highlight a presentation on this agenda item. Mr. Hutchinson noted that during the past year, a team of employees representing various departments has been involved in the electric deregulation issue and potential impacts on the City of Mesa. Mr. Hutchinson added that staff has met with representatives from several California cities to discuss this issue and reported that those cities were able to provide valuable information. Mr. Hutchinson reported that staff has also been actively involved in marketing issues and legislative matters associated with this subject. Mr. Hutchinson stated that staff is recommending that a "rate debundling study" be initiated and indicated that staff will expand upon this recommendation during their presentation.

Mr. Martin commented on legislation that was adopted approximately a month ago, which phases in competition in the sale of electric power for public power entities beginning with 20% by December 31, 1998. Mr. Martin noted that of the 20%, 15% would have to be residential and the remainder of the market will have to be opened to competition two years later. Mr. Martin informed the Committee that the bill also provides for a mandatory 10% rate reduction, which may include previous rate reductions implemented since January 1, 1991. Mr. Martin added that the bill mandates the implementation of a consumer education program, a consumer protection program, establishes a formal rate-making process similar to the Arizona Corporation Commission's ratemaking process and subjects the established rates to increased judicial scrutiny. Mr. Martin also informed the Council that the legislation provides an "opt-out provision" for cities with populations in excess of 75,000.

Mr. Martin briefly highlighted a number of revisions to the legislation that occurred prior to adoption and advised that Mesa approached the legislature and requested that the City be granted a measure of flexibility regarding the mandated 10% rate reduction based on the fact that Mesa's rates for residential service are considerably lower than Salt River Project's rates. Mr. Martin reported that the leadership in the House recommended that the City initiate steps to "opt-out" of the legislation. Mr. Martin noted that the bill now contains a provision which allows cities to "opt-out" at their choice and explained that the bill only applies to public power entities such as Salt River Project. Mr. Martin clarified that the City of Mesa may participate in the legislation but only if it chooses to do so.

Discussion ensued relative to utility system bond covenants which state that in order for the City to compete, the legislation must be mandated and the fact that the current legislation is not mandated, Bond Counsel's recommendation that the City of Mesa choose to "opt-out" of the legislation, the fact that the City may consider "opting-in" at the next legislative session if the legislators can be convinced to tailor the legislation to Mesa's unique needs, "opting-out" procedures and timeline, and the fact that the City has formed an internal committee which will continue to pursue the issue of phased in public power competition for the City of Mesa.

In response to a question from Committeemember Pomeroy, City Manager Charles Luster advised that staff will present the Committee with formal recommendations on this issue at a future meeting. Mr. Luster stated the opinion that in accordance with legal requirements, the City of Mesa is required to "opt-out" this year and added that next year the City will ask the legislature to mandate the legislation if the City decides to participate in the process in the future.

Mr. Martin stated that should the City of Mesa decide to "opt-in," other public power entities can compete for the City's customers but if the City decides to "opt-out" this cannot occur.

Utilities Manager David Plumb discussed "stranded costs" and explained that this term typically applies to generating stations that generate power at a cost above the market. Mr. Plumb stated that

"stranded costs" will vary and noted that the California market has experienced dramatic fluctuations.

Special Assistant to the City Manager Jenny Sheppard informed the Committee that staff has been working on several projects in connection with this issue. Ms. Sheppard advised that the City has recently contracted with Economic and Engineering Services, Inc. to analyze the city's rates, "unbundle" the costs associated with the City's service, and propose rates to meet the revenue requirements of the City. Ms. Sheppard added that the consultant will also provide an analysis of stranded cost issues and the current power supplies of the city in preparation for electric competition. Ms. Sheppard stated that the consultant will review and provide recommendations on customer assistance, records, billing and collection services, meter reading services, meter operation and maintenance services, meter connect/disconnect services, and purchased power costs. Ms. Sheppard advised that the consultant's report will be available in September 1998.

Discussion ensued relative to recommended billing enhancements, which include providing an interactive voice response (IVR) system for utility customers, providing changes such as the debundling of electric rate changes on customers' monthly utility billing statements as required, providing a more flexible, aesthetically pleasing bill which will utilize variable sized fonts for better readability, the use of very large fonts for the visually impaired, and the use of Spanish for the City's Hispanic customers, providing a summary billing option, providing a budget payment plan option, providing an option for the customers to select their payment due date, providing an option for the customer to pay by check over the telephone and providing an option for the customer to make payments via third-party companies located in local retail businesses.

Utilities Manager David Plumb provided the Committee with a brief overview of upcoming issues and stressed the importance of customer research and satisfaction. Mr. Plumb discussed the use of telecommunications systems in the future and stated the opinion that efforts should be expended to improve and enhance partnering, community involvement and communication.

Assistant City Manager Mike Hutchinson informed the Committee that additional updates on this issue will be presented at future Committee meetings.

Chairman Jaffa expressed appreciation to staff for their input.

3. Adjournment.

It was moved by Committeemember Kavanaugh, seconded by Councilmember Pomeroy, that the Utility Committee Meeting adjourn at 3:59 p.m.

Carried unanimously.

Utility Committee Meeting
June 24, 1998
Page 5

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 24th day of June 1998. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 21st day of July, 1998.

BARBARA JONES, CITY CLERK