

COUNCIL ACTION FORM

SUBJECT: AUTHORIZATION FOR CITY MANAGER TO NEGOTIATE AND AWARD CONTRACT FOR ELECTRIC SERVICES COST OF SERVICE STUDY AND ELECTRIC RATE DESIGN STUDY

BACKGROUND:

Electric utilities periodically conduct cost-of-service and rate design studies to help make long-term financial plans, promote efficient use of resources, and provide fair and equitable rates for customers. A stable cost structure and excess capacity in the regional market have allowed the Ames electric utility to go many years without the need for a cost-of-service and rate study. The electric utility cost structure has changed in recent years due to the increased cost of fuel, increased cost of purchased power, and the addition of wind generation. City staff recognized the need for a cost-of-service study and rate design but delayed this process until implementation decisions were made related to the Burns and McDonnell Power Supply Study. These future power supply decisions have the most impact on the cost structure of the utility.

Using utility cost principles and financial and customer data provided by City staff, the consultant selected to do this work will conduct a study to identify the cost of the services provided by the City of Ames Electric Utility to each class of customer. The consultant will work with City staff to design cost-based electric rates to fairly allocate utility costs and help maintain long-term financial stability for the electric utility using the results of the cost-of-service study.

Consultant Selection Process

On November 15, 2010, a request for proposal (RFP) was issued to twenty-nine firms. The RFP invitation was also advertised on the "Current Bid Opportunities" section of the Purchasing webpage.

On January 7, 2011, staff received competitive proposals from nine firms. These proposals were then sent to a committee for evaluation. The committee consisted of Assistant City Manager Sheila Lundt, Finance Director Duane Pitcher, Director of Electric Services Don Kom, and Utility Customer Services Supervisor Mike Wheelock. Following is a list of responding firms:

Black & Veatch Corporation, Overland Park, KS
SAIC Energy, Environmental & Infrastructure, LLC, St. Paul, MN
Utility Financial Solutions, LLC, Holland, MI
Burns & McDonnell, Kansas City, MO
C.H. Guernsey & Company, Oklahoma City, OK
Stanley Consultants, Inc., Muscatine, IA

Electrical Consultants, Inc, Mankato, MN
Utility Rate Consultants LLC, Jersey City, NJ
Utilities Plus Energy Services, Inc., Elk River, MN

The committee members evaluated and scored all of the proposals in three steps.

Step 1

Proposals were evaluated and scored considering the following:

- o Responder's proposal methodology
- o Demonstrated ability to meet the scope of work
- o Prior experience and demonstrated technical capability
- o Compliance with the RFP requirements
- o Price

Based on the initial evaluation, three firms were selected for additional review:

1. Black & Veatch Corporation, Overland Park, KS
2. SAIC Energy, Environmental & Infrastructure, LLC, St. Paul, MN
3. Utility Financial Solutions, LLC, Holland, MI

Step 2

The three responders with the highest scores from the first step were invited to participate in the second step. These finalists were interviewed by the evaluation committee. The committee evaluated each interview based on:

- o Knowledge and experience
- o Communication style, methods, process
- o Completeness of addressing questions/issues
- o Interest in the project

Based on the evaluation criteria of the second step, the evaluation team recommended SAIC Energy, Environmental & Infrastructure to the City Manager as the firm most qualified to conduct the electric cost-of-service and rate studies for the City of Ames.

Step 3

After discussion of the recommendation with the City Manager, an additional phone interview was conducted with SAIC and Black and Veatch Corporation by the evaluation committee. In discussions after the phone interview, SAIC was confirmed as the best firm to conduct the study.

Pricing

Pricing for the proposals ranged from a high of \$94,000 to a low of \$35,000. SAIC submitted the second lowest cost proposal at \$37,500. The final negotiated price will likely be slightly higher. Review of the proposed study process with the City Manager suggested that additional public input and education time should be added to the process. The cost for approving this contract is well within the purchasing authority for City Manager approval. The Electric Services Adjusted FY 2010/11 budget includes \$135,000 for the cost-of-service and rate study.

Project Timeline

It is anticipated that results of the study and rate options will be reviewed with EUORAB and the City Council this summer, and that the new rate structure will be implemented no earlier than the end of the summer electric rate season. The impact of any new rate structure will be mitigated by implementation during the lower winter rate season.

ALTERNATIVES:

1. Authorize the City Manager to negotiate and enter into a contract with SAIC Energy, Environmental & Infrastructure LLC of St. Paul, Minnesota to conduct cost-of-service and rate design studies for the City's Electric Utility.
2. Direct staff to review other alternatives for conducting cost-of-service and rate design studies for the City's Electric Utility.

MANAGER'S RECOMMENDED ACTION:

Accurate identification of the cost of services for the City's Electric Utility and cost based rate design are important steps in developing utility rates to help assure long-term financial stability and an equitable electric rate structure.

Although not required under the City's purchasing policies due to the cost of the study being less than \$50,000, staff is bringing this contract to the City Council in order to provide an update regarding the scope and schedule of this critical study.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, thereby authorizing the City Manager to negotiate and enter into a contract with SAIC Energy, Environmental & Infrastructure LLC of St. Paul, Minnesota to conduct cost-of-service and rate design studies for the City of Ames Electric Utility.