

AGENDA



Thursday, June 24, 2010

Purchasing Office
RECOMMENDATION FOR COUNCIL ACTION

Item No. 41

Subject: Authorize award, negotiation, and execution of a professional services contract with NAVIGANT CONSULTING, INC., Austin, TX, for consulting services for performing a financial and programmatic review of Austin Energy in an amount not to exceed \$281,000.

Amount and Source of Funding: Funding is available in the Fiscal Year 2009-2010 Operating Budget of Austin Energy.

Fiscal Note: There is no unanticipated fiscal impact. A fiscal note is not required.

For More Information: Rosemary Ledesma, Purchasing Manager 322-6155; Robert Goode, Acting General Manager, Austin Energy 322-6157; Leslie Browder, Chief Financial Officer 974-2283.

MBE/WBE: This professional services contract is exempt from the MBE/WBE Ordinance. This exemption is in compliance with Chapter 2-9B of the City Code (Minority-Owned and Women-Owned Business Enterprise Procurement Program). No subcontracting opportunities were identified; therefore, no goals were established for this contract.

Boards and Commission Action: To be reviewed by the Electric Utility Commission on June 21, 2010.

In April 2010, the City Manager shared an action plan with the City Council that will help develop both short term and long term recommendations to address several of the challenges that are currently facing Austin Energy (AE), including:

- Funding for power generation, as well as general improvements for AE's utility infrastructure.
- The General Fund Transfer policy, which needs to be evaluated in conjunction with the review of AE's electric rates.
- The need to recover increasing transmission costs related to ongoing costs of the Texas Transmission Construction program.
- Over a longer planning horizon, changes in the electric industry will require AE to evaluate and begin planning for adjustments to its business model to competitively position itself for the future state of the industry.

This proposed contract with Navigant Consulting, Inc. will provide professional consulting services to help address several elements of the first phase of the City Manager's Financial Assessment Plan outlined in a memorandum to the City Council dated April 5, 2010. A copy of the memorandum is attached as back-up to this RCA. The scope of work for this initial financial analysis and programmatic review includes the elements outlined below.

Independent evaluation of AE's financial position given the current economic and industry conditions and outlook. This evaluation will include a review of the adequacy of fund balance levels, as well as an analysis of the ability to ensure ongoing compliance with current bond ordinances that define debt service coverage and utility rate requirements. The consultant will rely on data and reports compiled by AE financial staff, as well as the firm's own independent research, to complete the assessments, including a review of key financial ratios and adequacy of reserve levels.

Benchmarking of electric utility costs compared to other comparable utilities. This work will complement the work being completed by R.W. Beck as part of the development of affordability measures for AE's Resource, Generation, and Climate Protection Plan. The final product will identify two to three of the most relevant metrics for each of the major functional areas of AE's business, including power production, electric service delivery, customer care, support services, and distributed energy and other non-traditional services. This high-level benchmarking will provide an initial identification of areas within AE's various businesses that may present opportunities for performance improvement that could result in future cost savings. Significant variances in metrics between AE and its peers will be researched to gain an understanding of the possible underlying drivers.

Review and evaluation of AE programs. The scope of this high level program review will help determine whether AE's programs support the achievement of long-range goals outlined in its strategic plan, as well as identifying issues and potential program efficiencies. In addition to evaluating program-related data, the firm's functional utility experts will conduct interviews with AE personnel regarding program spending areas that could present future opportunities for cost savings as part of this task. The resulting report will also identify any functions that might warrant more of an in-depth study and analysis in the future.

Assistance with an assessment of General Fund Transfer methodology. The assessment will incorporate a review of best practices across the country and the consultant will help identify relevant utilities that need to be included in the review for comparison purposes.

The consulting services provided by Navigant Consulting and R.W. Beck will provide the majority of work elements planned as part of Phase 1, which consists of the initial financial analysis and affordability benchmarking. Additional consulting services will be sought in the future to assist AE financial staff in developing a financial model that can be used to prepare projections for changes in the business model, and for Phase 2, which will entail a thorough review of AE's rate structure and preparations for an adjustment of existing rates.