

PO 160630

**CITY OF NAPERVILLE
VENDOR SELECTION
PROCUREMENT NUMBER 15-177**

Requesting Department: Department of Public Utilities - Electric
Procurement Name: 2015 Comprehensive Electric Utility Cost-of-Service Rate Study
Recommended Vendor: Utility Financial Solutions
Amount of Award: \$ 78,500

Contingency Amount: ☐ 3% ☐ 5%
☐ CIP # N/A ☐ Budgeted Account 410-3310-533.35-09
☐ Budgeted Amount \$150,000

DESCRIPTION

After a long history of purchasing power from ComEd, the City purchased power on the market through a contract from J. Aron/Goldman Sachs from 2007 to 2011. In 2007, the City approved a contract to join the Illinois Municipal Electric Agency (IMEA), and since 2011, the City has purchased power from IMEA. The contract with IMEA runs through September 2035.

The City completed a rate study in 2011, in advance of purchasing power through IMEA. The electric utility faced a negative cash balance due to costs of purchased power exceeding the 2011 rate study projections. The negative cash balance at the end of FY 14 was \$13.2 million and the electric utility had no cash reserve (30-day cash reserve is valued at \$11.2 million). In April 2014, City Council approved a loan from the Water/Wastewater Utility to the Electric Utility to eliminate the negative cash balance at the end of FY 14.

Due to this on-going deficit created by purchased power costs exceeding projections, staff performed a review of revenue and expenses, which resulted in potential rate options to address the projected cash shortfall ranging from a "do nothing" alternative to solving the entire deficit over a two year period. After public deliberation at a City Council workshop, the City Council approved rate increases of 6% on May 1, 2014, and 7% on May 1, 2015 to begin the process to align the costs of purchased power with revenues. At this time, the Infrastructure Availability Charge, a historic developer impact fee, was also eliminated.

This action was a measured approach, allowing the utility to slowly improve cash flow while also maintaining the City's competitive rate position when compared to ComEd and municipalities with aggregation contracts. The utility was projected to still lose approximately \$2.5 million in FY 15 and begin building cash and repaying the water utility in FY 16.

Rates for a typical Naperville residential electric customer will be about 10% below ComEd customers with the recent completion of the procurement of power supply by the Illinois Power Agency (IPA) for ComEd that begins on June 1, 2015. An additional procurement will take place by the IPA this fall to secure additional power supply for ComEd to serve the City of Chicago

Chicago since they have elected to return to ComEd for both power supply and delivery service. The results of the fall procurement may affect the current rate differential between Naperville and ComEd rates.

The rate study will provide a financial plan for the electric utility to repay the water utility loan, restore required reserves, and restore the Capital Improvement Program (CIP) to an appropriate level. The electric utility CIP is currently being validated by Leidos Engineering and the results will be provided to the selected consultant for use in the rate study.

Deliverables of the Contract

Five-Year Financial Plan

A five year forecast of net electric utility revenues to determine the adequacy of revenues provided by existing rates. This forecast will include projections of annual revenues under existing electric rates, fees, and the annual revenue requirement; including all operating expenses, capital requirements, debt service requirements, asset depreciation, and margins, by year for a forward five year period. The financial plan will identify the overall change in revenue required to provide for adequate funding for major CIP and to meet all recurring annual operating (O&M) and CIP expenditures, to cover all debt service requirements, asset depreciation, and to maintain sufficient cash balances and capital reserves.

Utility Cost-of-Service Analysis

A cost-of-service analysis is to be developed to identify the relative responsibility of each rate classification for the recovery of the costs of service. The cost-of-service analysis will include development of appropriate allocation factors based on statistical units of service and allocation methodologies generally accepted by the American Public Power Association (APPA), Federal Energy Regulatory Commission (FERC), and/or other appropriate independent agencies. The cost-of-service analysis will include comparison of surrounding electric utility rates and fees, to at least ComEd, other area Public Power providers, and relevant Alternate Retail Electric Suppliers (ARES). Residential and commercial load profiles will be provided to the consultant by the electric utility for their analysis of typical electric consumption. A revised 20 year load forecast will be performed by the consultant.

Utility Rate Change Analysis and Design

The consultant will be required to design the appropriate rate schedules for a three year period that provide revenue recovery sufficient to cover the total system revenue requirement, taking into consideration the revenue responsibility indicated by the cost-of service analysis and the City's rate design policies and objectives. The rate design will include any proposed revisions to existing rate structures and classifications. The consultant will provide the methodology for implementing a purchased power adjustment to recover fluctuating power supply costs. The scope of the project will reach all electric consumers in Naperville's service area.

Rate and Fee Financial Model (Optional Deliverable)

The consultant will design a Microsoft Excel-based model that will permit testing of the validity of the then current rate structure against changed conditions between formal rate studies.

SELECTION PROCESS:

NOTIFICATION AND RESPONSE:

Notices Sent:	309
Planholders:	24
Proposals Received:	8

A request for proposals was advertised to solicit proposals from consulting firms to conduct a cost-of-service rate study for the Electric Utility. Proposals were received from the following firms:

Baker Tilly Virchow Krause, LLP
 Black & Veatch
 Burns & McDonnell
 GDS Associates Inc – GA

Leidos Engineering
 NewGen Strategies and Solutions
 Stanley Consultants
 Utility Financial Solutions

A Consultant Selection Committee consisting of City staff members from Electric, Finance and CMO reviewed the proposals. The proposals were scored based upon the criteria set forth in the RFP:

- Approach and work plan (30%)
- Experience of principals and proposed team members for the Naperville project (30%)
- Experience of the firm in having performed this type of service (25%)
- References (15%)

Four of the eight vendors, Black & Veatch, Leidos Engineering, New Gen Strategies and Solutions and Utility Financial Solutions, were shortlisted and invited to attend interviews with City staff. Following the interviews, the selection committee re-scored the vendors and opened the fee proposals to calculate the quality adjusted costs. The table below provides a summary of the quality adjusted cost calculation based upon the core service deliverables.

Consulting Firm	Proposed Cost	Qualitative Score	Quality Adjusted Price
Utility Financial Solutions	\$68,500	89.2	\$76,793.72
New Gen Strategies and Solutions	\$95,955	93.0	\$103,177.42
Black & Veatch	\$106,000	76.8	\$138,020.83
Leidos Engineering LLC	\$110,000	68.4	\$160,818.71

Utility Financial Solutions had the lowest cost and the lowest quality adjusted score for RFP 15-177.

In addition to the core service deliverables, the City also requested prices for three optional service deliverables including a rate and fee financial model, rate study review for Quarter 1, 2017, rate study review for Quarter 1, 2018. The City decided to proceed with including the rate

and fee financial model for an additional fee of \$10,000. With the addition of this optional deliverable, the total cost of the Cost-of-Service Rate Study will be \$78,500, which is still less than the next lowest bidder's core service deliverable cost.


ATTACHMENTS

1. N/A


RECOMMENDATION

Recommend the Award of RFP 15-177, 2015 Comprehensive Electric Utility Cost-of-Service Rate Study, to Utility Financial Solutions for an amount not to exceed \$78,500.

SUBMITTED BY:

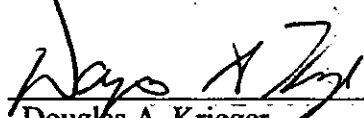
 5/8/15

Mark Curran Date
Director, Dept. of Public Utilities - Electric

 5/11/15

Rachel Mayer Date
Chief Procurement Officer

APPROVED BY:

 7/6/15

Douglas A. Krieger Date
City Manager

REQ-82186

PO-160630

**CITY OF NAPERVILLE
AWARD OF CHANGE ORDER #1
CONTRACT NUMBER 15-177**

Requesting Department:	Department of Public Utilities - Electric
Procurement Name:	2015 Comprehensive Electric Utility Cost-of-Service Rate Study
Recommended Vendor:	Utility Financial Solutions
Amount of Award:	\$3,520 (Total Award = \$82,020)

DESCRIPTION

On July 6, 2015, the City Manager approved the award of Contract 15-177 to Utility Financial Solutions to conduct a rate study for the Electric Utility. The rate study included four deliverables: a five-year financial plan, a cost-of-service analysis, utility rate change analysis and design and finally a rate and fee financial model. The resulting rate study provides a financial plan for the Electric Utility to repay the water utility loan, restore required reserves, and restore the Capital Improvement Program (CIP) to an appropriate level.

The purpose of this change order is to pay Utility Financial Solutions for costs to complete a management analysis of the Electric Utility at the request of the City. The requested analysis was not included in the original scope of services of Contract 15-177.

FISCAL IMPACT:

CIP #: N/A

The 2015 Comprehensive Electric Utility Cost-of-Service Rate Study is expensed to the Professional Services line below. A total of \$25,000 has been budgeted for the Electric Rate Study Cost of Service Adjustments in CY2016. The change order award of \$3,520 is within the budgeted amount for this expense.

Account Number	Fund Description	Total Budget Amount
430-3310-533.35-09	Electric Fund	\$25,000

ATTACHMENTS

1 Original Award

RECOMMENDATION

Approve the Award of Change Order #1 to Contract 15-177, 2015 Comprehensive Electric Utility Cost-of-Service Rate Study, to Utility Financial Solutions for an amount not to exceed \$3,520 and a total contract amount not to exceed \$82,020.

SUBMITTED BY:

Mark Curran 9/22/16
Mark Curran Date
Director, Dept. of Public Utilities -
Electric

Rachel Mayer 9/30/16
Rachel Mayer Date
Chief Procurement
Officer

APPROVED BY:

Doug X Krieger 10/13/16
Douglas A. Krieger Date
City Manager