



CITY OF LONG BEACH

R-28

DEPARTMENT OF FINANCIAL MANAGEMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

February 1, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Fourth Amendment to Contract No. 20610 Between the City of Long Beach and Southern California Edison for Meter Reading Services (Citywide)

DISCUSSION

The City Council-endorsed Three-Year Financial Strategic Plan recommended the examination of meter reading and billing cycles under services considered for optimization. Meter reading services are provided under a contract with Southern California Edison (SCE). This contract provides for monthly reading of gas and water meters to determine usage, and is used to bill customers monthly. The cost to provide monthly meter reading in FY 04 was \$1,961,380, and under the existing contract, this cost would have increased by the Consumer Price Index (CPI) starting with services provided in January 2005, to an estimated \$2,008,138 for FY 05.

A study of the utility industry was conducted to determine other possible billing models for potential savings. After consideration of the alternatives, the most feasible option was to read customers' meters every other month while continuing to bill monthly. The basis for this decision, and the City's proposal, is that this approach will provide the customers with a reasonable estimate of their usage by which to produce a bill for the months that the customer's meter is not read. On the next bill the usage will be "trued up" by reading the meter and billing for actual usage. This approach relies on the concept that an individual customer's usage pattern generally tends to remain consistent over time, with variances correlating closely with weather patterns. Testing of this approach was conducted over the past six months and has been determined to be accurate. The testing has proven that customers used approximately the same amount of gas and water from year to year, particularly after taking into consideration variances in the weather. Since historical usage could be used to create a reasonably accurate bill, the possibility existed to reduce the City's costs by reading meters every other month. The meters of approximately 1,500 higher volume accounts, where the average monthly bill exceeds \$1,000 per month, would continue to be read monthly.

Savings generated by the bimonthly meter reading program is included in the endorsed Updated Three-Year Financial Strategic Plan and in the FY 05 Adopted Budget.

Negotiations with SCE for bimonthly meter reading services were conducted. The annual savings resulting from changing to bimonthly meter readings is estimated to be \$984,007. Since the project would not be implemented until April 1, 2005, the savings in FY 05 will be approximately one half that amount or \$492,004.

HONORABLE MAYOR AND CITY COUNCIL

February 1, 2005

Page 2

This proposed Fourth Amendment to the SCE meter reading contract identifies the change in pricing that will result in the savings. In addition to the changes to the pricing and the proposal to read the meters bimonthly, the following changes are also recommended for inclusion in the Fourth Amendment:

1. SCE is incurring over \$250,000 to reprogram their meter reading software and to adjust meter reading routes to accommodate bimonthly readings. The City would reimburse SCE \$250,000 for these technology start-up costs; reimbursement would be spread over five years. The first installment would be paid after the bimonthly implementation date, with no interest due or early prepayment penalty. If the contract is terminated prior to payment of the entire \$250,000, then the City would be required to pay any unpaid portion of this amount within 30 days of the date the contract is terminated.
2. SCE shall update their existing computer systems to provide for bimonthly meter reading service. SCE shall work with the City to mutually accomplish the transition to bimonthly meter reading service, and will complete all testing by April 1, 2005. SCE and the City shall mutually agree on a date that bimonthly meter reading service will commence.
3. SCE has agreed to reduce its current monthly meter reading rate until the bimonthly services commence. The lower monthly rate reduces the cost by \$19,768.92 per month beginning December 1, 2004, based on this amendment taking effect no later than February 2, 2005. Again, this price reduction will remain in effect until the bimonthly meter reading service commences, provided that the bimonthly meter reading service begins on or before April 1, 2005.
4. The annual escalation of the contract by the CPI Index will not apply in January 2005, but will resume in January 2006.
5. For the first time, SCE will charge the City a 54 percent lower rate to read residential Encoder Receiver Transmitter (ERT) meters, which are read using a radio signal, rather than by a visual scan by a meter reader.

The effect of these changes on the City's utility customers has been carefully considered. For several months, the City has been working to refine the estimated billing program to ensure that the estimated bill will, as accurately as possible, reflect the customer's usage. A public information campaign will be launched prior to the start of the program that will inform the public about the changes and the effect it will have on their bills. A phone number to contact the City for more information will also be included.

This matter was reviewed by Senior Deputy City Attorney Donna Gwin on January 6, 2005 and Budget Management Officer David Wodynski on January 5, 2005.

HONORABLE MAYOR AND CITY COUNCIL
February 1, 2005
Page 3

TIMING CONSIDERATIONS

City Council approval is requested on February 1, 2005, as this amendment must take effect no later than February 2, 2005, to receive the reduction for monthly meter reading of \$19,768.92 beginning on December 1, 2004, until bimonthly meter reading is implemented. The reductions from the inception of the change will be reflected on SCE's February 2005 invoice.

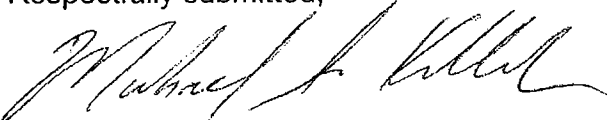
FISCAL IMPACT

Long Beach Energy and the Water Department share the cost of reading meters based on the number of gas and water meters that are read by SCE annually. The savings from this project will accrue to the Gas and Water funds based on the ratio of the meters within the contract. Approximately 63 percent of the meters read under the contract are gas meters; the remaining 37 percent are water meters. In anticipation of this reduction in cost, the savings from this project have already been incorporated in the Three-Year Financial Strategic Plan endorsed by the City Council and are reflected in the FY 05 budget.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to execute a Fourth Amendment to Contract No. 20610 between the City of Long Beach and Southern California Edison to change the terms of the agreement.


Respectfully submitted,



MICHAEL A. KILLEBREW
ACTING DIRECTOR OF FINANCIAL MANAGEMENT

MAK:PHW:RB:iv

APPROVED:



GERALD R. MILLER
CITY MANAGER