
City of Kelowna

MEMORANDUM

DATE: July 20, 2005
FILE: 1820-20

TO: City Manager

FROM: Director of Financial Services

RE: Utility Billing Customer Care, Water Meter and Meter Reading Services
Contract – Terasen Utility Services

RECOMMENDATION:

THAT Council authorize the Mayor and City Clerk to sign a five year agreement for the provision of customer care, water meter and meter reading services with Terasen Utility Services (TUS) for the period beginning January 31, 2006 subject to successful final negotiation of appendices as described in the July 20, 2005 report by the Director of Financial Services;

AND THAT the Director of Financial Services be authorized to continue investigation of Municipal Opportunities Development with the objective of lowering the annual TUS cost per customer fee for utility billing customer care services.

BACKGROUND AND COMMENTS:

HISTORY

The City of Kelowna and BCG Services Inc. (now Terasen Utility Services and referred to as TUS in this document) executed a Master Agreement effective January 31, 2001 for the provision of certain water meter, meter reading, customer care and community development services for a 5 year term.

At the time this agreement was executed, the City had been working closely with TUS in preparing to transfer all customer data to a software system that was being used to repatriate TUS customers on the lower mainland who were being served through a contract with BC Hydro. Ultimately, it was determined that Kelowna's requirements could not be served in a cost effective way with this software and an alternative platform was chosen and agreed to by the City. Service delivery was subcontracted and the learning curve was very steep for all involved in trying to mirror the level of service historically provided by City staff.

Ongoing operations for customer care services were initially very challenging but have stabilized over the past 2 years. The City had anticipated savings projected at \$250,000 over the 5 year term of the contract. These savings have been negatively impacted, particularly early in the transfer of services, by the ongoing involvement of the Payroll and Investments Manager at a much higher level than anticipated.

OPTIONS REVIEW

Review of the existing agreement began in 2004 in recognition that any option other than the status quo would require significant lead time for the potential transfer of data, software, personnel, etc. TUS was advised that the City was considering options for the contracted services beyond January, 2006, which included repatriation. TUS expressed interest in finding a mutually beneficial solution to extending the current contract. The City advised TUS of three non-negotiable elements of any future agreement:

- Subcontracting of the service is unacceptable
- The current software platform must be changed
- The corporate culture must be customer focused

TUS has been very receptive to each of these elements and has responded with the following:

- A commitment to operate the service and the City retaining the right of refusal on assignment to another party
- TUS has purchased software licenses from Harris Computer Systems, an Ottawa, Ontario based company. Harris provides software solutions for municipal utilities and has an extensive client base across the United States and Canada including utility operations in Oakville, Ontario and Scottsdale, Arizona.
- TUS has been cooperative and very supportive in contracting the City's Payroll and Investments Manager, on a full cost recovery basis to the City, for the set-up and management of the system from the software and corporate transition through to a mutually agreed date when the operation is fully stabilized and a leadership replacement is trained. This work has already begun.

Considering the commitment made by TUS and the need for considerable advance planning, Council authorized the Director of Financial Services to sign a Memorandum of Understanding (MOU) on February 14, 2005 to negotiate a new 5 year agreement that would achieve benefits that could not be realized if the service were to be repatriated. In April, 2005, the City advertised, through a 'Notice of Intent' that we had considered various options and intended to negotiate a new 5 year agreement with TUS. No written objections were received from potential vendors of software and/or contract services.

BENEFITS OF A NEW AGREEMENT FOR CUSTOMER CARE SERVICES

The following are the anticipated benefits in the development of a new contract for customer care services:

Costing

Savings calculated on the difference in the City of Kelowna's cost to repatriate the service and the new agreement pricing are anticipated to be between \$37,000 and \$74,000 per year premised on the current customer base. There is provision for the City to be responsible for costs exceeding the negotiated per customer rate up to a cap of 5%. Alternatively, the City will benefit 100% from any savings below the negotiated rate. TUS is amortizing the capital costs for the system over a 12 year period with no financing attached rather than the 5 year recovery expected with a financing charge component.

The agreement also provides for a reduction in Kelowna's cost per customer on the basis of total cost to deliver the service to an expanded customer base as TUS develops and brings new markets on-stream that utilize the same software and basic infrastructure. The City will partner with TUS in promoting the service to other communities subject to meeting negotiated service levels agreements. This provision has the potential to incrementally reduce annual costs by greater than \$200,000 annually, although this magnitude of customer expansion is speculative.

TUS has identified that the unit and fixed pricing provided for the various services are commercially sensitive and could negatively impact their competitiveness. Under Freedom of Information legislation these prices cannot be publicly released. Pricing varies depending on the type of service being provided.

While the cut-over date is proposed for the fall of 2005, the City will not be subject to the new pricing until February, 2006.

System & Expertise

The Harris system uses proven technology that has been adapted widely throughout North America for utility customer care services. An inventory of all features that are desirable to be implemented for Kelowna are in the process of being determined, including new features such as payment acceptance over the internet.

TUS has contracted with a project manager that has brought substantial expertise and credibility to the project planning and development process. He has been working closely with Lynn Walter, and as required with our Information Systems division, to ensure that all aspects of the data transfer and system set-up are undertaken in an efficient and timely manner. Experts from Harris have also been involved in the planning process.

Service Delivery

The City will get the advantage of effective control over service delivery without the inherent risks associated with a significant capital investment, data conversion, the requirement to transition staff between companies, labour and ongoing staffing issues, leasing of space, etc.

Lynn Walter will provide the management expertise gained from her years of operating the City's customer care service as well as the different perspective gained over the past 3 years in her oversight duties relative to the existing TUS contract.

The development of Service Level Agreements (SLA's), defining the standards of performance and measurements for operation of the service are being developed as a joint effort by the City, the TUS consultant and others as required. These will be integrated into the new agreement and will ensure the City retains leverage on an ongoing basis.

Municipal Opportunities Development

Exploration has been ongoing with our consultant David Craig of Consolidated Management Consultants, on creative methods to extract greater benefit for both parties from a new agreement. There are a couple of examples cited in the MOU, Demand Side Management and Developer Construction Services that may hold promise in bringing new customers, but

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require further investigation to determine potential uptake and viability. These will be presented to Council for discussion and approval as developed.

Terasen has committed to a minimum \$75,000 in the initial year to support these concepts and the development of an "Excellence and Leadership Centre" as new initiatives that will benefit the parties are implemented.

Details regarding budgetary impacts on the electrical, water and wastewater utilities will be provided to Council in conjunction with the 2006 financial plan. The City currently has approximately 20,500 customers that are served through our agreement with TUS.

WATER SERVICES AND METER READING SERVICES

These components of the agreement have been reviewed and amended to reflect inflationary increases in costs, add meter types and inventories that were not previously contemplated and refine details where experience with the existing agreement has highlighted minor deficiencies. Generally, the level of service provided under these Schedules to the Master Agreement has been in keeping with the existing contract terms and no fundamental process changes are necessary.

SUMMARY

Approval of the recommendations will ensure service stability and a finite cap on financial risk for the provision of customer care, water meter and meter reading services for the 5 years to January 31, 2011, as well as provide the potential for further savings for the City's utility rate payers over the term of the agreement.

The agreement will be executed when details for each of the following appendices have been negotiated and inserted, which is expected to be by early fall:

Schedule "C" – Customer Care Services

- Appendix C1 - Standard Bill Presentation
- Appendix C2 - Service Levels
- Appendix C3 - Acceptance Criteria
- Appendix C6 - Disaster Recovery Plan
- Appendix C7 - Change Management Process

Schedule "D" – Community Development Services

- Appendix D2 - Benefit Sharing

Paul Macklem, CMA

Cc: Payroll and Investments Manager
Director of Works & Utilities