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## CITY OF KELOWNA

# MEMORANDUM

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**Date:** July 31, 2007  
**File No.:** 5520-06 Electrical Services Contract  
**To:** City Manager  
**From:** Director of Works and Utilities  
**Subject:** Electric Utility Services Contract

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### **RECOMMENDATION:**

THAT Council authorize a five year contract effective October 1, 2007 with Fortis Pacific Holdings Inc. for the operation, maintenance, and capital services of the City of Kelowna Electric Utility under the terms and conditions as outlined the report of the Director of Works and Utilities;

AND THAT the Mayor and City Clerk be authorized to sign the contract documents on behalf of the City.

### **DISCUSSION:**

IN 1997 the City entered into a process leading to the contract operation of its Electric Utility. In 2000 a contract was entered into with West Kootenay Power and Utilicorp BC for the provision of these services. In 2005 Council approved a two year extension of this contract with Fortis BC, who had purchased the assets of West Kootenay/Utilicorp/Aquila. The purpose of the short term extension was to give the City and Fortis time to assess the contract and determine if a longer term renewal was in the best interest of both parties. Council authorized staff in December of 2006 to enter into contract renewal negotiations with Fortis for a five year extension.

Fortis Pacific Holdings Ltd is a subsidiary of Fortis BC for services provided in the unregulated environment, such as the City Electric Utility. Fortis BC provides electrical utility services to the balance of the City and is therefore the logical provider of services to the City electric utility. It also has moved its head office operations to Kelowna. They are able to bring resources, expertise and cost benefits due to their size that could not be provided by a stand alone small utility operation. The City has saved considerable funds by contracting with them over the past 7 years.

The new contract is largely the same as the current contract with some changes to reflect actual contract experience, pricing changes to reflect market conditions, and areas that require improvements. Key terms to the contract are as follows:

- 1) The City Electric Utility will be maintained to electrical industry standards and the same as the Fortis BC Utility as approved by the British Columbia Utilities Commission.
- 2) The largest portion of the contract is capital services. The Electric Utility's capital plan envisions \$5 to \$7 Million annually over the next few years to address growth and upgrade aging electrical infrastructure. These costs are covered by a combination of developer charges and utility expenditures. Fortis is paid on a cost plus basis for these services and uses a combination of in-house staff and contractors to deliver the services. It is recognized that there is considerable cost savings with in-house

resources at this time due to the extremely busy market for electrical contractors. Within the new contract, there are provisions that protect Council's right to determine actual capital expenditures and protection to Fortis should projects necessary to protect electrical worker safety and reliable operation of the utility not be approved.

- 3) The contract has been amended to allow Council the option to explore sale of the Utility if it should chose to do so within the life of the contract. Fortis is provided protection either in the form of lost profit recovery for the balance of the contract or continued operation to the end of the contract life under a new purchaser (if it is not Fortis). This option may or may not be explored subject to future Council direction.
- 4) A new service that has been added to the contract is that of a Call Center. Currently City electrical customers must call the Fire Hall, Corix Utilities Services, or the City Yard with various electrical concerns or street light items. Particularly during electrical outages this results in significant number of calls to the City Yard and Fire Hall, tying up the Fire Hall emergency number. Under the new contract City Electric customers can direct call the Fortis Call Center with electrical and street light issues. Fortis will either deal with the concern directly or return them to our billing contractor, Corix, or the City as appropriate. The annual cost of this service is \$40,000.
- 5) The contract is made up of fixed and variable charges. The value of the contract will vary dramatically depending on the amount of capital work. The contract is made of the following components: Finance and Administration, Operations Services, Capital Services, and Meter Services. The contract value of each component is as follows:
  - a. Finance and Administration - \$300,000 annually – this funds the administration of the contract, senior staff support, billings, etc.
  - b. Operations Services - \$300,000 annually – covers all aspects of operating the utility such as tree pruning, breaker maintenance, system inspection, locates, power outage response, etc. Added to this section is the new Call Center at an additional cost of \$40,000 annually. Street light maintenance and operations for all street lights in the entire City is conducted within this area of the contract on a cost plus basis, currently approximately \$175,000 per year.
  - c. Capital Services – As indicated previously, this is the largest part of the contract financially, projected in the order of \$5M to \$7M annually depending on development related activity and capital improvement works.
  - d. Meter Services – This area covers the cost of electrical meter repairs, required inspections and calibrations, meter disconnects and reconnects, and installations for new development. The value of this section again varies based on development activity but is currently in the order of \$150,000 annually.

The cost impact of the new contract is approximately \$400,000 on an estimated annual total contract value of \$7 M. These increases reflect areas that have not been increased for the past seven years, market conditions, and increased services. Over the five year contract period the costs will vary based on inflation impacts, levels of development activity, and industry pricing for materials, equipment and labour.

Staff recommends that Council approve a new five year contract with Fortis. Fortis has demonstrated over the past two years a strong commitment to meeting all aspects of the contract. They have a strong corporate presence in the community and have the knowledge, expertise and resources to provide quality services to City electrical customers. The new Call Center services will improve customer service and reduce impacts on the Fire Hall and City Yard operations.

The current contract expires September 30, 2007.

**FINANCIAL/BUDGETARY CONSIDERATIONS:** the increased costs are anticipated to be dealt with in the future years budgets through a combination of new electric utility revenue from growth, development charges and prioritization of capital projects.

**INTERNAL CIRCULATION TO:** Director of Finance

Considerations not applicable to this report:

LEGAL/STATUTORY AUTHORITY: N/A

LEGAL/STATUTORY PROCEDURAL REQUIREMENTS: N/A

EXISTING POLICY: N/A

PERSONNEL IMPLICATIONS: N/A

TECHNICAL REQUIREMENTS: N/A

EXTERNAL AGENCY/PUBLIC COMMENTS: N/A

ALTERNATE RECOMMENDATION: N/A

Respectfully submitted by:

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John Vos, P. Eng.

Director of Works & Utilities