

**CITY OF GREAT FALLS, MONTANA
A G E N D A R E P O R T**

**AGENDA # 6
DATE March 2, 2004**

ITEM Resolution 9369 – Terminating Street Lighting Contracts with NorthWestern Energy Company

INITIATED BY Staff

ACTION REQUESTED Adopt Resolution 9369 – Terminating the Street Lighting Contracts with NorthWestern Energy Company

CREATED BY Melissa Kinzler, Budget Officer

REVIEWED & APPROVED BY John Lawton, City Manager

RECOMMENDATIONS

Staff recommends the City Commission adopt resolution 9369.

MOTIONS

I move the City Commission adopt Resolution 9369 to terminate all street lighting contracts with NorthWestern Energy Company as the contracts become due.

SYNOPSIS

The City of Great Falls is reevaluating all of its past practices with respect to electrical energy because of the events taking place since deregulation in 1997. Part of that reevaluation process was to critically examine the street lighting system to determine if the value received by Great Falls' citizens is fair and equitable in relation to the amount of money they pay for it. The Street Lighting Districts Ownership Analysis was presented to the Commission at the January 6, 2004 Commission Meeting. It was determined through this evaluation the citizens of Great Falls are not getting maximum value for their money. City staff considered various alternatives on how to proceed.

One alternative is to terminate the street lighting contracts with NorthWestern Energy Company as the contracts become due. Resolution 9369 begins this process. Of the two hundred eighty-seven (287) street lighting contracts with NorthWestern Energy Company, twenty (20) will expire in the next six months, sixty-eight (68) in the next year, ninety-six (96) in two years, and one hundred three (103) in three years. Each contract will need to be terminated individually with written notification by the City to NorthWestern Energy Company.

After the contracts are terminated the City needs to measure the effectiveness of the present system and consider what kind of alternative system or improved system it could have if it spent the same or a lesser amount of money than it spends on the existing system. Major portions of the present system are

antiquated, inefficient and unsightly. If the City could have a modern, efficient, aesthetically pleasing system for the same or less money, then it would make sense to improve the existing system and/or rebuild major portions of it.

The City could do this by either negotiating with NorthWestern Energy Company for new street lighting contracts that reflect actual value to customers with options to upgrade the current system or consider the possibility of a City owned street lighting system. Any negotiated rates between NorthWestern Energy Company and the City of Great Falls would need approval by the Public Service Commission.

Another option, if NorthWestern Energy Company is unresponsive to negotiations, is to ask the Public Service Commission for an investigation and rate reduction based on current rates not being just and reasonable.

This resolution is the first step in considering these alternatives.

BACKGROUND

The City of Great Falls currently has eighteen street lighting districts which consist of 9,341 lights. Of the 9,341 lights, 8 percent are non-utility owned. The lighting districts have been in existence in one form or another in the City of Great Falls since 1912. Various consolidations have occurred over the years. The latest consolidation occurred in July of 2002, when thirty-one districts were consolidated into four. Currently, 80 percent of all parcels in the City of Great Falls are assessed for street lights. The average yearly street light assessment for customers in the commercial districts ranges from \$31 to \$227, alley light districts \$8 to \$17, and residential light districts \$48 to \$152. Customers may have to pay both an assessment for alley and residential lights in some cases.

Lighting districts are created to account for the collection of assessments and payment of lighting costs. Each lighting district's assessed cost is based upon existing rates charged by NorthWestern Energy Company. All lighting districts assessments are received bi-annually on November 30 and May 31 from taxpayers through the county tax assessment system. In each district, the goal is to have a cash balance at June 30 equal to one-half of the district's utility expense for the year. This balance allows for the payment of utility services until the next year's assessment revenue is received.

When a lighting district is created, the City enters into a contract with NorthWestern Energy Company for poles that will be utility-owned (92 percent of the time). In the contract the City agrees to pay NorthWestern Energy Company for "furnishing, operating and maintaining street light facilities, and for delivering electric energy." A monthly charge, type and number of poles is specified. The monthly charge changes every time a new rate schedule is approved by the Public Service Commission. The majority of the contracts the City has entered into are for three years from the date of execution and will renew for an additional three years unless either party gives a ninety day written notification. State statute states that a city council shall not let a contract for a period to exceed three years for a lighting district.

In the past, the districts operated under the assumption that, the upfront costs of creating the districts

have been less because with utility-owned poles, ownership is paid back indefinitely. **As long as a pole exists, the City will pay the Utility an ownership fee for the use of that pole even if the pole has been paid for many times over by the City. But, with the aging light poles and luminaries it is time to reexamine this basic assumption. The City's street lighting customers pay nearly \$600,000 annually, half the total bill for street lighting, for ownership fee. There is no discernable benefit to our customers, to the City, or to the lighting system for this money.**