

Agenda Report

January 27, 2002

To: City Council

From: City Manager

**Subject: REJECT ALL BIDS FOR THE CONSTRUCTION AND
INSTALLATION OF GAS TURBINE UNITS 3 AND 4 AT THE
GLENARM POWER PLANT SITE, SPECIFICATION LD-02-6**

RECOMMENDATION:

It is recommended that the City Council reject all bids for the construction and installation of Gas Turbine Units 3 and 4 at the Glenarm power plant site from Construction Specification LD-02-6.

BACKGROUND:

Construction Specification LD-02-6 was issued on October 1, 2002 along with all available construction drawings, related data, and general terms and conditions. Four bids were received by the November 13, 2002 deadline. A review of the bids received indicated there were some ambiguities in the City's requirements. Furthermore, trade organizations and bidders' representatives provided PWP several letters of concerns regarding the potential award of this contract. PWP has been unsuccessful in resolving these concerns.

Given the magnitude of this project, it is in the best interest of the City to reject all the bids and to modify the work scope and requirements in such a way as to remove any areas of ambiguity. Furthermore, the work scope can be better defined as additional information on soil conditions and final construction drawings are now available. It is expected that this action will result in a superior contract and more definitive work scope that will make for easier contract administration with reduced potential for change orders.

SCHEDULE IMPACT:

Rejecting bids will result in schedule delays for the GT-3 and GT-4 project. All bidders have indicated that this project has an accelerated schedule that must have commenced in January 2003 to meet the desired July 1, 2003 commercial operation date. It is anticipated that this recommendation will result in delaying commercial operation by 45-60 days into the mid- or late-summer timeframe.

PROJECT COST IMPACT:

It is uncertain whether rejecting bids will affect the final cost of the construction contract, but there will be additional costs for extending existing contracts associated with the project. It is estimated that construction delays will result in additional costs of approximately \$400,000 to \$600,000 for storing equipment and extending engineering and project management service contracts.

Additional project costs will be amortized over the life of the project, resulting in a relatively small rate impact of less than 0.04¢/kWh.

ENERGY MARKET COST IMPACT:

Replacing the capacity and energy that would have been provided by GT-3 and GT-4 starting in July will result in increased purchased power and fuels costs. Based on current market projections, it is estimated that delays in commercial operation will result in increased purchased power and fuels costs of approximately \$250,000 to \$500,000 per month. Additionally, the opportunity for \$100,000-500,000 per month in ancillary service sales revenues would be lost.

The \$500,000 to \$2,000,000 combined "energy market cost" impacts will be recovered in the variable Energy Charge on the electric bill over a twelve- to fourteen-month period starting July 2003 at rate of less than 0.2¢/kWh.

In the event that generation capacity or fuel constraints in California adversely affect market prices, the market exposure could be higher. PWP will take steps to mitigate this exposure through forward energy purchases.

FISCAL IMPACT


Delaying construction will result in additional project costs of approximately \$400,000 to \$600,000 that will be amortized over the life of the project. An additional \$500,000 to \$2,000,000 in "energy market cost" will be incurred. All of these costs will be recovered in the Electric Energy Charge. The maximum rate impact is estimated at 0.2¢/kWh over a fourteen-month period starting July 2003, plus an additional 0.04¢/kWh over the twenty-year life of the project.

Respectfully Submitted,

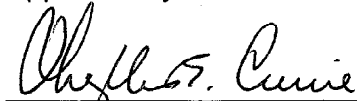

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