

Agenda Report

November 14, 2016

TO: Honorable Mayor and City Council

FROM: Water and Power Department

SUBJECT: AUTHORIZATION TO ENTER INTO A PURCHASE ORDER CONTRACT WITH McGRIFF, SIEBELS & WILLIAMS OF TEXAS, INC. FOR AN AMOUNT NOT-TO-EXCEED \$170,225 FOR THE PURCHASE OF BUILDER'S RISK INSURANCE COVERAGE EXTENSIONS FOR THE GLENARM REPOWERING PROJECT

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the Glenarm Repowering Project was subject to adequate environmental review as part of the Glenarm Repowering Project Final Environmental Impact Report Findings adopted by the City Council on April 8, 2013, and there has been no change to the project or substantial changes in circumstances or new information that would warrant subsequent environmental analysis in accordance with the California Environmental Quality act ("CEQA").
2. Authorize the issuance of a purchase order contract with McGriff, Siebels, & Williams of Texas, Inc. for the purchase of extended builder's risk insurance coverage for the Glenarm Repowering Project in an amount not to exceed \$170,225. Competitive Bidding is not required pursuant to the City Charter Section 1002 (F) contracts for professional and unique services.
3. Grant the proposed purchase order exemption from the Competitive Selection process of the competitive Bidding and Purchasing Ordinance, pursuant to Section 4.08.049(B), contracts for which the City's best interest are served.

BACKGROUND:

On March 16, 2009, the City Council adopted the power resources Integrated Resource Plan ("IRP"), a 20-year plan for Pasadena Water and Power ("PWP") to deliver reliable and environmentally-responsible electricity at competitive rates. One of the key recommendations of the IRP was the replacement of the existing steam unit B-3 with a new combined-cycle unit of an equivalent capacity of 71MW. The IRP was updated on March 5, 2012 and it retained this recommendation. The installation of the new

combined-cycle electric generating unit ("GT-5") is the main component of the Glenarm Repowering Project ("Repowering Project").

The City Council approved associated contracts with GE Packaged Power, Inc. ("GE") to design, furnish, and deliver the power island equipment and ARB, Inc. to design and construct the balance of plant equipment. The contract with ARB included the vendor's base bid to provide builder's risk insurance coverage for the entire project until the original scheduled commercial operation date ("COD") of June 2016. The coverage protects the City's investment in the project against loss or damage during the construction and commissioning phase.

The original COD was not met due to GE's failure to meet the air permit compliance limits contract guarantee. GE has been making modifications to the pollution control equipment and extensively testing GT-5 to achieve emission compliance. The project currently remains in the testing and commissioning phase and the builder's risk coverage for July, August, and September 2016 was extended by ARB through a contract change order process under City Manager's approval in an amount of \$143,361.

As the project commissioning continued to be extended, staff explored the possibility of procuring builder's risk insurance elsewhere at a potentially lower cost. The City's insurance broker informed that insurance companies assess risk exposure highest during the testing and commissioning period and that the City would pay an exceptionally high premium if a new policy were to be purchased during the current testing and commissioning period. Despite requiring coverage for only a few months, the risk assessment would be applied to the entire project and premiums would be applied accordingly. Therefore, staff concluded that it was more cost effective and in the City's best interest to extend the existing policy rather than purchase a new policy. In anticipation of the project completion in November, 2016, PWP procured the insurance extensions for October and November, 2016 directly from the original issuer for an amount of \$59,076 under the City Manager's purchasing authority. The City saved the 10% mark up of ARB by purchasing the extensions directly from the insurance broker. Currently, the builder's risk coverage for the project is valid until November 19, 2016.

After GE's fourth modification, GT-5 was tested between October 1 and 10, 2016. The test revealed that the unit is able to meet emission limits both in combined-cycle and simple-cycle operating modes in manual control. While there was sufficient margin of compliance in the combined-cycle mode, margin in the simple-cycle mode needed to be improved. Additionally, the emissions control system must function in automatic mode to meet the contractual emissions guarantee. In the meanwhile, the Southern California Gas Company would not be supplying natural gas fuel from October 12th through 26th due to state mandated gas pipeline integrity testing. During this period, GE plans to evaluate the test data, and design and implement the modifications. Currently, the project is expected to be completed by November 7, 2016 provided the duration of the natural gas outage is not extended and GE is able to achieve emissions compliance and meet other performance guaranties according to their projected schedule.

Staff is seeking City Council approval to procure builder's risk insurance, if needed, until March 31, 2017 in case the project completion extends beyond the current policy end-date of November 19, 2016 for reasons beyond PWP's reasonable control such as GE's inability to meet their current schedule or other unforeseen situations. If extended insurance is required, staff would procure the insurance until March, 2017. The City would receive a pro-rata refund if the project ends earlier than March 31, 2017. Staff would pursue liquidated damages from GE under the provisions of the contract to offset the cost of additional insurance.

McGriff, Siebels & Williams of Texas, Inc. is the current provider of the builder's risk insurance for the project. As stated above, it is more cost effective to continue the builder's risk coverage with the current provider than purchasing a new policy. Therefore, staff recommends contracting with McGriff, Siebels, & Williams of Texas, Inc. for the extension of builder's risk insurance for the Repowering Project.

COUNCIL POLICY CONSIDERATION:

This authorization supports the City Councils strategic goals to improve, maintain, and enhance public facilities and infrastructure, to increase conservation and sustainability, and maintain fiscal responsibility and stability. This authorization also supports PWP's energy efficiency and renewable portfolio standard goals, as well as the major strategic planning targets identified in the IRP.

ENVIRONMENTAL ANALYSIS:

On April 8, 2013, the City Council certified the Final EIR for the Repowering Project, made environmental findings, adopted a Mitigation Monitoring and Reporting Program and a Statement of Overriding Considerations, and granted the land use approvals for the Repowering Project. The actions proposed herein are a subsequent discretionary step required to implement the Project studied in the EIR. Pursuant to State CEQA Guidelines Section 15162, there has been no change to the project, or substantial changes in the circumstances, or new information that would warrant subsequent environmental analysis in accordance with CEQA.

FISCAL IMPACT:

The cost of this action will be \$170,225. Funding for this action will be addressed by the utilization of existing budgeted appropriations in the Power Fund Capital Improvement Program, CIP #3194 – Local Generation Repowering Project Phase II. This amount will be funded with the remaining project budget balance not committed through contracts, staff expenses, or previously approved contingencies. It is anticipated that this amount will be spent in FY 2017. As a clarification, staff is not seeking additional budget authorization.

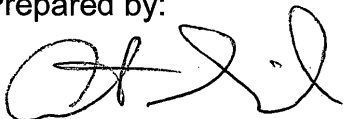
There is no impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



GURCHARAN S. BAWA
Interim General Manager
Water and Power Department

Prepared by:



Art Silva
Power Plant Manager

Approved by:



STEVE MERMELL
City Manager