

# Agenda Report

DATE: NOVEMBER 2, 1998

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: ADDENDUM RECOMMENDATION TO AUTHORIZE AN AMENDMENT TO THE FISCAL YEAR 1999 WATER AND POWER DEPARTMENT, WATER DELIVERY BUSINESS UNIT (ORG 883200), OPERATING BUDGET TO ADD 1.0 FTE POWER PLANT MECHANIC AND 1.0 FTE INSTRUMENT FOREMAN

## **ADDENDUM RECOMMENDATION**

It is recommended that the City Council authorize an amendment to the current Water and Power Department, Water Delivery Business Unit (Org 883200), operating budget to add 1.0 FTE Power Plant Mechanic and 1.0 FTE Instrument Foreman.

## **BACKGROUND**

At its meeting of October 28, 1998, the City Council Deregulation Committee recommended the adoption of the original staff recommendation for the local power plant with the following addition to the staff report:

“The highest and best use study for the power plant site shall include an evaluation of the site as a power plant facility owned and operated by an entity other than the City of Pasadena.”

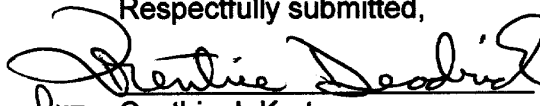
This addendum to the original staff report also contains an additional recommendation to amend the current Water Delivery Business Unit (Org 883200) operating budget to add 1.0 FTE Power Plant Mechanic and 1.0 FTE Instrument Foreman for the purposes discussed in the original staff report.

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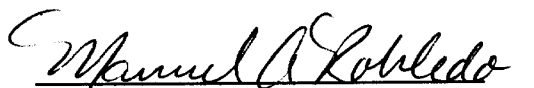
**FISCAL IMPACT**

Funds are available in the Capital Improvement Program (CIP) budget under Project No. 1020 to cover the cost of the two employees transferred to the Water System.

Respectfully submitted,

  
for Cynthia J. Kurtz  
City Manager

Prepared by:

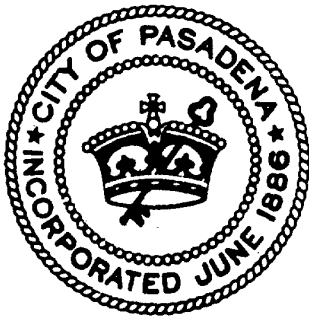
  
Manuel A. Robledo  
Business Unit Director, Power Supply

Approved:

  
Rufus Hightower  
General Manager  
Water and Power Department

Concurrence:

  
Jay M. Goldstone  
Director of Finance



# Agenda Report

DATE: NOVEMBER 2, 1998

**TO:** ATTENTION DEREGULATION COMMITTEE  
CITY COUNCIL

**FROM:** CITY MANAGER

**SUBJECT:** AUTHORIZE AN AMENDMENT TO THE FISCAL YEAR 1999 WATER AND POWER OPERATING BUDGET TO: i) RECOGNIZE \$1.054 MILLION IN ADDITIONAL REVENUE FROM THE CONTINUED OPERATION OF TWO CITY OWNED ELECTRICAL GENERATING UNITS; ii) APPROPRIATE \$258,355 IN ADDITIONAL PERSONNEL EXPENSES RESULTING FROM THE RETENTION OF SEVEN POWER PLANT RELATED POSITIONS CURRENTLY FUNDED THROUGH DECEMBER 31, 1998; AND iii) RECOGNIZE A \$581,049 BUDGET REDUCTION FROM THE DEFERMENT OF SEVEN BUDGETED EMPLOYEE SEPARATION INCENTIVES AND THE ELIMINATION OF TWO BUDGETED EMPLOYEE SEPARATION INCENTIVES

## **RECOMMENDATION**

It is recommended that the City Council authorize an amendment to the current Water and Power operating budget to: i) recognize \$1.054 million in additional revenue from the continued operation of two city owned electrical generating units; ii) appropriate \$258,355 in additional personnel expenses resulting from the retention of seven power plant related positions, which are currently funded through December 31, 1998; and iii) recognize a \$581,049 budget reduction from the deferment of seven budgeted employee separation incentives and the elimination of two budgeted employee separation incentives.

## **BACKGROUND**

The Water and Power Department currently owns and operates a local electric generating station located in Southwest Pasadena. This power plant consists of three steam turbines (Broadway Units 1, 2, & 3) and two gas turbines (Gas Turbines 1 & 2). The Broadway Units and Gas Turbines have a combined

capacity of 150 megawatts and 52 megawatts, respectively. This combined capacity of 202 megawatts is sufficient to serve all of Pasadena's electric load over 90 percent of the time. However, the plant is only dispatched to serve approximately 18 percent of Pasadena's energy requirements because it has traditionally been less expensive to buy energy from the wholesale market at prices below the plant's incremental cost of generation. This low utilization factor combined with the fact that the Broadway Units require a 24-hour per day staff to operate the units led to the Department's previous recommendation to eliminate the staff associated with operating the Broadway 1 & 2 control room and only operate Broadway 3 and the Gas Turbines. This is the current staffing plan included in the FY 1999 budget, which calls for a 16 position staff reduction effective December 31, 1998.

The previous projection, based solely upon energy revenues, still holds true in the current economic evaluation of the power plant, however a new market for reliability or "ancillary" services has developed since the inception of the California Independent System Operator (ISO) in April 1998. Pasadena has participated in this newly developed market since September 2, 1998. The current analysis shows that projected revenues from the sale of ancillary services will more than support the staffing and other fixed costs associated with the local power plant and return \$880,000 to \$1.1 million in net income to the Department and the City. An income statement, pro-forma, and balance sheet for the power plant are shown as Attachments 1, 2 and 3, respectively.

Attachment A shows a comparison of five different operating scenarios with various staffing levels and combinations of available generating units. Option 2, i.e. the recommended option, appears to be the optimum operating scenario returning \$1,446,597 to the Department and the city when Utility User Tax (UUT) is considered. If the power plant were to be shut down completely then the \$563,779 of UUT assessed against the gas consumed at the power plant would also be lost.

It is therefore recommended that the Water and Power FY 1999 operating budget be amended to recognize \$1.054 million in additional revenue from the continued operation of Broadway Units 1 and 2 through October 31, 1999. Staff plans to evaluate the viability of the power plant on an annual basis to determine if its economics still support its continued operation in light of the future changes in the deregulated energy markets.

#### **POWER PLANT STAFFING**

Attachment 4 is a gross profit and unit operation summary, which shows how the units are projected to perform based on conservative market pricing. The market

price and operating assumptions are presented in Attachment 5. Attachment 4 shows that approximately 80 percent of the gross profit generated from the sale of wholesale energy and ancillary services is produced during the three summer months (July, August, and September). It also shows that only Broadway 2 has operating characteristics that allow it to run economically year-round, and the other four units will follow a seasonal operation pattern.

This seasonal operation has created an opportunity to utilize steam plant and control room operators to perform routine maintenance tasks during the winter season, thus reducing overall staff costs and further optimizing the operation. Additionally, the recommended staffing plan eliminates a layer of management with the elimination of the shift supervisor. These efficiency improvements facilitate a nine-position reduction in power plant staff while maintaining the summer availability of all five generating units.

The proposed staffing plan would retain, for power plant operations and maintenance, seven of the 16 positions currently scheduled for elimination effective December 31, 1998. These retained positions include one Power Production Supervisor, two Control Room Operators, three Steam Plant Operators, and one Insulation Mechanic.

It is therefore recommended that the Water and Power FY 1999 operating budget be amended to appropriate \$258,355 in additional personnel expenses resulting from the retention of seven power plant related positions, which are currently only funded through December 31, 1998. It is further recommended that a \$450,563 budget reduction be recognized from the deferment of seven associated employee separation incentives.

### **WATER SYSTEM STAFFING**

The Water Delivery Business Unit has identified an opportunity to utilize two of the displaced power plant employees, i.e. one Instrument Foreman and one Power Plant Mechanic, to perform water well and booster pump upgrades currently budgeted in the capital improvement program (CIP) under Project No. 1020. This work has historically been performed by outside contractors at a billing rate that is approximately 20 percent higher than that of internal forces.

A list of pump and repair tasks to be completed over the next year and a half is presented as Attachment 6. Most of this work can be accomplished with the two recommended positions. It is estimated that the labor necessary to complete this work is 6,357 staff-hours or 3.1 staff-years. The estimated labor cost to perform

this work by internal staff forces is \$231,204. The estimated labor cost to perform this work by outside contractors is \$286,065. A savings of about \$55,000.

The Water Delivery Business Unit has been successfully performing services for other water agencies. To date, this effort has signed contracts totaling \$190,000.

To staff the above work on a more permanent basis, one Power Plant Mechanic and one Instrument Foreman will be transferred from the Power Supply Business Unit (Org 841400) to the Water Delivery Business Unit (Org 881300) for the purpose of water well and booster pump upgrades (CIP 1020), which is currently being performed by outside contractors. It is recommended that a \$130,486 budget reduction be recognized in the Light and Power Fund from the elimination of two associated employee separation incentives.

#### **SITE OPTIONS**

It is recognized by staff that, even with a positive cash flow, a power production facility may not be the highest and best use for the plant site. This is one of the reasons staff has only recommended extending operations for one year with subsequent annual evaluations including other options for the site.

A map of the power plant site is shown as Attachment 7. A map of the inactive portions of the property is shown as Attachment 8. Staff has determined that all of the frontage along Fair Oaks Avenue and Glenarm Street is available for other uses. Water and Power has requested that the Housing and Development obtain an appraisal for the available portions as well as the entire site, assuming that it was restored to raw land without environmental liabilities. This appraisal will start the process of a highest and best use study to be completed prior to October 1999.

The three Broadway Units are located in the southeast quadrant of the site adjacent to the Pasadena Freeway. The Gas Turbines are located west of the Blue Line right-of-way, but they are well set back from the Glenarm street front. The Blue Line right-of-way runs North and South through the center of the property. The northeast corner of the site is under long term lease as a parking lot. The oil tanks at Raymond and Glenarm are no longer active and can be removed to free-up street frontage along Glenarm. There is one historic building, near the corner of Glenarm and Fair Oaks, which is available, but it requires seismic upgrades, internal equipment dismantling, and asbestos removal. A grant of \$1.2 million is available from FEMA for seismic upgrades. An estimate for the asbestos clean-up work, that must be completed before the seismic work

can be started, is currently being prepared. There is a second historic building at the corner of Fair Oaks Avenue and State Street, which also cannot be removed.

Given the projected revenues from the power plant operation for another year and the above challenges regarding the plant site, staff plans to proceed on a parallel course that will yield a revised power plant economic evaluation and highest and best use study for the east side of the property no later than October 1999.

The Utility Advisory Commission (UAC) supported the staff recommendation at its October 21, 1998 meeting with the condition that if a highest and best use study was not produced by October 1999, then the UAC would recommend the shutdown of the power plant and an alternate use for the site.

The Labor-Management Committee reviewed this recommendation in concept at its October 15, 1998 meeting. This matter will be reviewed again, with further updates, at the October 26, 1998 Labor-Management Committee meeting.

**FISCAL IMPACT**

Under current market conditions, staff projects that the operation of Broadway Units 1 and 2 through the balance of FY 1999 will yield approximately \$1.054 million in additional revenue compared to the adopted budget of only Broadway Unit 3 and two Gas Turbines. The seven employees retained for the purpose of operating the power plant will cost approximately \$258,355 through the end of FY 1999. The retention of these employees through October 1999 will defer \$450,563 in budgeted employee separation incentives. The transfer of two employees to the Water Fund will eliminate \$130,486 in budgeted employee separation incentives while saving the Water Fund approximately \$55,000 in outside services fees. It is anticipated that there is sufficient work in the Water System facilities for two employees, but they will also coordinate outside pump repair work. The outside repair work is expected to yield approximately \$50,000 per year in net profits.

Respectfully submitted,



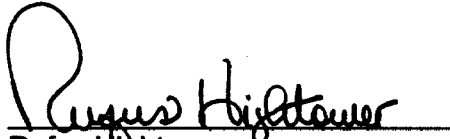
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