



Memorandum

March 3, 2010

To: Jim Dinley, Municipal Administrator
From: Christopher Brewton, Utility Director, Electric Department
Subject: **Blue Lake Hydroelectric Expansion Project – Professional Services Agreement – Task Order #1 - Hatch Acres Corporation – Change Order #1**

Request

I request Assembly approval authorizing the Municipal Administrator to execute Change Order 1, in the amount of \$534,752 for the Professional Services Agreement (PSA) Task Order #1 between Hatch Acres Corporation (Hatch) and the City and Borough of Sitka (CBS) for additional work required to complete Task Order #1. This would bring total project costs for Task Order #1 to \$1,757,886.

Background:

On March 24, 2009 the Assembly approved the PSA and subsequently Task Order #1 with Hatch in the amount of \$1,223,134, and authorized funding from the Blue Lake Third Turbine and Dam Upgrade Capital Project No. 90594. The PSA was designed with 6 planned tasks with Assembly approval at each task milestone.

Task Order #1 in general will complete basic engineering and geotechnical analysis culminating in the Design Development Study (DDS) which defines the basic project design and prepares the project for final engineering and material procurement specifications, including;

- Review engineering work to date,
- Develop general arrangement drawings,
- Conduct geological investigations,
- Determine final dam height and method of design,
- Hydraulic design,
- Prepare turbine specification,
- Prepare project schedule and cost estimates,
- Design Development Study Report.

Analysis:

The original cost estimate for engineering services was based on Hatch's prediction of the required work and the known project information at the time. As the design study progressed and field work verified project conditions, it became apparent that additional investigation in several areas would be required to optimize the final design. Consequently, the necessary scope and associated costs have increased. This phase, while not the most expensive phase of the project, is critical to all other facets of the project.

Development of the DDS is a dynamic proposition with the sole purpose of producing an economic and technically viable project that will receive Federal Energy Regulatory Commission (FERC) approval allowing the urgently needed new generation capacity to come on line as quickly as possible. CBS staff, Hatch, and other members of the project team have worked diligently to produce a thorough, comprehensive DDS.

A major milestone was successfully accomplished February 11-12, 2010, with the completion of the 2nd Board of Consultants/FERC meeting. After presentation of the DDS to the Board, the Board concluded the DDS was sufficient to warrant proceeding to the final design phase contingent with the completion of a few additional studies. As noted, the original PSA envisioned 6 tasks including two construction phases, and two engineering support during construction phases, namely, dam and powerhouse construction, that would require contracted engineering and technical services.

Through the efforts of the Blue Lake project team these tasks will be reduced to 4 as the DDS will allow concurrent construction of the dam and powerhouse. In addition, this additional work will reduce estimated new intake structure costs from \$13,000,000 to \$10,000,000, require no additional geotechnical investigations, reduce amount of site excavation from the powerhouse site, and possibly allow project construction a year earlier than predicted.

Success in economic, regulatory, diesel operations, reservoir operations, potable water management, and other critical utility functions is directly linked to the DDS. Swift regulatory review and timely approval for construction will result in immediate cost benefits from the reduction of projected diesel operations.

Funding:

Hatch has submitted invoices for ongoing work in the amount of \$1,555,931 and estimates total project costs will be \$1,757,886 to complete all Task Order #1 work. Approximately \$9,356,398 is available in the Blue Lake Third Turbine and Dam Upgrade Capital Project No. 90594 account. All additional work required under Task Order #1 will be completed by March 31, 2010. Electric department staff is currently reviewing Hatch's proposal for follow-on tasks and will be bringing that proposal for Assembly action in the very near future.

Recommendation:

I recommend the Assembly authorize the Municipal Administrator to approve Change Order #1 to complete Task Order #1 of the PSA for the Blue Lake Hydroelectric Expansion Project.

Proposed Motion:

I MOVE to approve Change Order 1 in the amount of \$534,752 with Hatch Acres Corporation to complete Task Order #1; authorize the Municipal Administrator to sign Change Order 1 and obligate additional project funds in the amount of \$534,752 from the Blue Lake Third Turbine and Dam Upgrade Capital Project No. 90594; and execute this action on behalf of the Assembly of the City & Borough of Sitka.