

Memorandum

September 8, 2010

To: Jim Dinley, Municipal Administrator
 From: Christopher Brewton, Utility Director, Electric Department
 Subject: **Blue Lake Hydroelectric Expansion Project- Award of Contract No. 1 - Supply of Turbine Generator Equipment**

Request:

I request Assembly approval authorizing the City Administrator to issue Gilbert Gilkes & Gordon Ltd., a Notice of Award, clarify and confirm a final price, and to enter into an agreement for Contract No. 1, Supply of Turbine Generator Equipment for the Blue Lake Expansion Project. The maximum amount of this contract would be the bid amount of \$12,014,297. In addition, I request the Assembly approve a 10% contingency of \$1,201,430, bringing the total requested amount to \$13,215,727.

Background:

The City and Borough of Sitka advertised Supply of Turbine Generator Equipment for the Blue Lake Expansion Project, on April 15, 2010, and sent invitation to bid to 19 bidders. Bids were received from two bidders, Voith Hydro and Gilkes. The bids were opened on July 20, 2010. The base bid results are as follows:

<u>Company</u>	<u>Blue Lake Units</u>	<u>Fish Valve Unit</u>	<u>Total</u>
Voith	Non Responsive	Non Responsive	Non Responsive
Gilkes	\$9,768,281	\$1,208,630	\$10,976,911

Analysis:

The bids were review by Department staff and its consultants. The Voith bid was determined to be non responsive and Voith was notified of this finding on August 18, 2010. Voith appealed this decision to the City Administrator and dropped the appeal prior to the hearing.

Department staff believes that the turbine generator package offered by Gilkes is fairly priced and will result in a superior technical product. The Gilkes price is about 14% below the engineer's estimated cost for this contract.

Gilkes has delivered similar equipment to other southeast Alaska investor owned utilities to their satisfaction. I request that the Assembly proceed with award of this contract so that we can begin procurement of the Contract No. 1 equipment prior to receiving the Blue Lake license amendment from the Federal Energy Regulatory Commission (FERC). Procurement at this time is necessary; to obtain delivery in August 2012, to avoid a substantial delay in the project, beyond the anticipated November 2013 project completion date.

Memorandum to Jim Dinley
Re: Blue Lake Turbine Award
September 7, 2010
Page 2 of 3

The City met with FERC early in 2010 and described our plans for procurement of this equipment prior to FERC issuing the license amendment. FERC has verbally advised that this is not usually done and that committing to purchase the equipment is at the city's risk. To minimize this risk, the City has specified payment terms based on a schedule of values that reflect the work performed to reach defined milestones.

The City's risk of cancelation is defined by these milestones. The first milestone is a 10% contract fee (\$1,201,430) for engineering that is due shortly after Notice to Proceed 1. This contract fee represents all the risk until about mid February 2011. After March 2011, the shop drawings are approved, the second milestone will be reached and an 18% contract fee (\$2,162,573) representing Notice to Proceed 2 will be due. FERC approval of the license amendment is expected in November 2011. The Department staff will be able to assess the risk of cancelation the closer we get to FERC approval. We have received comments on the Draft Amendment Application, indicating that the project is supported by all the Stakeholders. We believe issuance of this contract represent minimal risk.

If the City is unwilling to take this risk and decides to wait for FERC approval to place the order for Contract No. 1 the Project will be delayed one or more years and the bid will be invalid. Also, note that the City's risk is the carrying cost (interest) for one or more years delay to the project, for any monies we might expend in 2010 and 2011, and for diesel operations costs if the forecasted system demand cannot be met with the existing hydro generation. While the expenditures in 2010 and 2011 may approach 28% to 35% of this total contract, the actual loss to the City would be the bond interest payments, approximately \$160,000, presuming ultimate FERC approval of the project. We believe there is very little risk that the Blue Lake Expansion project will not be licensed by FERC and ultimately completed. The major risk is whether we will get FERC approval in time to construct it according to our planned schedule.

The Electric Department requests that the Assembly provide authorization for the City Administrator to issue Gilkes a Notice of Award, clarify and confirm the final contract price and enter into an agreement for Contract No. 1 Supply of Turbine Generator Equipment for the Blue Lake Expansion Project based on the Bidding Documents, the Gilkes bid, our requests for clarification, and Gilkes subsequent responses.

The anticipated contract amount will be:

Blue Lake Units base bid	\$9,768,281
Fish Valve Unit base bid	\$1,208,630
Blue Lake Unit spare parts	\$159,465
Fish Valve Unit spare parts	\$63,358
Pre/After lube additive alternative	\$37,500
Synchronous motor additive alternative	\$109,063
Blue Lake Units Site Representative	\$479,100 (estimated)
Fish Valve Unit Site Representative	<u>\$188,900 (estimated)</u>
Total	\$12,014,297

Memorandum to Jim Dinley
Re: Blue Lake Turbine Award
September 7, 2010
Page 3 of 3

Note that the cost for Site Representatives is an estimated amount. The actual payment the City will make to the Seller will be based on the actual time and expenses of the Site Representatives who travel to Blue Lake to assist in the installation and startup of the equipment.

The Electric Department requests that the City Administrator be given authorization to exercise a 10% contingency of \$1,201,430 to address variations in the Site Representatives cost and for possible change orders to this contract. The contingency amount will not be listed in the Agreement. **This will bring the total request for authorization to \$13,215,727.**

The Blue Lake Expansion Design Development Study estimated the cost of the Supply of the Turbine Generator Equipment to be:

Blue Lake Units supply	\$5,550,000
Fish Valve Unit supply	\$900,000
Blue Lake Unit inlet valves	\$450,000
Blue Lake Generator & Exciter	\$6,600,000
Fish Valve Generator & Exciter	\$450,000
Controls	<u>\$100,000</u>
Total	\$14,050,000

Funding:

Approximately \$17,412,221.90 is available in the Blue Lake Third Turbine and Dam Upgrade Capital Project No. 90594.

Recommendation:

I recommend the Assembly authorize the Municipal Administrator to issue Gilkes a Notice of Award, clarify and confirm a final price, and entering into an agreement for Contract No. 1 the Supply of Turbine Generator Equipment for the Blue Lake Expansion Project. The maximum amount of this contract would be the bid amount of \$12,014,297. In addition, I recommend the Assembly approve a 10% contingency bringing the total requested project cost to \$13,215,727.

Proposed Motion:

I MOVE to authorize the Municipal Administrator to issue Gilkes a Notice of Award and enter into an agreement for Contract No. 1, the Supply of Turbine Generator Equipment and obligate project funds in the amount of \$13,215,727 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.