

COUNCIL ACTION FORM

**SUBJECT: REPORT OF BIDS AND DELAY OF AWARD FOR POWER PLANT
UNITS 7 AND 8 NITROGEN OXIDE REDUCTION PROJECT**

BACKGROUND:

On May 12, 2009, City Council approved preliminary plans and specifications for the Power Plant Nitrogen Oxide Reduction Project. This project will provide for furnishing and installing nitrogen oxide (NO_x) reduction equipment on Units 7 and 8 at the City's Power Plant. The approved 2009/10 Capital Improvements Plan (CIP) includes \$2,000,000 for Unit 7 NO_x reduction, and the 2010/11 CIP includes \$3,400,000 for Unit 8 NO_x reduction. The bid documents call for completion of the work on Unit 7 by December 31, 2009, and completion of the work on Unit 8 by December 31, 2010. The bidding documents allow for award to a successful bidder to perform work on Unit 7, Unit 8 or both. After review and analysis of the bid responses, this bid process could result in the award of more than one contract for NO_x reduction, should separate bidders be successful in their submittals for Units 7 and 8. This is a rather unusual situation for the City's normal bid processes.

The equipment is designed to reduce emissions of nitrogen oxides in keeping with the U.S. EPA Clean Air Interstate Rule (CAIR). This rule requires facilities that emit NO_x in excess of their U.S. EPA allotment of allowances to obtain allowances from facilities whose actual emissions are less than their allotment, and therefore have allowances to sell. This program is known as "cap and trade" and in effect creates a market for NO_x allowances.

This project was initially bid in 2008. The bids were rejected and the project was delayed at that time when the CAIR was judicially suspended in July 2008. The regulations were ultimately reinstated, and the work must now be accomplished.

Staff believes it will be fiscally advantageous to complete NO_x reduction systems on Units 7 and 8 sooner, as the City is responsible for purchasing allowances to offset excess NO_x emissions emitted as of January 1, 2009. Our goal is to manage this project to install equipment on Unit 7 by December 31, 2009, and on Unit 8 by December 31, 2010. This timing of the work is important in the evaluation of the bids, as both units cannot be down at the same time, nor can they be down during peak power usage times. Bidders are expected to meet a relatively demanding scheduling window.

On July 29, 2009, bids were received as shown on the attached report. **As part of the review process, information contained in the proposals must be sent to a third party furnace modeling firm which will enter the data into a model of the City's boilers. This modeling will demonstrate which proposed equipment offers the**

City the best value for lowering NOx emissions. This process may take several weeks. After completion of the modeling, staff will be in a position to recommend the best equipment and contractor for installation of NOx reduction measures at the Power Plant.

ALTERNATIVES:

1. Accept the report of bids and delay award for the Electric Services Department Power Plant Units 7 and 8 Nitrogen Oxide Reduction Project.
2. Award a contract to the apparent low bidder.

MANAGER'S RECOMMENDED ACTION:

It is essential for the Power Plant to maintain a positive environmental record in the community and to be in compliance with EPA mandated rules and regulations. It is also imperative to achieve this in the most cost effective way possible, and by meeting a relatively demanding schedule. By choosing alternative No. 1, the Plant will be able to determine the expected performance measures of proposed equipment and thereby determine which type of equipment will enable the plant to achieve the greatest efficiencies in lower NO_x emissions.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1 accepting the report of bids and delaying award for the Electric Services Department Power Plant Nitrogen Oxide Control Project.