

## COUNCIL ACTION FORM

**SUBJECT: COAL SUPPLY CONTRACT FOR ELECTRIC SERVICES**

**BACKGROUND:**

The City of Ames currently has contracts for both coal and coal delivery services that began on September 1, 2004, and will expire December 31, 2009. The City's current coal supply contract is with Powder River Coal Company. Under this contract the City receives and burns super low-sulfur western coal from Peabody's North Antelope Rochelle mine located outside of Gillette, Wyoming. Currently, the City's coal is transported from the mine via the Burlington Northern Santa Fe Railroad and the Canadian National Railroad. The coal is offloaded under a transportation, storage and delivery contract with Alliant Energy's Williams Bulk Transfer facility in Williams, Iowa. It is then reloaded into trucks and hauled to the City of Ames Power Plant as requested by the City. The City of Ames Power Plant consumes approximately 225,000-300,000 tons of coal annually.

On July 28, 2008, a request for proposals was issued for coal supply and delivery beginning January 1, 2010. On September 3, 2008, responses were received from five firms. One of those proposals, from Central Iowa Terminal (CIT), would have provided coal movement and delivery at a significant cost savings as compared to the other similar proposals. Additionally, CIT's proposed facility was to be constructed within nine miles of the Power Plant with a storage capability of 30,000 tons. This would have provided a safety reserve for the City, reduced fuel consumed in delivery, and allowed the Power Plant to reduce its on-site stockpile size. On November 6, 2008, City Council directed staff to initiate negotiations with Central Iowa Terminal. CIT attempted to secure permits and meet other requirements for construction of the facility near Nevada, but was unable to do so. CIT was also unable to identify an alternate site that would provide the capability and commitment required within the designated timeframe.

On July 28, 2009, City Council allowed Central Iowa Terminal to withdraw its proposal dated September 2, 2008, rejected all proposals received under RFP 2009-016, and directed staff to issue a new request for proposals (RFP) for coal and coal delivery services.

On August 21, 2009, a new Request for Proposal was issued for coal and coal delivery services. The proposal documents again allowed for response combinations to include coal supply only, coal movement and delivery only (transport from the mine, unloading and storage, and truck delivery to the City), or a complete package for delivered coal. Proposals were to be for three-year or five-year terms.

Proposals were received on September 30, 2009:

<b>Bidder</b>	<b>Bid Items</b>
Buckskin Mining Company Omaha, Nebraska	Coal supply only
Coal Sales, LLC (a Peabody Energy Company) St. Louis, Missouri	Coal Supply only
Williams Bulk Transfer Williams, Iowa	Complete package alternate: Coal transportation only
Rio Tinto Sage, LLC Englewood, Colorado	Coal supply only (3 source options)
M-BAR-D Dent, Minnesota	No bid
Central Iowa Terminal (CIT) Madisonville, Kentucky	No bid
Cargill, Inc. Hopkins, Minnesota	No bid

The price of the coal is fixed for each year of the proposed three-year contract, except for adjustments for delivery components, any changes in law, taxes, or other government impositions that may be implemented subsequent to the proposal date. Coal prices also are subject to adjustment based on coal quality variances for calorific value (Btu/lb.), and percentage of sulfur content.

The price evaluation for coal supply considered the base price of the coal over the anticipated duration of the contract, adjusted for guaranteed quality for Btu/lb. and percent of sulfur. The evaluated cost for each proposal is shown on the attached report, using the anticipated quantity of 250,000 tons per year as a baseline. The actual quantity that would need to be purchased has been adjusted based on the Btu/lb. guarantee.

The lowest evaluated delivered cost was "Spring Creek" coal from Rio Tinto Sage LLC. However, this coal has a high sodium oxide (Na<sub>2</sub>O) content of the ash. Coals with high sodium oxide content ash tend to foul (plug) the pendent sections and back passes of the Power Plant boiler and the air heater, thereby reducing boiler and unit efficiency and ultimately reducing unit output. This would force the unit to be prematurely shut down for cleaning by explosive or hydro blasting methods.

Of the remaining coal providers, Coal Sales LLC's Peabody "North Antelope Rochelle Mine" (NARM) and Rio Tinto Sage's "Antelope" were evaluated as the next lowest cost on a normalized Btu basis. The Coal Sales LLC Peabody NARM coal is preferred for several reasons:

- The sulfur content of their coal is lower (0.21 % versus 0.24 %). Lower sulfur content reduces the sulfur dioxide (SO<sub>2</sub>) emitted by the plant as the coal is burned.
- The mercury content is lower (0.06 ppm versus 0.065 ppm).
- The City has a successful history of burning this coal and working with this provider.
- Because of the higher Btu/lb. value of the Peabody coal versus the coal bid by the low bidder (Buckskin), the evaluated cost is lower when we consider the additional tonnage of coal needed to achieve the same heat value. Even though the storage, transport and delivery costs are not shown on this report, the base price would be \$38.36 per ton, and would likely be higher due to escalation and fuel cost adjustments.. When considering all of this, the Buckskin proposal must have approximately \$1,370,027 added to it to achieve the same heat value over the three year contract period.

Because of the above reasons, the staff is recommending awarding the contract with Coal Sales LLC for coal produced by Peabody's North Antelope Rochelle Mine. The base pricing (\$/ton) proposed for this coal for the period 2010 through 2012 is: \$10.00 (2010), \$12.00 (2011), and \$13.00 (2012). Our current base price for the same coal is \$9.25/ton.

**The City received only one proposal for transport, storage and delivery services.**

Staff is continuing to negotiate contract terms for a coal transportation, storage, and delivery contract.

**ALTERNATIVES:**

1. Award contract to Coal Sales LLC (Peabody) for the period from January 1, 2010, through December 31, 2012, for coal produced by Peabody's North Antelope Rochelle Mine **contingent upon successful negotiation of a transportation, storage, and delivery contract with a separate vendor.**

The estimated quantity to be required in 2010 is 250,000 tons. The total estimated cost of the coal only is \$2,500,000.00 for 2010, based on 250,000 tons. Actual cost will vary based on actual tons delivered at the contract price of \$10.00 per ton.

2. Reject all proposals and attempt to purchase coal on the open market at current market prices.

### **MANAGER'S RECOMMENDED ACTION:**

The existing contracts for coal and coal delivery services will expire December 31, 2009. Alternative No. 1 would provide for the purchase of coal only at established prices through calendar year 2012. Staff continues to negotiate terms for a coal transportation, storage, and delivery contract with the sole bidder of these services. It is important to note this contract might involve a six year term while this coal contract will be for only three years.

**City Council is being asked to approve the coal purchase contract contingent upon successful negotiation of the coal transportation, storage, and delivery contract.** The proposed contract for these services will be brought to City Council separately.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby awarding a contract to Coal Sales LLC for the period from January 1, 2010, through December 31, 2012, for coal produced by Peabody's North Antelope Rochelle Mine. The estimated quantity to be required in 2010 is 250,000 tons. The total estimated cost of the coal only is \$2,500,000.00 for 2010, based on 250,000 tons. Actual cost will vary based on actual tons delivered at the contract price of \$10.00 per ton. Final execution of contract is contingent upon successful negotiation of a transportation, storage, and delivery contract with a separate vendor.

**PRICE ANALYSIS OF COAL BASED ON Btu VALUE PER POUND**

		<b>Buckskin Mining Co.</b>	<b>Rio Tinto Sage LLC</b>	<b>Coal Sales LLC</b>	<b>Rio Tinto Sage LLC</b>	<b>Rio Tinto Sage LLC</b>
Coal Mine		Buckskin Mine	Spring Creek	<b>NARM Mine</b>	Antelope	Cordero Rojo
Coal Seam		Anderson & Canyon	Anderson-Dietz 1 & 2	<b>Wyodak - Anderson</b>	Anderson & Canyon	Wyodak
Pricing	2010	\$ 9.35	\$ 10.50	\$ <b>10.00</b>	\$ 10.00	\$ 10.00
	2011	\$ 11.35	\$ 12.00	\$ <b>12.00</b>	\$ 11.50	\$ 11.00
	2012	\$ 12.00	\$ 14.00	\$ <b>13.00</b>	\$ 13.50	\$ 12.50
	Dust Control (per ton - 2010)	\$ 0.09		<b>\$0.13 to \$0.20</b>		
Prox. Analysis	Btu/lb.	8,400	9350	<b>8800</b>	8800	8400
	Sulfur	0.32	0.38	<b>0.21</b>	0.24	0.34
	SO2	0.70	0.8	<b>0.48</b>	0.55	0.8
	Moisture	31	25.4	<b>27.9</b>	26.7	29.59
	Ash	4.8	4.12	<b>4.5</b>	5.25	5.43
Ash Mineral Analysis	Silica (SiO2)	30.85	32.52	<b>33.5</b>	31.74	33.95
	Alumina (Al2O3)	13.57	17.69	<b>16.8</b>	15.71	17.91
	Sodium Oxide (Na2O)	1.8	<b>8.24</b>	<b>2</b>	1.64	1.39
	Calcium Oxide (CaO)	25	15.36	<b>23.7</b>	23.75	22.42
	Magnesium Oxide (MgO)	6.28	3.69	<b>5.5</b>	5.63	3.99
Trace Elements	Mercury	0.08	0.07	<b>0.06</b>	0.065	0.073
<b>COST COMPARISONS</b>						
Evaluated Cost of 250,000 tons at 8800 Btu/lb. (2010 through		\$ 8,564,285.71	\$ 8,588,235.29	\$ <b>8,750,000.00</b>	\$ 8,750,000.00	\$ 8,773,809.52

