

## COUNCIL ACTION FORM

**SUBJECT: CONTRACT FOR COAL TRANSPORTATION, STORAGE, AND DELIVERY**

### **BACKGROUND:**

The City of Ames Power Plant consumes approximately 225,000-300,000 tons of coal annually. The City of Ames currently has contracts with separate vendors for coal supply and coal transportation and delivery services. Those contracts began on September 1, 2004, and will expire December 31, 2009. The current provider of coal transportation, storage and delivery services is Williams Bulk Transfer.

On July 28, 2008, a Request for Proposal (RFQ) 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 would have provided coal movement and delivery at a significant cost savings as compared to the other similar proposals. On November 6, 2008, City Council directed staff to initiate negotiations with Central Iowa Terminal (CIT). 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 RFQ 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 combination of coal supply and delivery. Proposals were to be for three-year or five-year terms. Five proposals were received for coal supply. Only one proposal was received for coal transportation, storage, and delivery. On December 22, 2009, City Council awarded a three-year contract to Coal Sales, LLC for coal supply only for the period beginning January 1, 2010. The contract is for coal produced by Peabody's North Antelope Rochelle Mine in southern Wyoming. The award for coal supply was contingent upon successful negotiation of a transportation, storage, and delivery contract with a separate vendor.

The lone proposal for coal transportation, storage and delivery was submitted by Williams Bulk Transfer, an Alliant Energy Transportation Company, a non-utility division of Alliant Energy. The proposal is for a six-year term beginning January 1, 2010. The

coal would be transported from Peabody's North Antelope Rochelle Mine in Wyoming in unit trains to Williams, Iowa, for unloading and storage. It would then be reloaded on trucks and delivered to the City of Ames Power Plant. **This would be a continuation of the existing service.** The base price of the coal transportation, storage, and delivery beginning January 1, 2010, is \$38.36 per ton. There is a quarterly escalation beginning January 1, 2010, based on the Association of American Railroad's All Inclusive Index-Less Fuel. There is also a fuel surcharge based on the average monthly price of U.S. Retail On-Highway Diesel Fuel whenever the average price exceeds \$1.24 per gallon. The total price to transport, store, and deliver coal to the City of Ames Power Plant starting January 1, 2010, under this new agreement will be \$43.10 per ton. By comparison, our current price (December 2009) for coal transportation, storage and delivery services is \$28.72 per ton.

The table below provides a basic comparison of features of our existing contract (2004-2009) for coal transportation, storage, and delivery with the proposed agreement for the six (6) year period 2010 through 2014.

<b>KEY FEATURES</b>	<b>Alliant Energy-Williams Bulk Transfer (WBT) Agreement (2004-2009)</b>	<b>Alliant Energy-Williams Bulk Transfer (WBT) Agreement (2010-2015)</b>																
Minimum Annual Volume (MAV)	100% of all Plant's coal from BNSF served mines in WY,  and  225,000 tons/calendar year	<b>Greater of:</b> <ul style="list-style-type: none"> <li><b>a) 100% of all coal received and/or utilized at the Plant,</b></li> <li><b>b) Annual Tonnage Nomination (ATN),</b></li> <li><b>c) 80% of the coal loaded in previous calendar year, if the actual tons transported in the previous year is 120% of the ATN or greater</b></li> <li><b>d) 225,000 tons</b></li> </ul>																
Annual Tonnage Shortfall & Rate	(\$7.00 + rail escalation & fuel cost adjustments)/ton for each ton short of 225,000 minimum	<b>(\$12.00 + rail escalation)/ton for each ton short of the ATN</b>																
Price	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Base (as of 09/1/04)</td> <td style="text-align: right;">\$20.86</td> </tr> <tr> <td>Rail Escalation</td> <td style="text-align: right;">\$4.865</td> </tr> <tr> <td><u>Fuel Surcharge</u></td> <td style="text-align: right;"><u>\$2.996</u></td> </tr> <tr> <td><b>TOTAL (for Dec. 2009)</b></td> <td style="text-align: right;"><b>\$28.72</b></td> </tr> </table>	Base (as of 09/1/04)	\$20.86	Rail Escalation	\$4.865	<u>Fuel Surcharge</u>	<u>\$2.996</u>	<b>TOTAL (for Dec. 2009)</b>	<b>\$28.72</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"><b>Base (as of 09/30/09)</b></td> <td style="text-align: right;"><b>\$38.36</b></td> </tr> <tr> <td><b>Rail Escalation</b></td> <td style="text-align: right;"><b>\$ 1.25</b></td> </tr> <tr> <td><b><u>Fuel Surcharge</u></b></td> <td style="text-align: right;"><b><u>\$ 3.49</u></b></td> </tr> <tr> <td><b>TOTAL (for 1/1/2010)</b></td> <td style="text-align: right;"><b>\$43.10</b></td> </tr> </table>	<b>Base (as of 09/30/09)</b>	<b>\$38.36</b>	<b>Rail Escalation</b>	<b>\$ 1.25</b>	<b><u>Fuel Surcharge</u></b>	<b><u>\$ 3.49</u></b>	<b>TOTAL (for 1/1/2010)</b>	<b>\$43.10</b>
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<p>Other Key Aspects of the Proposed Agreement with WBT</p>		<p><b>6 year agreement (2010-2015)</b></p> <p><b>AMES must provide binding ATN to WBT by June 15<sup>th</sup> each year for the year following</b></p> <p><b>Agreement between COA and WBT is contingent upon WBT securing rail transportation agreements with the Burlington Northern Santa Fe (BNSF) and the Canadian National (CN) railroads</b></p>
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**ALTERNATIVES:**

1. Award contract to Williams Bulk Transfer, an Alliant Energy Transportation Company, for the period from January 1, 2010, through December 31, 2015, for coal transportation, storage and delivery services.

The estimated quantity to be required in 2010 is 250,000 tons. The total estimated cost of the coal transportation, storage and delivery is \$10,775,000 for 2010, plus quarterly escalation adjustments and fuel surcharges, based on 250,000 tons. Actual cost will vary based on actual tons delivered at the contract price.

2. Reject all proposals and attempt to purchase coal and related transportation, storage and delivery services 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. City Council awarded a contract for coal supply only for a three-year period beginning January 1, 2010, contingent upon successful negotiation of a coal transportation, storage, and delivery contract. Alternative No. 1 would provide for the transportation, storage and delivery of the coal through calendar year 2015.

**It should be emphasized that the proposed agreement with Williams Bulk Transfer (WBT) reflects a number of concerns for the staff. First, the overall cost to the City will be significantly greater under this agreement for coal delivery. Second, because this agreement will have a six year term, it will be out of sync with our coal supply agreement that is only for a three year term. Third, we will be entering into this agreement with WBT for delivery services to begin January 1, 2010 with no evidence that their companion agreements have been signed with the necessary railroad companies. Fourth, the annual tonnage shortfall penalty is**

**significantly greater in the new agreement and much more onerous to administer. However, given that the City did not receive any other proposals for coal delivery, the staff was not in a good position to negotiate improvements to this agreement. In fact, the Assistant Director of Electric Services deserves much of the credit for his ability to remove other onerous proposals from the document.** Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby awarding a contract to Williams Bulk Transfer, an Alliant Energy Transportation Company, for the period from January 1, 2010, through December 31, 2015, for coal transportation, storage and delivery services.

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