

ITEM # 14
DATE October 28, 2008

COUNCIL ACTION FORM

SUBJECT: INCREASE THE TOTAL NOT-TO-EXCEED AMOUNT FOR POWER PLANT DIESEL FUEL SUPPLY CONTRACT

BACKGROUND:

On July 8, 2008, City Council awarded a contract to Keck, Inc. of Des Moines, Iowa, to supply low sulfur diesel fuel for the Power Plant through June 30, 2009.

The Power Plant has two steam boilers, which use diesel fuel as a part of the start-up process. These start-up units are fueled by two 42,000 gallon underground fuel tanks located in the coal yard south of the Power Plant. There are also two combustion turbines (CT's), fueled by a 265,000 gallon tank located at the Dayton Substation. These units can burn fuel oil at a rate in excess of 85 gallons a minute. At full load, this tank provides approximately 53 hours of operation of the combustion turbines. The combustion turbines provide mainly peaking power for the utility, and also provide voltage support as required by MISO and Mid-American Energy, the regional transmission operators.

The contract awarded to Keck, Inc. was effective July 9, 2008, and is in effect through June 30, 2009. The contract includes a not-to-exceed amount of \$1,000,000. Purchases under the contract as of October 15, 2008, totaled \$863,211.77 due to increased use of the combustion turbines for peaking and outages due to tube failures this past year, and the rising cost of the fuel itself. Coal unit #8 has had seven forced outages this past year and coal unit #7 has had two forced outages in the same time frame. This use of the CT's is not expected to diminish during the balance of this fiscal year, particularly with the outages planned for tube replacement in Unit # 8.

With fluctuating fuel prices and increased usage of the combustion turbines, Electric Services staff estimates that it could take an **additional** \$1,500,000 (or a total of \$2,500,000) to purchase the fuel required through June 30, 2009. Because the amount of coal purchased has decreased with the outages of the coal units, funding is available from the approved budget for coal inventory purchases. This is found in the Fuel and Purchased Power portion of the Electric Utility budget. The budget would be adjusted at the appropriate time.

Prior to the current contract arrangement with Keck, Inc., individual bids were solicited for each series of truckloads of fuel for Electric Services. Due to the constantly changing fuel market, the suppliers could frequently only hold a price for 15-20 minutes. It was extremely difficult to receive the quotes, have the Utility review and approve the

product and price, secure all of the necessary authorizations for single orders that frequently exceeded \$250,000, and process an order within that time frame. In addition, pricing was not known until after quotations were received so it was not always known when there was a downward price fluctuation. Also, it had become difficult for some suppliers to secure the large volume of product required for the Utility, and with multiple suppliers it was difficult to determine compliance with fuel content criteria.

The annual contract with Keck, Inc., has solved many of these problems, and given the City a much more secure and cost-effective supply of fuel.

ALTERNATIVES:

1. Approve Change Order No. 1 to the contract with Keck, Inc. to supply diesel fuel for the Power Plant, increasing the not-to-exceed amount from \$1,000,000 to \$2,500,000.
2. Reject the change order and purchase fuel on an as-needed basis when the current contract reaches \$1,000,000.

MANAGER'S RECOMMENDED ACTION:

The formal contract with Keck, Inc., establishes fuel content criteria and testing and delivery procedures. The Utility receives a daily electronic mail from the Iowa Department of Transportation stating the product's "rack" average price. The contract price is based on an adder of \$.0110 to this price. If the City needs to purchase fuel, Utility staff can determine instantly if the price is favorable based on market trends. Detailed ordering and delivery procedures are part of this contract.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving Change Order No. 1 to the contract with Keck, Inc. to supply diesel fuel for the Power Plant, increasing the not-to-exceed amount from \$1,000,000 to \$2,500,000.