

COUNCIL ACTION FORM

SUBJECT: COAL MOVEMENT AND DELIVERY SERVICES

BACKGROUND:

The City of Ames operates a 98 megawatt (nameplate output) power plant utilizing coal as the primary fuel. Under the current coal supply and coal delivery contracts, the City of Ames Power Plant receives and burns super low-sulfur western (“compliance”) coal from Peabody’s North Antelope Rochelle mine located outside of Gillette, Wyoming. The coal is transported from the mine in Wyoming via the Burlington Northern Santa Fe and the Canadian National Railroads and off-loaded at 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. The City of Ames Power Plant consumes approximately 312,500 tons of coal annually. The current contracts for both coal and for coal delivery services began on September 1, 2004, and will expire on December 31, 2009.

On Monday, July 28, 2008, requests for proposals (RFP No. 2009-016) for “COAL SUPPLY, MOVEMENT, AND DELIVERY FOR THE ELECTRIC SERVICES DEPARTMENT” were issued by the Finance Department-Purchasing Division via Priority Mail to five (5) coal companies and to three (3) entities expressing interest in providing coal movement and delivery services to the City of Ames Power Plant. The five (5) coal companies that were sent RFPs, own and operate thirteen (13) seams of low-sulfur western coal from the Powder River Basin of Wyoming deemed compatible for burning in the boilers at the City of Ames Power Plant. Proposals were originally due to the City Clerk on August 20, 2008, but the due date for proposals was ultimately extended to September 3, 2008. During the open RFP period, three addenda were issued and are listed below:

Addendum No. 1 (issued August 11, 2008)	Extension of Proposal Due Date to September 3, 2008
Addendum No. 2 (issued August 21, 2008)	Modifications and Corrections to Language in the RFP
Addendum No. 3 (issued August 26, 2008)	Issuance of a Modified Proposal Form

As a result of the RFP process, we received four proposals for coal supply, and two proposals for coal movement and delivery services (rail transportation, railcar unloading and storage, and trucking from the unloading/storage facility to the City of Ames Power Plant). One other entity considered submitting a proposal for coal movement and delivery services, but just two working days before the proposals were due on September 3, 2008 (this after a two week extension), requested an additional two-week

extension of time in order to prepare and submit their proposal. This request for extension of time was denied.

As previously stated, proposals for coal movement and delivery services (not including coal) were received from two entities, Alliant Energy-Williams Bulk Transfer (AE-WBT) and Central Iowa Terminal. Coal movement and delivery services include rail transportation of the coal from the mine, the unloading of coal railcars at the unloading/storage facility (terminal), storage, and the loading of coal at the unloading/storage facility into trucks and delivery to the City of Ames Power Plant. Coal movement and delivery services does not include coal (the commodity).

NOTE: Proposals for the coal that will be used in the City of Ames Power Plant are still being evaluated. The results will be brought before Council at a later date once the evaluation process has been completed and a recommendation can be made.

The Pluses (+) and Minuses (-) of **Alliant Energy-Williams Bulk Transfer's (AE-WBT)** proposal are as follows:

- + AE-WBT's unloading/storage facility is operational and has delivered coal to the COA Power Plant since 1999
- + AE-WBT can provide "backstop" coal from other Alliant Energy facilities
- **Pricing in proposal for only one year (2010) [COA seeks minimum 3 year contract]**
- **6-1/2 months in advance of each year, the COA must forecast annual coal usage. If forecast is underestimated by greater than 10%, then \$14.00 per ton penalty for out-of-range tons applies**
- AE-WBT does not have coal stockpiling capability inside dome
- Dome does not have fire protection, so it is at risk of fire similar to what happened in 2006
- Unloading facility is approximately 36 miles north of the COA Power Plant, which results in diminished deliveries of coal during winter weather
- AE-WBT serves multiple clients out of the Williams facility which means that the COA Power Plant cannot always get the coal delivery priorities that we would like

- Two railroads (Burlington Northern Santa Fe and Canadian National) are involved in the movement of each coal train.
- AE-WBT cannot separately handle different coals. COA is thereby excluded from participating in the spot market purchase of coals

The Pluses (+) and Minuses (-) of **Central Iowa Terminal's (CIT)** proposal are as follows:

- + **CIT's proposal provides significant cost savings as compared to the other delivery proposals.**
- + **CIT's proposal is for five (5) years**
- + CIT (and its parent companies) have a track record of providing this service. They manage approximately 12,000,000 tons of coal per year. They built and currently operate a similar facility in Danville, Illinois
- + CIT will own or lease a unit train of coal railcars instead of relying on railcars from the railroad
- + Single railroad (Union Pacific Railroad) haul from Wyoming to Iowa
- + Distance of only nine miles from CIT's terminal to the City of Ames Power Plant
- + **Capability of stockpiling up to 30,000 tons long-term at their terminal without additional cost to the COA. Having this amount of coal within nine miles of the COA Power Plant would likely allow the power plant to reduce its stockpile size, thus reducing the potential for fugitive dusting and the vigilance required to prevent dusting of coal from the stockpile**
- + The CIT's terminal size and flexibility allows for the separate handling and storage of different coals. This would allow the COA to consider spot market coals which typically trade below the price of contract coals
- CIT's minimum annual terminal throughput amount without penalty is 312,500 tons. For all tons less than 312,500, then \$10.58 per ton assessment will apply. **However, if the average throughput for the test year and the following year is greater than 312,500 tons, then the test year assessment will be credited back to the City of Ames**
- The railcar unloading/storage facility (terminal) is in the permitting stage and construction has not commenced. **(CIT has developed and**

established a contingency plan to provide for uninterrupted delivery of coal to the COA Power Plant should CIT's terminal not be operational by January 1, 2010.)

ALTERNATIVES:

- 1) The City Council can pass a motion directing the Electric Services staff to initiate negotiations with Central Iowa Terminal to develop a contract agreement for coal movement and delivery services.
- 2) The City Council can pass a motion directing the Electric Services staff to initiated negotiations with Alliant Energy-Williams Bulk Transfer to develop a contract agreement for coal movement and delivery services.
- 3) The City Council can decide to reject all proposals for coal movement and delivery services.

MANAGER'S RECOMMENDED ACTION:

In analyzing the two proposals for coal movement and delivery services, it is staff's belief that the proposal offered by the Central Iowa Terminal group offers:

- 1) significant cost savings for the City of Ames as compared to the other delivery proposals
- 2) the security of a five year proposal versus a one year proposal; and
- 3) The storage capability of 30,000 tons within 9 miles of the COA Power Plant would provide a safety reserve for the power plant, and would allow the COA Power Plant to reduce its stockpile size resulting in improved local dust control.

Therefore, it is the recommendation of the City Manager that the City Council support Alternative #1 and thereby direct staff to initiate negotiations with Central Iowa Terminal to develop a contract agreement for coal movement and delivery services.

After finalizing the coal movement and delivery services contract, Staff will analyze the proposals for coal supply (the commodity only), and will report back to Council with a recommendation.