

COUNCIL ACTION FORM

SUBJECT: COAL SUPPLY AND DELIVERY CONTRACT

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 receives and burns super low-sulfur western coal from Peabody's North Antelope Rochelle mine located outside of Gillette, Wyoming. The coal is transported from the mine via the Burlington Northern Santa Fe Railroad and the Canadian National Railroad. The coal is offloaded at Alliant Energy's Williams Bulk Transfer facility in Williams, Iowa, where it is stored. 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 312,500 tons of coal annually.

On July 28, 2008, a request for proposals was issued for coal supply and delivery beginning January 1, 2010. The proposal documents 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.

On September 3, 2008, responses were received from five firms. One firm offered two proposals. Four proposals were for coal supply only, and two proposals were for coal movement and delivery.

One of the proposals, from Central Iowa Terminal (CIT), would provide 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 accepted a report of the proposals and directed staff to initiate negotiations with Central Iowa Terminal to develop a contract agreement for coal movement and delivery services. CIT has attempted to secure permits and meet other requirements for construction of the facility. However, local opposition to the terminal has delayed the process. CIT has therefore been unable to move forward with construction of the facility anticipated as part of its proposal.

On July 10, 2009, a notice was issued by the City to CIT in order to establish a date and process for determining the status and continued viability of CIT's proposal. CIT has responded that it has been unable to identify an alternate site that would provide the capability and commitment required within the designated timeframe, and requests that City Council allow withdrawal of its proposal. However, CIT also indicated that they "are continuing to move forward with development plans for a facility." Therefore, it is possible the City will receive a second proposal through this new solicitation process.

ALTERNATIVES:

1. a. Allow Central Iowa Terminal to withdraw its proposal dated September 2, 2008, for coal delivery and movement.
- b. Reject all proposals for coal and coal delivery services received on September 3, 2008, under RFP 2009-016.
- c. Direct staff to issue a new request for proposals (RFP) for coal and coal delivery services.
2. Deny Central Iowa Terminal's request to withdraw its proposal and continue to pursue negotiations with Central Iowa Terminal.

MANAGER'S RECOMMENDED ACTION:

Central Iowa Terminal has acknowledged that it cannot provide the capability and commitment required by the City within the designated timeframe. Allowing Central Iowa Terminal to withdraw its proposal and rejecting proposals for coal and coal delivery services received in September 2009 would allow for new proposals to be solicited for coal and coal delivery services for the City of Ames Power Plant.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby:

- a. Approving the request from Central Iowa Terminal to withdraw its proposal dated September 2, 2008, for coal delivery and movement.
- b. Rejecting all proposals for coal and coal delivery services received on September 3, 2008, under Request for Proposals No. 2009-016.
- c. Directing staff to issue a new request for proposals (RFP) for coal and coal delivery services.



SPECIALIZED FUELS, LLC

an SCH Services Company

2850 North Main St., Madisonville, KY 42431

July 20, 2009

Mr. Brian Trower
Assistant Director – Electric Services
Electric Administration Division
502 Carroll Ave., P.O. Box 811
Ames, IA 50010-0811

Dear Mr. Trower:

In response to your letter dated July 10, 2009, Specialized Fuels, LLC feels that it is in the best interest of all parties at this time that we withdraw from consideration our proposal submitted to the Ames Electric Services for the sale and delivery of Powder River Basin coal to your facility beginning January 1, 2010. The inability to this point, to obtain the necessary rezoning will prevent Central Iowa Terminal from being operational in time to begin deliveries by that date. We are continuing to move forward with development plans for the facility and will keep you informed of our progress.

We would like to thank Ames Electric Services and the City of Ames for your help and support with this project.

Sincerely,

Don Shemonic
Director of Sales,
Specialized Fuels, LLC

Cc: Donald Kom, Electric Services, COA
Bill Rager, CIT