

COUNCIL ACTION FORM

SUBJECT: POWER PLANT UNIT #8 COAL MILL PARTS

BACKGROUND:

This project involves the purchase of mill parts needed for routine maintenance and inventory replenishment for the Power Plant Unit #8 Coal Mills. This equipment is used for pulverizing coal into a powder that is used as fuel in the Unit #8 Boiler. A total of four mills provide coal for Unit #8, and three of those four must be operating for the Plant to be fully operational. If a second mill were to go offline, the generating capacity of the Plant would be limited due to the lack of ability to pulverize enough coal for the boiler. As a result, the Power Plant may have to purchase electricity, or start up one or both gas turbines in order to supplement generating capacity. This would likely lead to significantly higher production costs.

The majority of the parts that need to be purchased have long lead times. As a result, they need to be purchased now for planned maintenance of the mills. Maintenance delays have been reduced significantly by having these parts in stock at the Plant and have also minimized the risk of the Plant having to run at less than full capacity if more than one of the coal mills goes offline. In addition, by purchasing these parts in higher quantities based on planned rebuilds, as opposed to an as-needed basis, the City realizes savings based on increased volume discounts and overall reduced transaction costs associated with shipping costs and multiple issuances of purchase orders.

On January 10, 2011, the RFP document was issued to eleven firms. The RFP invitation was also advertised on the Current Bid Opportunities section of the Purchasing webpage. On February 11, 2011, staff received competitive sealed proposals for Unit #8 coal mill parts from one firm as shown on the attached report (Attachment A).

Electric Services staff reviewed the proposal and concluded that the proposal from Babcock & Wilcox Power Generation Group, Inc. (B&W), Barberton, OH, in the amount of \$239,006.98 (inclusive of sales-tax) is acceptable. **B & W took numerous exceptions, and also inserted some modifications on the City of Ames RFP document which it submitted along with its pricing.**

City Council may recall that proposals were solicited last calendar year for a similar group of parts needed by the Power Plant. On May, 25, 2010, those parts and the proposals received along with staff recommendations were presented to City Council members for their consideration. At that time, staff determined that one of the proposals received was found to be non-responsive. As a result, only one proposal remained and that was from B & W which is the original equipment manufacturer (OEM) of these parts. B & W took numerous exceptions, and also inserted some modifications on the City's RFP document which was then submitted along with the pricing.

The City Attorney found that the majority of the exceptions taken and modifications proposed to the City's terms and conditions were counter to most of the tenets of the City's purchasing policies. In that instance, however, the City did not have any other option but to review them, understand the risks associated with them, and make a decision on whether to move forward in agreement or not. Based on this, the exceptions and modifications by B & W were presented to City Council for consideration.

At the May 25, 2010 meeting, City Council agreed to the exceptions and modifications to the terms and conditions of the City of Ames request for proposal document, and awarded a contract to B & W for the purchase of Unit # 8 coal mill parts.

B & W took the same exceptions and added the same modifications to its proposal this time. Staff contacted B & W and confirmed that the company is in agreement that the exact same terms and conditions from the May 25 purchase will apply to this purchase.

A copy of the RFP with these exceptions and modifications notated in red is available in the City Clerk's Office for your review (Attachment B, which is 15 pages long). The exceptions and modifications that were identified as objectionable are shown on Attachment C. All other exceptions and modifications to the RFP document not identified in Attachment C were reviewed by staff and the City Attorney, and staff determined that those did not pose a risk to the City.

As stated previously, B&W is a very large international company and it is the original equipment manufacturer (OEM) for both the coal mills and the replacement parts that need to be ordered. Since these are parts from the original manufacturer, the staff believes that these parts will meet our performance needs. In addition, B&W is a reputable provider and its representatives provide excellent service.

The equipment requiring the replacement parts is over thirty years old. Many foundries and other companies that formerly sold replacement parts are apparently no longer offering them because they have not responded to numerous request for proposals. This essentially means that B&W is the single source for these parts and further explains why it is the only company to provide a proposal this time. **The City Council should be advised that the Power Plant will need to continue order parts in the future for this same equipment. At those times, B&W may need to be considered a "sole source" based on the difficulty in finding suppliers for these parts. Inevitably, this will be a continuing issue as long as the current coal mills remain in operation.**

Staff has reviewed the exceptions and modifications proposed by B&W and have determined that it is worth the risk by agreeing to its proposed terms and conditions. There are potentially far greater risks for Electric Services, and impacts to the ratepayers, if there are continued delays on ordering these parts or if no agreement is reached and the parts are never ordered. Without the mills in operation, Unit #8 will be shut down.

Funding is available from the approved FY2010/11 Electric Production operating budget for Unit #8 Boiler Maintenance, which contains \$478,500 for parts. If needed, funding is also available from the approved FY2010/11 Electric Production operating budget for Unit #7 Boiler Maintenance, which contains \$150,000 for parts. Of the \$628,500 amount available between these two accounts, \$287,413 has been spent, which leaves \$341,087 remaining for maintenance parts through June 30.

ALTERNATIVES:

- 1a. Agree to the exceptions and modifications to the terms and conditions of the City of Ames request for proposal document, as presented by Babcock and Wilcox with its February 11, 2011, response to the City of Ames RFP solicitation. These are the same exceptions as previously presented to Council on May 25, 2010.
- b. Award a contract to Babcock & Wilcox, Barberton, OH, for the purchase of Unit # 8 coal mill parts in the amount of \$239,006.98 (inclusive of sales-tax).
2. Reject all proposals and direct staff to delay purchase of replacement parts, and explore other options.

MANAGER'S RECOMMENDED ACTION:

The purchase of these mill parts in advance of major maintenance work will reduce the risks of delays on planned mill rebuilds, and also help reduce downtime due to unplanned mill equipment failures. Having a coal mill fail and remain down for an extended period of time increases the risk of incurring significant cost for purchased power, should we need to purchase power at a high-cost time.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, agreeing to the same exceptions and modifications to the terms and conditions of the City of Ames request for proposal document as the previous order that was presented to City Council May, 25, 2010, and awarding a contract to Babcock & Wilcox, Barberton, OH, for the purchase of Unit # 8 coal mill parts in the amount of \$239,006.98 (inclusive of sales-tax).



2011-117 REQUEST FOR PROPOSAL UNIT #8 COAL MILL PARTS

**Company Name of
Bidder:**

**Babcock & Wilcox Power
Generation Group Inc.,
Barberton, OH**

GROUP 1

DESCRIPTION	QTY	UNIT PRICE	Total
Set Wedge Ring	3	\$ 4,388.85	\$ 13,166.55
Spring Bolt Shafts	24	\$ 354.32	\$ 8,503.68
Sales or Use Tax (7%)			\$ 1,516.92
Non-Taxable Freight in Above Total			\$ 320.00

TOTAL: \$23,507.15

GROUP 2

DESCRIPTION	QTY	UNIT PRICE	Total
Socket Assy's Spring	18	\$ 345.51	\$ 6,219.18
Ring Bottom Seat Assy	2	\$ 38,322.00	\$ 76,644.00
Pyrite Gate	6	\$ 283.25	\$ 1,699.50
Sales or Use Tax (7%)			\$ 5,919.39
Non-Taxable Freight in Above Total			\$ 500.00

TOTAL: \$90,982.07

GROUP 3

DESCRIPTION	QTY	UNIT PRICE	Total
Housing Units VAM 20	3	\$ 3,960.00	\$ 11,880.00
Housing Unit (Left)	3	\$ 396.00	\$ 1,188.00
Housing Unit (Right)	3	\$ 396.00	\$ 1,188.00
Clamp, Housing Units	36	\$ 17.20	\$ 619.20
Spring, 1.5 Inch EL64	12	\$ 1,501.20	\$ 18,014.40
Fill In Balls VAM 20 9.25"	6	\$ 569.70	\$ 3,418.20
Fill In Balls VAM 20 10.5"	6	\$ 597.60	\$ 3,585.60
Fill In Balls VAM 20 9.875"	6	\$ 579.60	\$ 3,477.60
Fill In Balls VAM 20 12.25"	15	\$ 661.50	\$ 9,922.50
Upper Grinding Ring	2	\$ 17,451.00	\$ 34,902.00
Lower Grining Ring	2	\$ 13,247.00	\$ 26,494.00
Sales or Use Tax (7%)			\$ 8,028.27
Non-Taxable Freight in Above Total			\$ 1,800.00

TOTAL: \$124,517.77

GRAND TOTAL: \$239,006.98

B & W EXCEPTIONS & MODIFICATIONS

The following are objectionable exceptions and modifications to the City of Ames request for proposal document for the Unit # 8 coal mill parts.

- 1) Page 1 – B & W substituted City's Contract document with their own proposal.

Risk: City is required to accept every contract term proposed by B & W.

- 2) Page 5 - B & W deleted City's Contract document and modified tax responsibility on the Offer Form.

Risk: City is required to accept all responsibility for unforeseen tax liabilities. City is not aware of any tax consequences.

- 3) Page 12 - B & W added a limited *Warranty* provision.

Risk: a) Duration of warranty is 24 months or 12 months from installation, whichever is sooner. b) Sole remedy under warranty is repair or replacement by B & W. c) All other implied or express warranties are disclaimed.

- 4) Page 12 - B & W added a *Proprietary Information* provision.

Risk: City would be required to seek a protective order to prevent disclosure of B & W's technical information if a public records request is received. City does not anticipate receiving significant amounts of proprietary information.

- 5) Page 13 - B & W added a *Delay in Performance* provision.

Risk: City assumes all risks caused by delays beyond control of B & W.

- 6) Page 14 - B & W added a *Performance Guarantee Disclaimer* provision

Risk: City assumes all responsibilities for performance of equipment and compliance with applicable regulations.

- 7) Page 14 - B & W added a *Maximum Liability of Contractor* provision

Risk: B & W's total liability is limited to the contract price and liability ends when warranty expires.

- 8) Page 14 - B & W added a *Consequential Damage Disclaimer* provision

Risk: City may not recover any damages due to equipment failure.

9) Page 15 - B & W added a *Taxes* provision.

Risk: City is responsible for any unforeseen tax liabilities. None are anticipated.

10) Page 16 (Under *Execution of Contract* Paragraph 1) – B & W added some language.

Risk: B & W has 30 days after award to determine whether the contract is acceptable. Offer is contingent upon B & W executing the contract.

11) Page 16 (Under *Laws*) – B & W deleted the venue.

Risk: If a contract dispute arises, City could be required to litigate in Ohio.