

COUNCIL ACTION FORM

**SUBJECT: POWER PLANT UNIT 8 WATERWALL INSTALLATION
CHANGE ORDER NO. 5**

BACKGROUND:

This project is addressing tube wastage in the power plant's Unit No. 8 boiler by replacing the waterwalls below the 165 feet and 150 feet elevations to the lower weld lines.

On April 27, 2010, City Council awarded a contract to AZCO Inc. for the Unit No 8 Waterwall Installation Project in the amount of \$2,417,106.13. This project was originally scheduled to be completed during the Power Plant's spring outage, but was delayed to the fall awaiting a regulatory determination from the Iowa Department of Natural Resources (DNR). Staff expected to receive the determination in mid-summer. There was a unique provision built into the contract whereby it could be cancelled should the City not receive regulatory approval within 180 days from the bid due date, which was September 6, 2010.

As additional background information, the City filed a request with the DNR for this and other projects on May 26, 2010, seeking the DNR's concurrence that the projects would not exceed New Source Review-Prevention of Significant Deterioration (NSR-PSD) "significance" criteria. At that time, staff expected a response from the DNR within 60 days from the date of staff's filing, based upon earlier discussions with the DNR. However, in its review of the City's original request, DNR staff had follow-up questions and issues which required additional discussions and meetings. The City also was required to submit additional supplemental information (filed on September 10, 2010) that DNR staff felt was necessary for them to make their determination. In response to the September 10, 2010 letter, the DNR staff again requested additional information that was submitted to the DNR on February 16, 2011.

It is very important from both a regulatory and practical point-of-view to be able to commence work this year at the earliest possible opportunity. Therefore, staff felt strongly that it was in the City's best interest to keep the AZCO bid and contract in place. This will allow staff to react quickly and commence work once a determination is received from the DNR. Moreover, if this work is re-bid, the City will not only lose the ability to commence work quickly, but would also risk that any new bids would be less attractive in regards to both price and contract terms. **Staff now expects to receive a regulatory determination from the Iowa DNR in time for a Fall 2011 installation of the Unit 8 waterwall panels.**

Council should note that four change orders have already been approved for this contract. Change Order No. 1 was for an extension of the contract expiration date from September 6, 2010, to October 6, 2010. That change order allowed staff additional time to receive a determination from the DNR and also for AZCO to propose its increase in cost to the City associated with a future extension of the contract expiration date by 180 days. **There was no cost for Change Order No. 1.**

Change Order No 2 was for an extension of the contract expiration date from October 6, 2010, to October 21, 2010. That change order allowed staff and AZCO additional time to negotiate an agreement on AZCO's proposed cost increase for the 180 day extension, and allowed for time to present it to the City Council. **Again, there was no charge for Change Order No. 2.**

Change Order No. 3 for \$396,200.00 extended the contract expiration date by 180 days from the original contract expiration date of September 6, 2010 to March 5, 2011.

Change Order No 4 was for an extension of the contract expiration date from March 5, 2011, to March 25, 2011. This change order prevented the contract from expiring while Change Order No. 5 was prepared for City Council for consideration. **There was no charge for Change Order No. 4.**

The proposed change order would be **Change Order No. 5.** This change order will extend the contract expiration date by 281 days from the Change Order No. 4 date of March 25, 2011. **Overall, the contract expiration date will have been extended by 481 days from the original contract expiration date of September 6, 2010.**

The cost of this change order is \$82,292.00. The basis of this change order is the contractor's additional cost arising from increases in wage rates, fuel costs, equipment costs and risk associated schedule slippage. These are the same reasons for the cost increases related to Change Order No. 3.

The total project cost for the project including Change Order No. 5 will be \$2,895,598.13. That total still remains significantly less than the second lowest bid the City received on this project back when it was originally awarded in April of 2010. As the attached bid tabulation sheet shows, that bid was \$3,326,286.14. The current contract with AZCO, including Change Order No. 5, is still \$430,688.01 less than the second lowest bid in the original bid process.

The Engineer's estimated cost for the installation was \$3,575,000, which includes a contingency amount of \$260,000. Of the \$4,876,106 budgeted in the approved 2009/10 Capital Improvements Plan, slightly over \$3.4 million remains in the 2010/11 project budget for Unit #8 Boiler Tube work. Tube material was purchased previously, separate from this contract award. This installation budget has been carried over from the 2009/10 budget, and is included in the adjusted Electric CIP for 2010/11.

ALTERNATIVES:

1. Approve contract Change Order No. 5 to AZCO. Inc., in the amount of \$82,292.00 and extend the contract expiration date of the Unit 8 Waterwall Installation Project by an additional 281 days to December 31, 2011.
2. Reject contract Change Order No. 5, allow the contract to expire, and direct staff to rebid this project.


MANAGER'S RECOMMENDED ACTION:

This project is critical to address the Unit No. 8 tube problems by replacing the bottom 50 feet of tubing in the boiler. The change order currently proposed will provide the City additional time to receive a regulatory determination from the DNR.

Even though this change order significantly increases the cost of this project with AZCO, it is still significantly less than the second low bid received during the bid process. It is also much lower than the Engineer's estimate and the budgeted amount remaining in the original 2009/10 CIP project budget. Additionally, there is the potential of significant risks to the City in the form of higher costs and longer delays if this change order is not implemented and the contract is allowed to expire.

Should the City not receive a determination letter from the DNR before the first of next year, staff will need to evaluate the advantages of continuing this contract versus rebidding the project at a future time.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving contract Change Order No. 5 to AZCO, INC., in the amount of \$82,292.00, and extending the contract expiration date of the Unit 8 Waterwall Installation Project by an additional 281 days to December 31, 2011.

	INVITATION TO BID NO. 2010-122 UNIT 8 WATERWALL INSTALLATION	
ENGINEER'S ESTIMATE	\$ 3,575,000.00	
BIDDER	TOTAL	PRICE DEDUCT FOR SCRAP/SALVAGE
AZCO, Inc., Appleton, WI	\$ 2,417,106.13	N/A
Moorhead Machinery & Boiler Company, Minneapolis, MN	\$ 3,326,286.14	\$ 1,800.00
NAES Power Contractors, North Kansas City, MO	\$ 3,496,844.32	N/A
Ragan Mechanical, Inc., Davenport, IA	\$ 3,673,900.00	N/A
Plibrico Company, L.L.C., Omaha, NE	\$ 3,947,262.39	N/A
Hayes Mechanical, Omaha, NE	\$ 3,994,500.71	N/A
Associated Mechanical, Inc., Olathe, KS	\$ 4,137,253.49	N/A
Capital City Boiler & Machine Works, Inc., Des Moines, IA	\$ 5,677,717.63	\$ 350.00