

City Council Agenda Report

Meeting Date: August 20, 2024
From: Todd Dusenberry, General Manager of Public Utilities
Department: Public Utilities
Submitted by: Adriana Ramos, Senior Management Analyst

Subject

Change Order No. 20 to Amended and Restated Services Agreement with Siemens Energy Inc.

Recommendation

A. Find that approval of the proposed action is exempt from California Environmental Quality Act (CEQA) review, because it is a government fiscal activity that will not result in direct or indirect physical changes in the environment, and therefore does not constitute a “project” as defined by CEQA Guidelines section 15378; to the extent the Purchase Contracts with Siemens Energy, Inc. provides for facility and equipment maintenance or repairs, such work is categorically exempt from CEQA review, in accordance with CEQA Guidelines section 15301, because the project consists of the maintenance, repair or minor alteration of existing structures, facilities, or equipment, and involves negligible or no expansion of an existing use; and

B. Approve and authorize the City Administrator to execute Change Order No. 20 to the Amended and Restated Services Agreement with Siemens Energy, Inc. (Siemens Energy), in substantially the same form as submitted, to revise the Projected Schedule Outage Plan, Payment Schedule, Cancellation Schedule, Upgrade Schedule, Dehumidifier Upgrade, Burner 26 Upgrade, Gearset Upgrade, Starter Motor Upgrade, amend the termination date of the agreement, and add a blanket Purchase Contracts schedule.

Background

On November 16, 2021, the City Council adopted Resolution No. 2021-41, approving a Purchase and Sale Agreement (PSA) with Bicent (California) Malburg LLC (Bicent) for the acquisition of the Malburg Generating Station (MGS). Under the PSA, the City is required to assume or otherwise comply with certain vendor contracts previously entered by Bicent. As such, the City was obligated to accept the existing Long Term Service Agreement (LTSA) between Bicent and Siemens Energy, Inc. (Siemens Energy). On November 21, 2023, the City Council approved Change Order No. 19 to the Amended and Restated Services Agreement with Siemens Energy to perform a Feedwater Pump Motor Life Expectancy Analysis Program test and add Contingency Funds for Extra Work Authorizations executed during the December 2023 outage.

As assigned, the LTSA was designed for Siemens Energy to provide program parts, non-program parts, miscellaneous hardware, inspection hardware, generator parts, generator scheduled outages, steam turbine parts, steam turbine scheduled outages, scheduled outages services, and program management services for MGS's ongoing needs. LTSAs are among the most complex contracts encountered by combined cycle power plants. These contracts involve high complexity in legal, financial, and technical aspects, especially in regard to gas turbine technology. Understanding the fundamental factors that drive parts replacement and maintenance costs is crucial for negotiating with suppliers. The gas turbine constitutes a significant portion of combined cycle maintenance costs, with hot gas path parts being the main contributors.

The current LTSA with Siemens Energy is set to expire in September 2025. In preparation for this, on May 13, 2024, the City entered into a Services Agreement with SS&A Power Consultancy (SS&A) to provide consulting services for an extension to the LTSA through Fiscal Year (FY)

2033. SS&A reviewed the proposed change order to assess whether the pricing and terms align with the current business market, especially for other similar contracts. The review included an assessment of any potential issues and an overall evaluation of the contract. SS&A has an extensive track record of helping clients define their gas turbine maintenance strategies and negotiate long term service agreements, resulting in visibility of many similar contracts. This knowledge is used to review the contract considering best achievable terms and conditions as well as current market pricing. This enables a comparison of the MGS LTSA to LTSAs for similar units. In SS&A's evaluation, the Long-Term Program (LTP) adjusted price excluded extra costs such as a dehumidifier as well as a payment shift of the remaining \$6.3 million from the existing LTP, resulting in an adjusted price of \$20,368,343. This was compared to an estimated transactional cost of \$23,600,000 if the LTP scope of work were purchased on an individual basis. In addition to the transaction cost savings, the LTP also includes a term warranty for all program parts, engineering support, outage planning support and execution as well as many other integrated benefits as a result of this change order that are essential components to the long term operational and maintenance success of a power generation facility. Based on SS&A's experience, they estimated that the transactional cost of the work to be completed under the LTP would likely be higher than the cost of the LTP extension, also without the additional benefits of the items mentioned above. SS&A used a top-down approach to pricing analysis, comparing the overall price with other prices seen in the market. This approach is a common way to analyze market prices on a \$/MWh basis. This top-down analysis is also useful in assessing if the price is generally within the market range. Based on other contracts SS&A has seen for the SGT-800 class or similar gas turbine-based power plants, the MGS LTP extension price is within expected market price levels.

Change Order No. 20 to the Amended and Restated Services Agreement extends the agreement to June 30, 2034. The LTSA's Exhibit C, "Projected Scheduled Outage Plan," has been updated to show the projected dates and plan for scheduled outages through June 2034. Furthermore, Exhibit E, "Payment Schedule; Taxes," has been modified to reflect the number of Planned Outages outlined in Exhibit C, "Projected Scheduled Outage Plan" (Rev. 3), and assumes that all payments in the Payment Schedule are made. Furthermore, the Payment Schedule reflects the utility's estimated electric load forecast. Exhibit J, "Upgrades," details the upgrades that Siemens Energy will install according to a mutually agreed schedule with the City.

City Council approval of Change Order No. 20 is required pursuant to Vernon Municipal Code Section 3.32.030(B), which states if, in the 12 months preceding the effective date of a proposed new, renewed, or otherwise amended contract, the City has paid or awarded the proposed vendor more than \$100,000 pursuant to contracts with the vendor, then the proposed new, renewed, or otherwise amended contract shall be approved only by the City Council. Change Order No. 20 also includes a schedule for blanket Purchase Contracts detailing the issuance of annual contracts to Siemens Energy. Approval of Change Order No. 20 would authorize the issuance of the annual blanket Purchase Contracts referenced in the schedule from FY 2024-25 through 2032-33. Such Purchase Contracts will not exceed \$100,000 annually and will be provided at the start of each Fiscal Year (FY) to cover annual, unforeseen or emergency parts and/or services that may be required by Siemens Energy. Any remaining balance at the end of each fiscal year will not be carried over to the next fiscal year.

Change Order No. 20 has been reviewed and approved as to form by the City Attorney's Office. Change Order No. 20 contains confidential and proprietary information and will be provided to the City Council under separate cover; it will not be included in the public Agenda Packet.

Fiscal Impact

The fiscal impact associated with Change Order No. 20 is estimated at \$31,111,674 since fees are subject to the annual Escalation Factor and will be either increased or decreased by the Escalation Factor at the time of each invoice. VPU has included an estimated escalation of costs in the FY 2024-25 budget. Sufficient funds are available in the Electric Fund, Malburg Generation Station, Long-Term Plant Maintenance Account No. 055-050-586-529001 for the current fiscal year and sufficient funds will be budgeted in subsequent years.

The fiscal impact is not-to-exceed \$100,000 for the annual blanket Purchase Contract. Sufficient funds are available in the Electric Fund, Malburg Generation Station, Repairs & Maintenance Account No. 055-050-586-529000 for the current fiscal year and sufficient funds will be budgeted in subsequent years.

Attachments

None.