



City of Grand Island

Tuesday, March 26, 2013

Council Session

Item I5

**#2013-91 - Consideration of Approving Bonding for the Platte
Generating Station Mercury Air Toxic Standards - Air Quality
Control System**

Staff Contact: Tim Luchsinger, Utilities Director

Council Agenda Memo

From: Timothy Luchsinger, Utilities Director

Meeting: March 26, 2013

Subject: Declaration of Intent to Issue Bonds for Platte Generating Station for the Mercury Air Toxic Standards, Air Quality Control System Project

Item #'s: I-5

Presenter(s): Timothy Luchsinger, Utilities Director

Background

On December 21, 2011, EPA released the Mercury and Air Toxics Standards (MATS), requiring the maximum achievable control technology for mercury and other hazardous pollutants from electric generating units, with a compliance date of March, 2015, although an additional one year for compliance may be granted by individual states.

To achieve long-term compliance for MATS, it was anticipated that the Department would need to install a fabric filter, carbon injection system, and, depending on the amount of reduction needed, either a dry sorbent injection or a dry scrubber at Platte Generating Station, along with associated by-product removal systems and disposal sites, in the next three to four years. It was estimated that these modifications would cost the utility approximately \$35 million and take 3 to 5 years for financing, design, and construction. Although this equipment will also result in additional operating costs that may affect rates, the City proceeded with refinancing of current electric bonds to reduce rate impacts due to debt service of capital expenditures. Current plans are to complete this installation during the last quarter of 2014 to coincide with a scheduled plant maintenance outage, with system startup and testing to continue into the first quarter of 2015. This will provide a margin for the implementation of the system and minimize plant downtime.

For large capital improvement projects of this type, the Department has traditionally used the Design-Build approach with multiple contracts, where proposals are solicited for a consulting engineer, who then proceeds with detailed design and developing specifications for bids to acquire equipment and contractors to complete the project. This type of approach can achieve more control of the details of the project, but can also take more time to complete and final project costs are not known until the final contract is

awarded. A project approach being used more by utilities for capital projects is the Engineer-Procure-Construct (EPC) method. Specifications are developed emphasizing final system performance and operating parameters instead of technical features, and consortiums of engineers, suppliers, and construction contractors then team together to provide bids for a total system package. The project is awarded to the lowest compliant bid, normally with provisions of penalties for not meeting guarantees or incentives for exceeding requirements. The EPC approach is recommended by the Department for the air emission control equipment project as we do not have a preference for the various air emission control technologies, and this method will allow for the market to determine the most cost effective and timely implementation. Project costs will also be known early and enable financing methods to be determined to minimize rate impacts to customers.

Utilities and other entities performing EPC projects normally retain the services of an Owner's Engineer to develop the EPC specifications and provide third party project administrative functions. On March 26, 2012, Kiewit Power Engineers was awarded the contract for providing engineering services for this project. The services for the Owner's Engineer included the following.

- A high level determination of emission reduction limits and system components.
- Preparation of specifications for bids.
- Evaluation of bids.
- Financial analysis and preparation of pro-formas for bond underwriters.
- Assistance in air emission permitting with EPA and NDEQ.
- Final system testing and determination of compliance with contract conditions.

In June, 2012, Kiewit completed a technical and economic evaluation of the two most recognized processes suitable for use at Platte to achieve the MATS requirements, dry sorbent injection (DSI) and a dry scrubber system. DSI processes are relatively new to the electric utility industry and can provide a low capital cost solution to applications requiring lower emission reduction rates. Dry scrubber systems are the current industry standard for power plants to meet sulfur dioxide emission standards and have been in use for over 20 years. Based on estimated capital and 20-year operating and maintenance costs, the processes were evaluated to have similar life cycle costs. With a similar life cycle cost, however, the potential for meeting future potential emission standards and the established history of dry scrubber systems resulted in a recommendation of a dry scrubber system for Platte. Department staff concurred with this recommendation and directed Kiewit to proceed with detailed specifications to be issued for bid.

In order to provide a cost-effective solution to meet the MATS requirements, the specifications were drafted on a performance basis. A performance basis specification identifies the current conditions and the required end result, but not the specific method, which allows the various emission control industry engineers, suppliers, and contractors latitude to bid their best solution for our application. Included in the specification was a spreadsheet that would be used to evaluate the low bidder that included the factors used in the calculation of project capital financing and annual operating and maintenance costs for use by the vendors in determining their best solution for the lowest overall project

cost. These specifications were issued for bid in accordance with City purchasing procedures. On November 2, 2012, the following bids for the MATS Retrofit compliance were received and on January 23, 2013, Council approved the award of the MATS Compliance Retrofit Project to AMEC for \$41,189,331.

Discussion

As previously proposed to Council, the capital cost of approximately \$41.2 million for this project will be funded by bonding. In light of previously enacted federal environmental regulations, court-imposed stays or reversals are possible with the MATS rule, therefore, to allow more insight as to any litigation that may be pursued by interest groups, the recommendation by the Department is that initial costs for this contract be funded using electric system cash reserves until a level is reached that begins to impact reserve minimum levels, probably by the third or fourth quarter of 2013. Until the bonding is in place, our bond underwriter, Ameritas, has advised that the City should declare their intention to use bond revenue to fund the capital improvements for the project. This will allow bond proceeds to be use for costs of the project prior to the bonds being issued and the funds are received. The declaration of intent to issue bonds includes the \$41.2 million for the capital cost of the project plus estimated bond issuance costs.

Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

Recommendation

City Administration recommends that the Council approve the declaration of intent to issue bonds to reimburse expenses resulting from the procurement and installation of a Mercury Air Toxic Standards - Air Quality Control System Project.

Sample Motion

Move to approve the declaration of intent to issue bonds to reimburse expenses resulting from the procurement and installation of a Mercury Air Toxic Standards - Air Quality Control System Project.

RESOLUTION 2013-91

WHEREAS; the Mayor and Council of the City of Grand Island hereby find and determine that it is necessary and appropriate to declare their official intent to issue tax-exempt bonds on behalf of the City, and in addition, the City's reasonable expectations to reimburse certain expenditures with the proceeds of such bonds as proposed to be issued by the City in connection with the proposed project as described below.

WHEREAS; this Resolution shall stand as a statement of the City's official intent under Regulation Section 1.150-2 of the regulations of the United States Treasury and for such purpose the following information is hereby given:

1. A general functional description of the project for which expenditures may be made and reimbursement from bond proceeds provided is as follows:

The procurement and installation of the Mercury Air Toxic Standards – Air Quality Control System Project.

2. The maximum principal amount of debt expected to be issued for such project is \$47 million dollars.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the declaration of intent to issue bonds to reimburse expenses resulting from the procurement and installation of the Mercury Air Toxic Standards – Air Quality Control System Project is hereby approved.

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Adopted by the City Council of the City of Grand Island, Nebraska, March 26, 2013.

Jay Vavricek, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form	☐ _____
March 22, 2013	☐ City Attorney