

City of Seward, NE
Tuesday, October 20, 2015
Regular Session

Item G11

**CONSIDERATION OF A CONSULTING SERVICES
AGREEMENT WITH JK CONSULTING FOR PROVIDING A
COMPLETE POWER SUPPLY EVALUATION - Bruce Smith &
John Krajewski, P.E.**

Administrative Report: Following review and discussion, Council to make a motion to enter into an agreement for services or to provide other directive.

Staff Contact:

October 14, 2015

Bruce Smith
City Administrator
City of Seward
537 Main Street
Seward, NE 68434

RE: Power Supply Evaluation Letter Agreement

Dear Bruce:

JK Energy Consulting, LLC (JKEC) is pleased to submit this letter agreement (Agreement) to provide consulting services to complete a Power Supply Evaluation for the City of Seward (City) and its municipal electric utility (Utility). This Agreement is based on our conversation on August 12, 2015, and JKEC's understanding of the City's power supply resources and agreements.

Project Understanding

The City purchases its capacity and energy from the Nebraska Public Power District (NPPD). The NPPD purchase is for the City's long-term, total requirements under the General Firm Power Service (GFPS) Generation Station rate schedule. The NPPD agreement is scheduled to expire in 2022, after which the City will need to either renew the agreement or purchase its firm requirements from an alternate supplier.

NPPD has approached its wholesale customers about the possibility of replacing the existing agreement with a new agreement with an initial term of 20 years. The reason for the proposed new contract is NPPD's need to issue bonds to pay for capital improvements and secure the payment of "Other Post-Employment Benefits" for retiring employees. NPPD recently proposed contractual terms for the new 20-year agreement, along with a higher rate beginning in 2016 for any City that remains on the existing GFPS agreement.

The City would like to evaluate its purchased power options for the period beginning in 2022, when the existing agreement expires. The GFPS agreement provides options to reduce capacity and energy prior to the expiration of the agreement. Depending on market rates and alternate suppliers, it may be cost effective for the City to reduce purchases from NPPD prior to 2022 by providing the appropriate notice. This proposal provides a scope of service to evaluate potential power suppliers at the conclusion of the existing agreement, as well as the feasibility of reducing purchases under the existing agreement. The City could potentially reduce its purchases beginning in 2019, if notice is provided before January 1, 2016. The amount of additional reductions that may be made after an initial reduction request are the subject of litigation between NPPD and one of its customers.

Scope of Services

Task 1: Data Collection. This task involves collecting projected peak demand and energy loads, existing contract information, and hourly load profile information from the City. Information about proposals to extend the existing contract would be collected along with power supply and transmission rate projections.

Task 2: Develop Request for Proposals. This task involves developing a request for power supply proposals (RFP) that would be sent to prospective power suppliers. Discussions with potential suppliers would be held prior to sending out the RFP to determine whether the supplier is capable of providing service and the reliability of their rate projections. The RFP would include information about the Utility's load patterns, existing power supply arrangements, and transmission service arrangements. Rate projections, power supply resource profiles, fuel use characteristics, environmental risk information, and financial information would be collected from each respondent. Proposers would be given approximately 30 days to respond after the issue date of the RFP.

Because of the length of time until the contract starts, it may not be possible to get reliable fixed rate proposals from potential suppliers. It may be necessary to complete the assessment based on known rates and rate projections over the near-term and provide an estimate of potential savings from an alternate supplier on the basis of costs between now and 2022.

Task 3: Prepare Assessment of Proposals. This task involves calculating the annual power supply costs associated with each proposal. The net present value of power supply costs would be calculated for each proposal and ranked from lowest to highest. Wholesale rate projections would be based on information provided by each respondent and reviewed for reasonableness. This assessment would take into account the projected rate differential between the GFPS rate and rates under the new contract being proposed by NPPD. Non-economic factors, including rate stability, term of agreement, transmission arrangements, and reliability would be reviewed. Any technical or operational issues associated with splitting the City's power supply purchases between two suppliers would be identified as well.

Task 4: Prepare Letter Report. A letter report will be prepared, summarizing the findings of the RFP process and a recommended course of action. The letter report will be written in a manner that is suitable for review by the City Council.

Task 5: Present Findings. The letter report would be presented in summary form at a regularly scheduled meeting of the City Council. The meeting provides the City Council an opportunity to ask questions about the study process, proposals, and findings.

Task 6: Assist in Negotiations. This task involves assisting in contract negotiations with potential suppliers, if the City decides to change power suppliers or reduce purchases under the existing agreement. This assistance would be provided in cooperation with the City's legal counsel.

Fee

JKEC will provide the above listed services for Tasks 1 through 6 on a billable time and out-of-pocket travel expenses. The projected fee for the Scope of Services is approximately \$12,000-\$15,000. The fee is dependent on a number of factors, including delays in data collection and complications in reviewing power supply proposals. The cost estimate will likely be more toward the high-end of the range if the City decides to pursue a reduction in purchases under the existing agreement, or if there is a need to negotiate a new contract with an alternate supplier. JKEC will notify the City as soon as possible if it is anticipated the original estimate of \$15,000 will be exceeded and provide a revised budget.

JKEC will bill the City on an hourly basis for actual time spent providing the services listed. Mr. Krajewski's current billing rate is \$125 per hour, which includes overhead expenses including telephone calls, copying, and postage. Administrative services are billed at \$50 per hour. Automobile mileage would be billed at the then-current IRS reimbursement rate, which is \$0.575 per mile as of January 1, 2015. Other travel expenses would be billed based on the actual out-of-pocket cost, without markup.

JKEC will invoice the City monthly (via electronic mail) for work completed during the previous month and payment is due upon receipt. Invoices unpaid after 30 days will accrue interest at 12% per annum (1.0% per month). JKEC agrees that for purposes of this Agreement, the hourly rate charged will remain the same through the completion of this project.

Schedule

The timeframe to complete the study would be as follows. This schedule is based on a notice-to-proceed of October 20, 2015. The schedule for contract negotiations will be dependent on the results of the study. The presentation date may vary based on the meeting schedule for the City Council. The key factor in this schedule is the need to provide notice to NPPD if the City would like to either reduce its purchases or sign a new 20-year agreement.

November 1, 2015	City provides requested information
November 6, 2015	Issue RFP to potential suppliers
December 1, 2015	Due date for proposals
December 8, 2015	Letter report with findings
December 15, 2015	Present results to the City Council (<i>NOTE: Mr. Krajewski has a potential conflict on this date, so it may be necessary to schedule a special meeting.</i>)

City Responsibilities

1. Provide existing power supply data and hourly load data (preferably in electronic format).
2. Provide copy of existing agreements with NPPD as well as information provided in conjunction with efforts to extend the GFPS agreement.
3. Provide timely review and comment on information submitted to the City.

Meetings

The above-listed fee includes three site meetings: An initial project kickoff meeting, a meeting to discuss draft results with City staff, and a final meeting to present the letter report to the City Council. If additional visits are requested, billing would be based on JKEC's standard billing rate schedule (see Attachment 1).

Additional Services

Any services not included in the above-listed Scope of Services would only be provided upon written agreement by the City and JKEC. Such services would be billed at JKEC's standard billing rate schedule (see Attachment 1).

Other Terms and Conditions

JKEC shall exercise the same degree of care, skill, and diligence in the performance of services as is ordinarily possessed and exercised by a professional consultant under similar circumstances. No warranty, expressed or implied, is included in this Agreement or in any drawing, specifications, report or opinion produced pursuant to this Agreement.

All expressed representations, indemnifications or limitations of liability included in this Agreement will survive its completion or termination for any reason.

This Agreement may be terminated for convenience by the City upon five days written notice and by JKEC upon 30 days written notice. Termination for convenience by either party will not affect the requirement for the City to pay for services rendered prior to the termination date of the Letter Agreement. This Agreement will terminate on January 1, 2017, unless extended by mutual agreement of the parties.

JKEC appreciates the opportunity to provide this Agreement to the City of Seward. If it is acceptable, please print two copies, sign and return one copy to JKEC, and retain the other copy for your records.

Sincerely yours,



John A. Krajewski, P.E.
JK Energy Consulting, LLC

JAK/kam

Attachment

ACCEPTED BY:

City of Seward, Nebraska

Signature: _____

Name: _____

Title: _____

Date: _____

ATTACHMENT 1 – STANDARD BILLING RATE SCHEDULE

The following rate schedule will be used to determine monthly billings, unless an alternative fixed-fee or other billing arrangement is specified. It will also be used to determine charges for additional services requested by the City, but not included in the agreed-upon Scope of Services.

<u>Billable Item</u>	<u>Billing Rate</u>
John A. Krajewski, P.E.	\$125.00 per hour
Administrative staff	\$50.00 per hour
Mileage	IRS standard rate for business use 2015: \$0.575/mile
Lodging, meals, other travel	Actual cost, without markup
Copies, faxes, postage, phone, other office overheads	Included in hourly billing rate
Outside professional services	Actual cost