



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: June 1, 2010

Approved

Date

6/8/10

COUNCIL DISTRICT: Citywide

**SUBJECT: AGREEMENT FOR OPERATION, MANAGEMENT AND MAINTENANCE
OF THE COMPRESSED NATURAL GAS (CNG) FUELING STATION AT
THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**

RECOMMENDATION

Report on Request for Proposal (RFP) for the operation, management and maintenance of the Compressed Natural Gas (CNG) fuel station at the Norman Y. Mineta San Jose International Airport ("Airport") and adoption of a resolution:

1. Authorizing the Director of Finance to:
 - a. Execute an agreement with Pinnacle CNG Company (Midland, TX) to operate, manage and maintain CNG fueling station at the Airport, for an initial three year term with total compensation not to exceed \$610,848, not including costs for non-routine or emergency maintenance and repair, subject to the annual appropriation of funds; and
 - b. Exercise three additional one-year options to extend the Agreement after the initial term, subject to the annual appropriation of funds; and
2. Authorizing the Director of Aviation to expend an additional contingency amount of up to \$200,000 under the Agreement to cover costs for non-routine or emergency maintenance and repairs for the initial three year term, subject to the annual appropriation of funds.

OUTCOME

To ensure that the CNG fueling station operates efficiently so it can optimally dispense fuel to satisfy the growing demand and expectations of its customers. The CNG fueling station is essential to Airport operations, and other users of the facility including other City operations and the public.

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BACKGROUND

On June 25, 2002, Council approved an agreement with Pinnacle CNG Company to design and construct a CNG fueling station at the Airport. At that same time, Council also approved a separate agreement with Pinnacle for the operation, management and maintenance of the fueling station. This agreement expires on June 30, 2010.

The station was placed in service after its completion in December 2003 to support Airport landside operations. It is open to the public 24 hours per day, 365 days per year. The station is one of five CNG stations in Santa Clara County, and as such, is an essential CNG fueling infrastructure in the region. It provides fueling services to the fleet of CNG shuttle buses, taxi cabs, and other privately owned and City's CNG vehicles. In fiscal year 2008-2009, the station dispensed an estimated 640,000 Gasoline Gallon Equivalents (GGE) units of compressed natural gas to the above host of vehicles.

ANALYSIS

On March 30, 2010, Finance staff released a Request for Proposal (RFP) on the City's e-procurement system. The RFP was viewed by twenty-five companies; two companies attended the mandatory pre-proposal conference and job-site walk, and one responsive proposal was received from Pinnacle CNG by the May 4, 2010 deadline.

Pinnacle's proposal met the minimum qualifications as established in the RFP. Since only one proposal was received, there was no need for formal evaluation process or scoring. However, the five member evaluation team reviewed Pinnacle's proposal and determined that their submission was comprehensive and addressed all the key elements of the RFP including staffing, operations, security, Payment Card Industry (PCI) compliance, maintenance and repair capabilities and proper handling of hazardous waste.

Cost Proposal: Compensation for the management, operation and maintenance of the fueling station is fixed for the initial three year agreement term at \$203,616 per year, which is approximately 35% less than the current agreement. This equates to \$330,000 of cost savings over the three year term. If any of the option years are exercised, the compensation may be subject to adjustment not to exceed the rate of change in the Consumer Price Index for all urban consumers for the San Francisco-Oakland-San Jose area as published by the United States Department of Labor Bureau of Labor Statistics.

Local and Small Business Preference: In accordance with City policy, Pinnacle requested and qualified for the City's Local and Small Business Preference. However, this was not a factor in the award as Pinnacle submitted the only proposal.

Objections and Protests: There were no objections or protests.

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Recommendation Summary: Staff recommends award of contract to Pinnacle CNG Company. As the incumbent supplier, they have performed admirably over the past six years. Pinnacle's proposal met or exceeded RFP requirements as summarized below:

- As the current operator, Pinnacle has a superior understanding of the station's equipment, operations and Airport requirements.
- Pinnacle's cost submission will save the Airport an estimated \$110K annually.
- Pinnacle has demonstrated an awareness of Airport security requirements.
- Pinnacle has demonstrated safe practices in the handling of hazardous waste.

Summary of Agreement: Below are some of the key terms of the agreement:

- The Agreement includes detailed scope of services and a compensation schedule with payments based on successful completion of services on a monthly basis.
- Pinnacle's monthly compensation rate is fixed and is based on a maximum volume of fuel dispensed annually for the initial 3 year term of the agreement. For volume of fuel dispensed exceeding the annual maximum amount a price matrix is used to determine compensation. Historically, the Airport CNG annual fuel dispensing volume is lower than the maximum volume set in the Agreement.
- Compensation for the three option years may be subject to adjustment based on changes in the Consumer Price Index for all urban consumers for the San Francisco-Oakland-San Jose area.
- Pinnacle shall be required to submit a deposit in the amount of up to two months of operation and management fees that allows the Airport to deduct for any delinquent or unpaid fees or costs by Pinnacle.
- Includes a Termination for Convenience clause in the Agreement that allows the City to terminate the agreement for any reason upon thirty days written notice.
- Includes Liquidated Damages language in the event Pinnacle does not meet performance standards as set forth in the scope of services.
- In the event that either non-routine or emergency maintenance or repairs are required, Pinnacle will facilitate all such repairs on a cost reimbursable basis as authorized by the Airport.

Labor Compliance: This Agreement is subject to the Airport Living Wage Ordinance and the Office of Equality Assurance will ensure compliance.

In their proposal, Pinnacle has agreed to pay the prescribed prevailing and living wage rates identified in the RFP document and submitted the required Employee Work Environment and Labor Peace Questionnaire.

Green Vision: These services compliment the City's Green Vision #8, "Ensure that 100 % of public fleet vehicles run on alternative fuels" by providing the alternative fuel (compressed natural gas) that has a positive impact to the environment by reducing carbon emissions associated with traditional diesel or gasoline fuels, thereby improving air quality, decrease greenhouse gas emissions, and reduce dependence on foreign oil.

EVALUATION AND FOLLOW-UP

Separate from this RFP process, an interested third party has approached the City with a proposal to market the station to increase activity and revenue. While operating and maintaining a new CNG fueling station has been the primary objective in the first few years of station operations, the Airport may consider marketing/public outreach to increase public awareness of its service availability in the future. In the event the Airport decides to pursue this alternative approach, it will be addressed in a separate study that includes capacity utilization, airport traffic circulation, costs and revenues, public/private partnership, and success and limitations identified by other airports.

POLICY ALTERNATIVES

Not applicable.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater; **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

While this requirement does not meet any of the above criteria, this memorandum is posted on the City's website for the June 22, 2010 Council agenda.

COORDINATION

This memorandum has been coordinated with the Airport, the Office of Equality Assurance, the City Manager's Budget Office, and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This project is consistent with several initiatives identified in the Economic Development Strategy adopted by Council in November 2003, and aligns most significantly with Strategic Initiative #1: Build a World-Class Airport and Air Services.



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COST SUMMARY/IMPLICATIONS

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|---|--|------------------|
| 1. <u>AMOUNT OF RECOMMENDATION/COST OF PROJECT:</u> | <u>ANNUAL</u> | <u>TOTAL</u> |
| Year 1 | \$203,616 | |
| Year 2 | \$203,616 | |
| Year 3 | \$203,616 | |
| | Initial Three Year Total | \$610,848 |
| 2. CONTINGENCY (Three Years): | | <u>\$200,000</u> |
| 3. TOTAL COST OF PROJECT (Initial Three Year Term): | | \$810,848 |
| 4. SOURCE OF FUNDING: | 519 – Airport Facility and Transportation Fee Fund
523 – Airport Maintenance and Operation Fund | |
| 5. OPERATING COSTS: | Review of the project determined no adverse impact on the General Fund Operating Budget. | |

BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to fund the agreement recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn	Amt. of Agreement	2010-11 Proposed Operating Budget Page	Last Budget Action (Date, Ord. No.)
523	0802	Airport Non-Personal	\$44,473,210	\$210,782	XI-3	10/20/09 #28653
519	0802	Airport Non-Personal	\$7,015,320	\$59,500	XI-2	10/20/09 #28653
TOTAL			\$51,488,530	\$270,282*		

* Amount reflects first year amount plus first year contingency.

CEQA

Resolutions No. 67380 and 71451, PP 10-104

/S/
SCOTT P. JOHNSON
Director, Finance

For questions please contact Mark Giovannetti, Purchasing Officer at (408) 535-7052.

