



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: January 23, 2012

Approved

Date

1/24/12

SUBJECT: PURCHASE OF ELECTRICAL GENERATOR ENGINE PARTS AND RELATED SERVICES FROM CAMERON INTERNATIONAL CORPORATION.

RECOMMENDATIONS

Adopt a resolution authorizing the City Manager to:

1. Execute a Master Service Agreement with Cameron International Corporation, dba Process & Compression Systems (Cameron) located in Houston, Texas for the sole source purchase of Electrical Generator Engines (EGE or "Generator") catalogue parts, repair, refurbishment of engine components and related services as may be required, for a not-to-exceed amount of \$3,000,000 over a three year period from January 2012 to January 2015.
2. Execute one-year options to extend the agreement to provide ongoing maintenance and support after the initial three year term, subject to the annual appropriation of funds.
3. Execute open purchase orders as required under the terms and conditions of the Master Agreement, subject to the appropriation of funds.

OUTCOME

Approval of a Master Agreement for Services with Cameron will allow the San José/Santa Clara Water Pollution Control Plant (WPCP) to continue to receive parts and services to maintain and operate the Electrical Generator Engines (Generator) which are critical for WPCP operations.

BACKGROUND

The electrical generation and distribution system at the WPCP is the lifeline of Plant operation that ensures pumping and treatment of water. Failure of the system will result in a complete disruption of the wastewater treatment processes, resulting in equipment damage and potential

releases of wastewater. As with much of the infrastructure at the WPCP, the engine generators are more than 30 years old and are at a high risk of failure. The eight Generators at the WPCP are designed to generate 13 mega-watts (MW) of electricity. Several of these engines need to be replaced due to lack of reliability, high maintenance cost, and difficulty in obtaining spare parts. Currently one Generator is out of service due to lack of replacement parts.

Despite the fact that the WPCP can purchase all of the electricity it needs directly from PG&E, the ability to generate electricity in-house is critical for operations reliability in the event of a PG&E power failure. The WPCP cannot sustain itself longer than 20 minutes without power before untreated sewage floods the WPCP grounds and flows into the Bay. Lack of reliable in-house electrical generation during PG&E power failures can have disastrous consequences with significant damage to critical equipment and facilities, and potential discharge of raw sewage into the Bay. In addition, the Generator's burn about 1.5 million cubic feet of digester gas per day to generate electricity. This provides 35% of the electricity consumed by the WPCP processes using renewable energy. If the Generator's go off-line the generated digester gas needs to be burned at the WPCP "Flare Stack." This would result in significant amounts of wasted renewable energy and violation of the Title V Operating Permit issued by the Bay Area Air Quality Management District. There are major fines associated with Title V Permit violations and in some cases they exceed \$10,000 a day.

Proper maintenance of the aging Generators at the WPCP is of paramount importance for properly sustaining a minimum fleet so that PG&E power failures are dealt with in a safe, reliable, and regulatory compliant manner.

All of the aforementioned concerns have prompted the WPCP Staff to evaluate options for replacement of the electrical power generation system which would meet the City's environmental goals and WPCP's electrical reliability criteria. The WPCP Master Plan recognizes these concerns and developed a plan for the long term capital projects related to energy generation. However, the immediate need is to ensure that a plan of service is in place for the Generators which are the backbone of the electrical generation system at the WPCP.

For the last several years, the Generators have been maintained properly using many parts that were in inventory. When parts reach the end of their life expectancy and are at their breaking point, replacement parts and services are provided. With a reduced inventory, it is at a critical point to order sufficient parts and related services to avoid a significant system failure.

ANALYSIS

The City requires catalogue parts; repair and refurbishment of engine component parts and/or engine rebuild and associated assemblies for the proper operation of the Generators at the WPCP. Many of the engine parts are near the end of their useful service life and need to be replaced. In order to keep the Generators running in top performance, it is essential to maintain them with Original Equipment Manufacturer (OEM) parts. These parts are only available from Cameron, the manufacturer. Cameron does not stock parts and only starts manufacturing them upon receipt of order, with lead times ranging from 15 to 26 weeks.

January 23, 2012

Subject: Master Agreement with Cameron International

Page 3

Since the WPCP is heavily invested in the Cameron EGE infrastructure, it is not prudent to introduce significant risk and cost that may be associated with non-OEM parts. The sole source purchase is required to minimize increased risk from non-OEM parts, to match existing Cameron engine parts for proper operation, and optimum compatibility and interoperability. Therefore, Staff has determined that the continued sole source acquisition of Cameron parts is justified to ensure critical support services and OEM parts. As required by the Municipal Code 4.12.240 (C), the Director of Finance has reviewed and approved the Sole Source and Brand Name Proprietary Procurement Form.

To ensure competitive pricing, staff benchmarked pricing with a similarly situated government agency, the New York City Department of Environmental Protection (DEP). Staff validated that the pricing for parts and services is fair and reasonable and is consistent with the pricing offered to New York City at a 32.5% discount from list price.

Summary of Cameron Agreement: The Agreement provides for milestone payments as parts and assemblies are repaired or refurbished, upon inspection and acceptance by the City.

Cameron has requested changes to the City's standard indemnification provision involving a complete limitation on collecting any indirect and consequential damages. In addition, the Agreement contains a limitation on direct damages that would limit the City's recovery to the amount of the insurance coverage of \$4,000,000 required under the Agreement. This limitation would not apply to claims for personal injury, death, or claims made by third parties against the City. The principal effect of agreeing to this limitation would be to limit the City's ability to recover for property damage that might be sustained by the City due to some fault of Cameron. In such cases, the City's recovery would be limited to \$4,000,000. If an incident were to occur, any property damage beyond the insurance coverage in the Agreement would be covered under the City's property insurance policy.

Subject to the appropriation of funds, staff is requesting the authority to:

- Execute open purchases orders subject to the terms and conditions of the Master Agreement.
- Execute one-year options to extend the agreement to provide ongoing maintenance and support after initial three year period.

Green Vision: The purchase of parts, components and assemblies assist the City in meeting Goal 3 of the Green Vision by ensuring that digester gas from the WPCP can be used as renewable power for the wastewater treatment process. The WPCP currently uses two-thirds renewable power from digester gas and landfill gas and aims to increase the use of renewable power through implementation of the WPCP Master Plan.

EVALUATION AND FOLLOW-UP

This memorandum will not require any further follow-up.

POLICY ALTERNATIVES

Alternative #1: Conduct competitive solicitation for non-OEM parts and services.

Pros: Potential for better prices due to competition.

Cons: Risk of failure.

Reason for not recommending: Significant risk is introduced that the EGE's will not work according to specifications incurring greater risk of down time and resulting wastewater treatment disruptions.

Alternative #2: Conduct competitive solicitation for new Generators.

Pros: A competitive process would provide an opportunity to purchase new generators.

Cons: The purchase of new generators would result in substantially higher costs, as well as the resource commitment needed to test, deploy, and learn a new system in a relatively short time period. In addition, replacement is being addressed in the WPCP's Master Plan.

Reason for not recommending: The purchase of a parts and rebuilding engines is currently a more cost effective solution than purchasing a new replacement generator system.

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)**

This item meets Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. This memorandum will be posted on the City's website for the February 14, 2012 City Council agenda.

COORDINATION

This memorandum has been coordinated with the Environmental Services Department, the City Manager's Budget Office, and the City Attorney's Office. This item is scheduled to be heard at the February 9, 2012 Treatment WPCP Advisory Committee meeting.

FISCAL/POLICY ALIGNMENT

This project is consistent with the following General Budget Principles “We must focus on protecting our vital core city services for both the short- and long-term” and, “We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost.”

COST SUMMARY/IMPLICATIONS

The maximum amount of compensation that the City will pay to the Contractor under this agreement, including payment for parts, services, repairs, upgrades, labor, technical support, delivery and taxes , shall not exceed \$3,000,000 for a three year period, with an annual limit of \$1,000,000. Any payments beyond 2011-2012 will be subject to Council appropriation of funds. The expenditure to procure immediate parts and services is estimated at \$900,000 for the first year.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	RC #	Total Appn.	Amt. for Contract	2011-2012 Adopted Capital Budget Page	Last Budget Action (Date, Ord. No.)
512	5690	WPCP Infrastructure Improvements	042853	\$13,102,000	\$1,000,000	V-183	6/21/2011, 28928

CEQA

Not a Project, File No. PP10-066(a) Agreements and Contracts.

/s/
 ARN ANDREWS FOR JULIA COOPER
 Acting Assistant Director of Finance
 FOR Acting Director of Finance

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