



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: William F. Sherry, A.A.E

SUBJECT: SEE BELOW

DATE: October 6, 2008

Approved

Date

10/8/08

SUBJECT: AMENDMENT TO EXTEND THE AGREEMENT WITH PINNACLE CNG FOR OPERATION AND MAINTENANCE SERVICES AT THE MINETA SAN JOSE INTERNATIONAL AIRPORT'S COMPRESSED NATURAL GAS (CNG) FUELING STATION

RECOMMENDATION

Approval of a First Amendment to the agreement with Pinnacle CNG Company to extend the term of the agreement for operation and maintenance (O&M) services at the Airport's Compressed Natural Gas (CNG) Fueling Station by nineteen months from December 1, 2008 to June 30, 2010 and increase the total compensation by \$528,694 from \$939,118 to a not-to-exceed amount of \$1,467,812.

OUTCOME

The extension of this agreement will provide the continuation of operation and maintenance services for the Airport's CNG station, while the City pursues upgrades to the CNG station. The cost for this extension is based on the current contract rate, with appropriate escalation per the Consumer Price Index (CPI), and some adjustment for the actual CNG volumes being dispensed.

Upon completion of the CNG station upgrade project, staff will issue an RFP for a new O&M agreement to take effect July 1, 2010.

BACKGROUND

In 2001, the City published a competitive bid solicitation to design and construct a compressed natural gas (CNG) fueling station at the Mineta San José International Airport. The bid solicitation also contained specifications to operate and maintain the CNG station.

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On June 25, 2002, City Council awarded a contract to design/construct the Airport's CNG fueling station to Pinnacle CNG Company. The contract included an extended five (5) year equipment warranty, intended to coincide with the term of the planned O&M agreement. Also on June 25, 2002, City Council authorized the City Manager to enter into a contract with Pinnacle to provide O&M services for the Airport's CNG fueling station once the CNG station became fully operational. The O&M contract was structured as a one-year contract, with four one-year options, and went into effect on December 1, 2003. The City Manager exercised each of the four one-year options; ultimately extending the O&M contracted services through November 30, 2008.

Pinnacle CNG has met strict performance requirements and has been satisfactory in all areas including their responsiveness, supervision, on-time operation and maintenance, the timely transfer and reconciliation of all generated revenue, and with the timely submittal of detailed reports on the station's performance.

ANALYSIS

The Airport CNG station is a state of the art CNG fueling station, open to the public 24 hours per day, 365 days per year. The Airport station is one of only four CNG stations in Santa Clara County, and as such, is part of an essential CNG fueling infrastructure in the region. Since opening the CNG station in 2003, the Airport has been able to eliminate the use of over 1.4 million gallons of diesel fuel through its conversion of its shuttle bus fleet to CNG, and has reduced greenhouse gas emissions by over 70 tons annually.

The station provides CNG fuel to City CNG vehicles, the Airport's fleet of CNG shuttle buses, and private vehicles. In July 2008, the City took delivery of 14 new CNG shuttles, making the Airport's shuttle fleet 100% CNG, and increasing the number of Airport CNG shuttles to 34. In order to provide timely fueling to this expanded fleet, without increasing staff hours or negatively impacting customer service, the City must increase the current CNG station fueling rate. The Airport has received a grant from the Valley Transportation Authority (VTA) to implement an upgrade to the CNG station that will increase both the fueling rate and overall fueling capacity of the station.

The existing O&M agreement with Pinnacle will terminate before the City can bid, award and construct the station upgrade. Airport, Public Works, Finance Department Purchasing and City Attorney staff have conferred on this issue; based on their discussions, staff recommends that the City continues the existing O&M contract with Pinnacle until the station upgrade is complete.

The proposed amendment provides for all CNG station O&M services, and extends the equipment warranties through June 30, 2010, at a negotiated cost of \$27,826 per month, consisting of \$20,035 for the O&M services and \$7,791 for the equipment warranty extension. These costs were based upon the previous contract rate for option year 4, and were adjusted to apply escalation per the Consumer Price Index (CPI), as well as some adjustment per the actual CNG volumes being dispensed, which are higher than what the original contract was based upon.

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Typical services to be provided under the contract include regular monthly equipment testing and maintenance, management services to track fuel usage and process payments/revenue, and monthly report preparation of station performance and financial tracking.

EVALUATION/FOLLOW-UP

Upon completion of the CNG station upgrade, the Finance Department Purchasing Division will issue a Request for Proposals for a new CNG station O&M agreement. Staff expects to recommend to Council a new CNG station O&M agreement for approval in early 2010.

POLICY ALTERNATIVES

Alternative: Proceed to solicit a new agreement for the operation and maintenance of the Airport's CNG fueling station, rather than extend the existing agreement with Pinnacle.

Pros: Would provide costs based upon a low bid scenario.

Cons: A cost beneficial agreement cannot be obtained reasonably until the full scope of the CNG station upgrade is known. With the delay of the CNG Station Upgrade project due to the rejection of the only bid, the upgrade project cannot be completed prior to the existing O&M agreement expiration.

Reason for not recommending alternative: Until the upgrade to the CNG station is completed and fully functional, the scope of any new O&M agreement will not be fully known and therefore will be unquantifiable, posing risks to the Airport.

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 memorandum will be posted on the City's website for the October 28, 2008 Council meeting.

COORDINATION

This memorandum has been coordinated with the Finance Department, the City Manager's Budget Office, and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This Council item is consistent with Council approved Budget Strategy Economic Recovery section in that it will spur spending in our local economy, and is consistent with the Mayor's Green Vision.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION (AGREEMENT EXTENSION):
 - Extension Agreement (12/1/08 – 6/30/10)** \$ 528,694
 - 19 months at \$27,826.00 per month

2. CURRENT COST OF AGREEMENT:
 - Agreement through Option 4 (5th Contract Year)** \$ 939,118
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 - TOTAL AGREEMENT/CONTRACT AMOUNT:** **\$1,467,812**

3. SOURCE OF FUNDING: 523 – Airport Maintenance and Operation Fund
519 – Airport Customer Facility and Transportation Fee Fund

4. OPERATING COST: The extended agreement will have no adverse impact on the General Fund operating budget. The extension will be fully funded out of Airport revenue sources.

BUDGET REFERENCE

The table below identifies the fund and appropriations proposed to fund the agreement extension recommended as part of this memo.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Agreement	Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
Remaining Project Costs						
519	0802	Non-Personal /Equipment	\$5,259,616	\$121,600	XI-1	
523	0802	Non-Personal /Equipment	\$43,788,729	\$407,094	XI-3	
Total Project Costs			\$49,048,345	\$528,694		

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CEQA

CEQA: Resolution Numbers 67380 and 71451, PP 08-212.

A handwritten signature in black ink, appearing to read 'W. Sherry', enclosed within a large, loopy oval shape.

WILLIAM F. SHERRY, A.A.E.
Director of Aviation

Please direct questions to William Sherry, Director of Aviation, at (408) 501-7669.