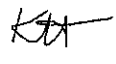

MEMORANDUM

TO: STEVE GIESBRECHT, BOROUGH MANAGER

FROM: KARL HAGERMAN, UTILITY DIRECTOR 

SUBJECT: BLIND SLOUGH HYDRO PROFESSIONAL SERVICES PROPOSAL

DATE: 5/14/2019

CC: JODY TOW, FINANCE DIRECTOR
DEBBIE THOMPSON, BOROUGH CLERK
PROJECT FILE

Petersburg Municipal Power and Light has been moving forward with the evaluation and refurbishment of the Blind Slough Hydroelectric Facility. The recent presentation by Don Jarrett, P.E. of McMillen Jacobs provided a summary of the condition of the facility and what work items should be considered to refurbish the facility and ensure future decades of reliable power for the residents and businesses of Petersburg.

In order to take the next steps for the project, I solicited a proposal from McMillen Jacobs with the goal of amending their existing professional services contract and securing their expertise for the many engineering and consulting tasks forward, including preliminary engineering on watershed hydrologic research and penstock condition, equipment specifications and project design, equipment procurement assistance and engineering support, FERC and other agency permitting, supply of stamped construction documents, construction bidding support, construction inspection and management, and project closeout. Attached to this recommendation is the proposal received.

The proposal was broken down into 9 tasks that would provide support for many different portions of this project through the end of construction and complete all improvements in October of 2022. Details of each task are presented in the proposal. Below is a breakdown of the estimated effort and expenses for each task.

Task	Cost
1 Preliminary Engineering	\$483,321
2 Equipment Procurement Documents	\$44,404
3 Equipment Bidding Assistance	\$19,910
4 Equipment Design/Manufacturing Support	\$155,440
5 Engineering for Construction Contract	\$216,741
6 Construction Contract Bidding	\$24,038
7 Engineering Support During Construction	\$436,736
8 Regulatory and Permitting Support	\$28,948
9 Project Management	\$29,820
Total Professional Services Estimated Costs	\$1,439,358

While the total amount of this proposal is substantial, it is reasonable in relation to the overall estimated cost of the project. The total project cost, including professional services, was estimated to be \$7.3 million. The \$1.439 million professional services estimate is equal to 19.7% of the overall cost. During my career with the City/Borough, similar engineering and consulting fees for capital projects has ranged from 15% to 25% of the total project cost. Additionally, McMillen Jacobs has been a good steward of Borough funds to date. Of the original \$159,432 contract value, for the condition assessment, design alternative development and CIP contract, they have expended 76% of that amount as of this writing. They estimate costs conservatively and then proceed as efficiently as possible to achieve their goals and objectives without any surprises. I firmly believe the same will be true of the professional services moving forward.

That being stated, it is not imperative that we award all tasks at the present time. I propose and recommend that the Assembly consider one of two approaches to a contract amendment. I am advising caution on the next steps as we do not have a completed rate study that will identify revenue requirements, and subsequent rate increases, to achieve our overall capital improvement plan for PMPL – although I am confident that improvements to the Blind Slough Hydro are warranted and needed.

The first option would be to continue forward with the current budget proposal for work in FY2020. This would allocate \$250,000 to the project to be used for portions of the preliminary engineering task that should be accomplished no matter if the project is developed fully right away or not. These tasks include: the development of a researched and more accurate guide curve for operation of the hydro; inspection of the penstock interior to verify its condition and plan for additional replacements of section of pipe if required; lastly, to survey and as-built the penstock layout (needed for the project and also a request from Independent Consultants who have been tasked with FERC mandated inspections and reporting). This approach would accomplish these valuable tasks while allowing a rate study to be completed in FY2020 so that the utility could better define and inform the Assembly of recommended rate increases to fund a grouping of projects – Blind Slough being one of them.

Alternatively, the Assembly could decide to authorize additional funding for the completion of the first three tasks in the engineering proposal: Preliminary Engineering, Equipment Procurement Documents and Equipment Bidding Assistance. These tasks total an estimated \$547,635 and would be completed in summer of 2020. This approach acknowledges that work at the Hydro should commence as soon as possible, to avoid any potential failures, but provides a lack of certainty on the financial picture associated with project costs and how they will impact rates. The rate study will be ongoing while the engineering is being completed but if the financial feasibility of the project is found to be less than ideal, the department may have expended a fair amount of money before coming to this conclusion. This option would require that an additional \$300,000 be transferred from reserves to the capital project fund in the FY2020 budget. Tasks 4 – 9 would be budgeted for in future years as the work progresses and more information is known in regard to final design and permitting issues.

The Working Capital of the electric fund currently sit at about \$7.6 million according to the Finance department's review of enterprise fund reserves that is part of the FY2020 budget preamble. However, a clear picture of future revenue requirements for debt retirement and the impacts to rates has not been completed. It is a reasonable expectation to spend down

the reserve somewhat to fund the various projects on the horizon, but this must be done carefully so that the overall annual revenue requirements do not cause undue hardships on our ratepayers.

Preliminary research for complete funding of the Blind Slough Hydro Refurbishment project have been started based upon a Revenue Bond in the amount of 70% of the total project costs, or \$5.1 million. The remaining 30% of the project costs would be funded from Electric Fund reserves, a contribution equal to approximately \$2.2 million. Any funds that are contributed to the professional services contract under consideration would be part of the \$2.2 million in cash contributions to the project. I will be researching AEA loans and other potential sources of grants/loans for the project but currently a Bond sale would be the most straight forward approach to funding and interest rates have been estimated to be about 4% for a 30 year Bond repayment.

Thank you for your review and consideration. Please let me know if there are any questions.