



MEMORANDUM

TO: Mayor and Council Members
Toby Hammett Futrell, City Manager

FROM: Juan Garza, General Manager
Austin Energy

DATE: June 22, 2005

SUBJECT: Ratification of Amendment to the Flowserve Contract

BACKGROUND:

On July 19, 2001, City Council approved the purchase of two boiler feed pumps and one spare pump for the Sand Hill Energy Center. These pumps are used on an ongoing basis to supply high-pressure water to the heat recovery steam generator that provides steam for the steam turbine generator. Two pumps were installed in 2004.

The installed pumps operated with very high vibration levels, indicating that there were mechanical problems with either the pumps, the piping attached to the pumps, or the pump foundation. Flowserve believed the problems were only in the piping and foundation, which were not a part of their scope of work. Austin Energy believed the problems resided within the pumps. During troubleshooting, the spare pump was installed and experienced similar vibration problems.

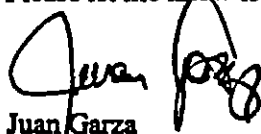
Because Austin Energy believed the problem to be warranty work, the first two pumps were sent to Flowserve for repairs and returned to Austin Energy. One of the two repaired pumps has been installed and is working properly. The second repaired pump will be installed in October 2005 after the summer peak season has ended. At that time the third pump, currently installed (and experiencing high vibration) will be sent for repairs.

The repair work has shown that there were problems that were covered by the warranty, and other problems that were not covered by warranty. An agreement has been reached to share the costs of the repair of the first two pumps, totaling \$212,000, between Flowserve and Austin Energy. Austin Energy has agreed to pay Flowserve \$100,800 for the repair work on the first two pumps, and to pay \$65,000 for repairs on the third pump.

ACTION:

As detailed above, and in accordance with City Council-approved purchasing procedures, I am requesting approval of a Ratification Amendment to a contract with Flowserve Corp., Phillipsburg, NJ for pump repair in an amount not to exceed \$165,800 so that Austin Energy can pay for the repair work that is not covered by the warranty. We plan to bring an RCA to Council regarding this issue on July 28, 2005.

Please let me know if you have any questions. I can be reached at 322-6002.

A handwritten signature in black ink, appearing to read "Juan Garza", is written over the printed name.

Juan Garza
General Manager
Austin Energy

cc: Diana Granger, Purchasing Officer
Carole Martindale, Purchasing Manager