



**Purchasing Contract
CITY OF AUSTIN
RECOMMENDATION FOR COUNCIL ACTION**

AGENDA ITEM NO.: 37
AGENDA DATE: Thu 06/24/2004
PAGE: 1 of 1

SUBJECT: Ratify negotiation and execution of a contract with KINDER MORGAN SOUTH PIPELINE L.P., Houston, TX for design and construction of a natural gas header and control system to permit dual pipeline service to the Sand Hill Energy Center in an amount not to exceed \$421,270.

AMOUNT & SOURCE OF FUNDING: Funding in the amount of \$421,270 is available in the Fiscal Year 2003-2004 Approved Capital Budget of the Electric Department.

FISCAL NOTE: A fiscal note is attached.

REQUESTING Purchasing
DEPARTMENT: for Austin Energy;

DIRECTOR'S
AUTHORIZATION: Vickie Schubert

FOR MORE INFORMATION CONTACT: Carole Martindale, Purchasing Mgr., 322-6155

PRIOR COUNCIL ACTION: N/A

BOARD AND COMMISSION ACTION: N/A

PURCHASING: Critical Business Need.

MBE / WBE: This contract was awarded in compliance with Chapter 2-9 of the City Code (Minority Owned and Women-Owned Business Enterprise Procurement Program). No subcontracting opportunities were identified; therefore, no goals were established for this solicitation.

In June 2003, Council authorized Austin Energy (AE) to enter into an agreement with Kinder Morgan Texas Pipeline L.P. (KM) to provide gas transportation service to the Sand Hill Energy Center through a planned conversion of a nearby crude oil line. In June 2003, AE completed an agreement with KM that calls for service to begin on or before July 1, 2004. In order to accommodate dual pipeline service from KM and the existing TXU pipeline, the fuel header system at Sand Hill required modification. The modified fuel header will connect Sand Hill to both pipelines and provide a control system allowing simultaneous delivery of gas from both pipelines.

KM's projected schedule to complete its work, combined with existing construction activities at Sand Hill made a standard City of Austin procurement of engineering and construction services unworkable and potentially very costly. In order to safely and efficiently coordinate construction activities and meet contract deadlines, AE contracted with KM to design and construct the modified header system under its Critical Business Need authority. The agreement provides the design and construction services to complete the header system on an actual cost basis not to exceed \$421,270.

CIP BUDGET
Fiscal Note

DATE OF COUNCIL CONSIDERATION:

6/24/2004

WHERE ON AGENDA:

Resolution

DEPARTMENT:

Electric Utility Department

SUBJECT: Ratify negotiation and execution of a contract with KINDER MORGAN SOUTH PIPELINE L.P., Houston, TX for design and construction of a natural gas header and control system to permit dual pipeline service to the Sand Hill Energy Center in an amount not to exceed \$421,270.

FINANCIAL INFORMATION:

Parent Project Name: **Power Production**
Project Authorization: 2003-2004 Approved Capital Budget

Current Appropriation	\$ 343,359,850.00	
Unencumbered Balance		\$ 24,804,953.89
Amount of This Action		<u>(421,270.00)</u>
Remaining Balance		<u><u>\$ 24,383,683.89</u></u>

Use of Remaining Balance:

Remaining funds will be used for design, construction, equipment, and material acquisition to complete the project.

Use of Any Remaining Funds After Completion of Project:

No remaining funds anticipated at this time.

Director, Planning & Budget

Signature: 

Date: 6/17/04



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

FROM: Juan Garza
General Manager, Austin Energy

DATE: December 22, 2003

SUBJECT: Critical Business Need – Proposed Agreement / Amendment to the Gas Transportation Services Agreement with Kinder Morgan Energy Partners, L.P. to provide Fuel Header Construction Services for Sand Hill Energy Center

Action:

As detailed below, and in accordance with City Council-approved purchasing procedures, I am designating as a Critical Business Need of Austin Energy, the negotiation and execution of an agreement / amendment to the natural gas transportation services agreement with Kinder Morgan Energy Partners, L. P. (KM) to provide engineering and construction services necessary for dual connections to allow KM and TXU Lone Star to both serve the Sand Hill Energy Center. The Sand Hill plant is currently served only by TXU Lone Star. An RCA regarding this agreement / amendment with KM will be brought to the Council in January. Please let me know if you have any questions or concerns.

Background:

In May 2003, Council authorized AE to enter into an agreement with KM to provide gas transportation service to Sand Hill via a planned conversion of a nearby crude line and acquisition of a portion of the existing TXU line serving Sand Hill.

In the interim, AE executed an agreement with KM that calls for service to begin by or before July 1, 2004. In order to receive dual service from KM and the existing TXU line, AE must modify the Sand Hill fuel header system, as it is currently designed as a single connection to the TXU line. KM's projected schedule to complete its work, combined with existing construction activities at Sand Hill, makes a standard procurement of engineering and construction services unworkable and potentially very costly. As a result, AE plans to contract these services from KM to safely and efficiently coordinate construction activities and meet contract deadlines.

Contracting with KM for these services is prudent for the following reasons:

Reliability & Competitive Position - Sand Hill is currently served by the TXU Lone Star pipeline and does not have back-up fuel oil capability. TXU Lone Star's curtailment of

AE Critical Business Need Memo: Kinder Morgan

December 22, 2003

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Sand Hill during February 2003 was a key element supporting the addition of an alternate source of supply to the plant. In addition, Sand Hill's new combined cycle unit and existing gas turbines will make it our most flexible and efficient plant serving a large portion of summer loads and creating opportunities for off-system sales. A full or partial limitation of Sand Hill over the summer could increase costs to AE's customers and/or reduce off-system sale opportunities by millions of dollars.

Timing – KM contemplates completion of site-related work by March 2004. A typical procurement process would not allow completion by this date. This time frame also overlaps on-going construction work at Sand Hill which could result in delays. In addition, the fuel header and associated measurement facility work must be closely coordinated with KM during both the engineering and construction phases. If AE fails to complete its work by July 2004 and cannot take service from KM, it would still be required to pay KM monthly transportation demand charges.

It is essential that AE contract with KM to complete the fuel header work and establish the KM service to the plant by July 2004 to ensure its operation over the summer and avoid unnecessary operational or contractual costs. Engaging KM to perform the work will ensure coordination and completion of engineering and construction in a timely manner. KM has already engaged an engineering firm with expertise in natural gas pipeline facilities and plans to bid out the necessary construction services related to its existing project to convert the crude line and establish connections to the TXU line it plans to acquire. Since the fuel header work would be part of a larger project and KM will take competitive bids, AE expects that its costs to have KM complete the fuel header work would be comparable and possibly lower than those AE could otherwise arrange.

cc: David Smith, City Attorney