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Department of Utilities
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TO: Chairperson Greg Dannecker and Members of the Utilities Committee
Chairperson Kathy Plank and Members of the Finance Committee

FROM: Utilities Director Chris Shaw

DATE: February 5, 2016

RE: *Utilities Committee Action: Approve the Purchase and Installation of Emission Control Equipment on AWTF Generators to FABIC Power Systems for \$115,718 with a contingency of \$15,000 and a project total not to exceed \$130,718*

Finance Committee Action: Approve positive fund balance transfer of \$130,718 from the Regulatory Upgrade and Process Improvement Project to the AWTF Generator Emissions Control Project

BACKGROUND:

Since 2001, the AWTF has been engaged in a capacity program contract with Wisconsin Public Power Inc. (WPPI). The agreement and subsequent amended agreement have provided WPPI with additional electrical capacity from the City's 3.5 Mw generators. In return, the Utility has received \$70,000 - \$100,000 in annual revenues. The 2013 U.S. Environmental Protection Agency (EPA) RICE rule (for reciprocating internal combustion engines) was created with the goal to reduce emissions of toxic air pollutants from "non-emergency" engines. The AWTF stand-by generators are used for emergency back-up power during power outages which are not restricted by EPA RICE rules as well as for non-emergency purposes which include maintenance, testing, and run hours associated with a capacity agreement. The 2013 RICE rules necessitated a modified WPPI capacity agreement to restrict non-emergency hours and ensure federal compliance. In doing so it decreased payments from WPPI to the AWTF \$4.00/kW to \$3.00 per kW.

The AWTF generator run hours have historically been less than EPA RICE thresholds for emergency generators specified within 40 CFR 63 Subpart ZZZZ, Sect 63.6640(f). However, recent challenges to the EPA RICE rules is anticipated to result in an amendment that will decrease non-emergency operation from 100 hours to 50 hours placing at risk the WPPI capacity agreement and compliance with EPA Clean Air Act regulations. WPPI has indicated that they would not be able to continue the current agreement following a federal rule change.

In order to continue to generate revenues from WPPI the City is required to engage in a project to install generator pollution control equipment. In doing so, WPPI would reestablish the original capacity agreement rate of \$4.00/kW which would generate revenues closer to \$100,000/year at current maximum energy demand. If the City completes this project by June 1, 2016 the existing agreement would be amended to include greater runtime thresholds and the higher rate. If the project is not completed until later in the year the City could make arrangements for an agreement in 2017.

PROJECT FUNDING SOURCE:

This project was not accounted for in the 2016 budget and a budget transfer will be necessary to move the project forward. The Regulatory Upgrade and Process Improvement Project (RUPIP) has available funding that would cover the project equipment and installation shortfall.

RECOMMENDATION:

Approve purchase and installation of emission control equipment to FABIC Power Systems in the amount of \$115,718 with a contingency of \$15,000 and a project total not to exceed \$130,718

Approve positive fund balance transfer of \$130,718 from the Regulatory Upgrade and Process Improvement Project to the AWTF Generator Emissions Control Project.

If you have any questions regarding this project please contact Chris Shaw at ph: 920-832-5945