

MEMORANDUM

TO: MAYOR JENSEN AND PETERSBURG BOROUGH ASSEMBLY
FROM: KARL HAGERMAN, UTILITY DIRECTOR 
SUBJECT: NOTICE TO PROCEED RECOMMENDATION – BLIND SLOUGH HYDRO EQUIPMENT PROCUREMENT
DATE: 10/27/2021
CC: STEVE GIESBRECHT, BOROUGH MANAGER
DEBBIE THOMPSON, BOROUGH CLERK
PROJECT FILE

Upon the outcome of the recent election and the approval of bonding for the Blind Slough Hydro project, I contacted our Engineer, McMillen Jacobs, and Vendor, Gilkes Hydro, to move toward issuing a Notice to Proceed (NTP) for the project's equipment procurement contract.

As background information, the Assembly approved the award of the equipment to Gilkes Hydro in February 2021 with the following understandings:

- Gilkes agreed to defer the start of any work on the project until adequate project funding is secured by PMPL and a Notice to Proceed is issued. (Funding was dependent upon receiving Assembly and voter approval of indebtedness to fund the equipment and construction.)
- Gilkes will hold current proposal pricing until a Notice to Proceed is given, with two exceptions noted.
 - As Gilkes is a British company which bid the project under a currency conversion rate in August 2020 and neither party has control over exchange rates between the two countries, a currency conversion allowance was agreed to. If the exchange rate remains within a 10% band (5% above or below) of initial rate on the proposal date, the pricing as presented will be honored. If the exchange rate increases 5-10% above the proposal date value, the contract price will be increased. If the costs rise above a 10% increase, the parties will meet to discuss cancellation or potential project cost savings to reduce the increase to an acceptable amount. If the exchange rate decreases by 5% or more, Gilkes will pass savings along to the Borough.
 - Valuable metals (copper and magnetic steel) market pricing for the generator portion of the proposal will be monitored and an increase of 10% or more in the proportional metals cost to the generator bid item, on the NTP date, will trigger a discussion and potential cancellation of the project. A metals pricing increase up to 10% of the cost of the generator bid item will be accepted by the Borough.

At the present time, calculations have been completed which evaluate the changes in currency markets and metals markets. The Vendor and Engineer agree that no currency adjustment is warranted, based on the agreed language in the contract award. However, copper and magnetic

steel prices did vary to the point that adjustments are warranted. Further, since the adjustment appears to be an increase of over 20% to the generator price, the contract states that the Borough will re-evaluate the award and decide on whether to move forward with the project or not. The breakdown of the increases to the metals component of the project and the impacts to the overall value of the contract are presented below:

Awarded Contract Price:	\$2,002,396.00
Currency Adjustment:	\$ 0
Metals Adjustment:	
Initial baseline value of generator unit:	\$430,035.00
Adjustment due to metals markets increase:	\$ 89,795.08 (+20.9%)
Final price of generator unit:	\$519,030.08
Final Contract Price after all adjustments:	\$2,092,191.08 (+4.5%)

As noted, the metals adjustment represents an overall increase in the cost of the contract of 4.5%. The contract agreements and calculations for the adjustments is attached for the Assembly's review.

At this time, PMPL is still supportive of moving forward with this project. The fact that there were no increases as a result of currency exchange rate fluctuation is an important factor in keeping the final contract price at a reasonable level and it is still dramatically less than the other proposals for this equipment. The next lowest price for the equipment was offered at \$2.6 million and we are still well below that amount, even with the metals market adjustment.

Therefore, it is the recommendation of PMPL that the Petersburg Borough Assembly approve the issuance of a Notice to Proceed for the Blind Slough Hydroelectric Equipment Procurement contract to Gilbert Gilkes and Gordon, Ltd. for an adjusted contract price of \$2,092,191.08. The increase of \$89,795.08 will be reflected in a Change Order to the contract price.

The application to the bond bank is in process and will hopefully be issued soon. After the bond bank receives the application, they will review it and determine if any additional information is needed prior to including the Petersburg bonds in the next bond sale offering.

Please let me know if there are any questions.