



Request for City Council Committee Action From the Department of Public Works

Date: August 8, 2006
To: Honorable Sandra Colvin Roy, Chair Transportation & Public Works Committee
Referral to: Honorable Paul Ostrow, Chair Ways and Means/Budget Committee

Subject: **Steam Contract with NRG Energy Center Minneapolis, LLC**

Recommendation: That the proper City officials be authorized to engage in formal discussions, negotiate and execute a new ten (10) year contract with NRG Energy Center Minneapolis, LLC for steam for the purpose of building heating and domestic hot water for the Public Service Center complex located at 250 South 4th Street.

Prepared by: Greg Goeke, Facilities Manager – Property Services, 673-2706

Approved by:

Steven A. Kotke, P.E., Interim City Engineer, Director of Public Works

Presenters: Greg Goeke, Facilities Manager – Property Services

Permanent Review Committee (PRC)	Approval _____	Not applicable	<u> X </u>
Policy review Group (PRG)	Approval _____	Not applicable	<u> X </u>

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget (If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Business Plan: Action is within the plan. Action requires a change to plan.
- Other financial impact (Explain):
- Request provided to department's Finance Dept. contact when provided to the Committee Coordinator

Community Impact

- Neighborhood Notification: Not Applicable
- City Goals: Not Applicable
- Comprehensive Plan: Not Applicable
- Zoning Code: Not Applicable

Background/Supporting Information

Traditionally, the City has purchased steam through the existing contract with the Municipal Building Commission (MBC) and NRG Energy Center Minneapolis, LLC for the purpose of building heating and domestic hot water for the Public Service Center (PSC) complex. That contract was established in the late 1970's and was envisioned to serve both City Hall and the Public Service Center complex. By utilizing the MBC contract, the City received the benefit of the pricing of a larger customer (economy of scale) in meeting the steam requirements. The MBC in turn would then charge the City for its pro-rated portion of the monthly invoice. The Municipal Building Commission, at its December 12, 2005 meeting, voted that there are technical and legal reasons that make separating the invoice desirable for the MBC and the City of Minneapolis. The following are highlights of these conclusions:

1. Economies of scale offered by the combined invoice are effectively offset by complex billing systems that complicate verification of energy consumption and demand.
2. The MBC is implementing a City Hall/Courthouse Temperature Guideline Policy to offset projected increases in energy cost. Under the current joint invoice, the MBC cannot monitor and manage the PSC's demand and consumption and this undermines the MBC's ability to reduce energy. In order to promote energy management at the City Hall/Courthouse, the buildings should be on separate invoices.
3. From a liability perspective, neither the MBC nor the City of Minneapolis should become involved in a legal dispute that does involve them.

In addition, at the December meeting it was concluded that separate invoicing would be required by June 30, 2006. In discussions with NRG, separate invoicing is not allowed and continued service from NRG would require a new and separate contract.

The Public Service Center has its own pressure reducing station, valves, meters, and associated piping to be operated independently from City Hall. Therefore a separate contract can be achieved at this time without any capital costs to either party. We anticipate an increase in cost for the PSC to the City due to the pricing that is required by having a separate contract.

The costs of the new contract will be paid for utilizing the existing operating budget for the Public Works Property Services Division, Fund 6200 Agency 680 Organization 6821.