

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 20

DATE: July 1, 2008

STAFF: Terri Bryant
Steve Catanach

SUBJECT

First Reading of Ordinance No. 074, 2008 Appropriating Prior Year Reserves in the Light and Power Fund for Capital Expansion at the Portner Substation and Capital Additions to the Timberline Substation.

RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

The Electric Board reviewed this appropriation request at its June 18, 2008 meeting and concurred with the staff recommendation.

FINANCIAL IMPACT

This Ordinance authorizes the appropriation of \$4,017,604 in prior year reserves in the Light and Power Fund for substation facilities. The funds will be used to supplement existing appropriations for the Portner Substation. In addition, the appropriation will also purchase and install two transformers and foundations for the Timberline Substation.

EXECUTIVE SUMMARY

To meet the electric needs of current and future customers, the Utilities plans to build two new distribution substations at existing sites on Portner Road (west of the Transfort facility) and Timberline Road (south of Prospect). Funds for the Portner Substation were budgeted in 2008 and the Timberline Substation was planned for 2010. Two transformers are needed at each substation. The Utilities recently received bids for the substation transformers and the bids were 33% higher than budgeted. Vendors have indicated that the cost of transformers and electrical switchgear will continue to escalate at a rapid rate over the next two years due to increasing copper and core steel costs. To avoid future increases, the Utilities now propose to purchase all four transformers needed for the two substations based on the current bid. An appropriation of \$4,017,604 is needed to purchase the transformers, install foundations, and supplement the original switchgear budget. The funds are available from prior year reserves in the Light and Power Fund.

BACKGROUND

Portner Substation

The Utilities have planned to build a substation at Portner Road and Trilby for many years. The site was purchased in 1981 before the area was developed. The construction of the Portner Substation was budgeted for 2008 at a total of \$5.2 million. Two 230 kilovolt transformers are needed for the Portner Substation. These transformers were recently bid. While staff knew that the cost of transformers had escalated, the bids for the Portner Substation came in \$797,918 higher than budgeted. The total bid for the two transformers was \$3,197,918 compared to the budget of \$2,400,000. An appropriation of \$797,918 is needed to supplement the existing appropriation to purchase the transformers for the Portner Substation. Electrical substation switchgear for Portner is expected to be \$1,775,000. An appropriation of \$275,000 is needed to supplement the original budgeted amount of \$1,500,000. In total, an additional appropriation of \$1,072,918 is needed for the Portner Substation.

Timberline Substation

A transmission substation has been in place at the Timberline Substation site near the southwest corner of Timberline and Prospect since the mid 1970s. A distribution substation is planned for the same site in 2010. This substation requires two 115 KV transformers. Due to the rapid rise in transformer costs, when the Portner transformers went out for bid, the Utilities also requested bids for these two 115 KV transformers. Bids for the 115 KV transformers were received totaling \$2,700,686. Based on evaluation of the bids and projections of future cost increases, staff has determined that it is fiscally prudent to purchase the two 115 KV transformers at this time and to store them on the Timberline site until the substation is built in 2010. This will require an appropriation from prior year reserves for both the transformer purchase and install and for the construction of foundations for the transformers. Staff is recommending that Council appropriate \$2,944,686 for these transformers and the foundations.

The total appropriation request for both substations totals \$4,017,604.

ATTACHMENTS

1. Electric Board Minutes

Excerpt from the Draft/Unapproved Electric Board Minutes 6-18-08

Proposed City Council Ordinance for Substation Transformers (Portner and Timberline) Recommendation

Steve Catanach, Light and Power Operations Manager, asked the Electric Board for a recommendation regarding an ordinance that will go to Council on July 15 for an appropriations request to purchase transformers for the Timberline and Portner substations. (Note: After the meeting the agenda date was changed to July 1.) The request is for an appropriation of \$4,017,604 from Light and Power Fund Reserves. The bids for the transformers at Portner were 33 percent higher than budgeted because of a significant increase recently in the cost of many materials such as copper and steel. The vendors are expecting the prices to continue to escalate, so the Utilities is also proposing to purchase the transformers for the Timberline Substation now. The Timberline transformers were not originally planned to be purchased until 2010. Board Member John Graham asked if the transformers start to depreciate when they are purchased or put in service. Ellen Switzer, Utilities Financial Operations Manager, confirmed that they will not be depreciated until they are put in service. Chairperson Morris asked what impact this appropriation would have on the Utilities' reserves. Mr. Catanach explained that the net impact on the reserves would be a reduction by the amount appropriated and the loss of any interest revenue that amount would have earned. Chairperson Morris asked for the balance of the reserves. Mr. Catanach said the reserves are approximately \$50 million.

Vice Chairperson Bihn asked if projected growth is the reason the transformers are requested. Bob Hover, Electric System Design and IT Manager with the Utilities, said the Portner substation is needed for the Southeast Annexation load. It will also allow the Utilities to transfer some of the load from the Harmony substation to the Portner substation. The Timberline substation will allow the Utilities to transfer some of the load from the Harmony, Drake and Linden substations and add capacity. The Timberline substation will also provide an alternative source to the water treatment plant at Mulberry which would fulfill a Federal requirement that such facilities have feeds from two different substations.

Vice Chairperson Bihn asked if these transformers can be used at different substations. Mr. Hover said the Utilities have a standard design at all of its substations. If one were to fail, it is possible to move one, but it is very expensive so it is not normally done. Vice Chairperson Bihn asked if the transformers are going to be stored for two years. Mr. Hover said the foundations will be put in, and they will be dressed out and energized. The cost for all that is included in the appropriation request. Board Member Lebesch asked if the transformers need to be energized even if they have no load on them. Mr. Catanach explained they must be filled with oil and energized to prevent moisture from entering; otherwise corrosion will break down the insulation in the lining. Mr. Hover also said the vendor will not honor the five year warranty unless they are dressed out with oil.

Board Member Harris moved to recommend the appropriation. Vice Chairperson Bihn seconded the motion. All board members voted in favor except Steve Wolley, who abstained because he was not present during the majority of the discussion.

ORDINANCE NO. 074, 2008
OF THE COUNCIL OF THE CITY OF FORT COLLINS
APPROPRIATING PRIOR YEAR RESERVES IN THE
LIGHT AND POWER FUND FOR CAPITAL
EXPANSION AT THE PORTNER SUBSTATION AND
CAPITAL ADDITIONS TO THE TIMBERLINE SUBSTATION

WHEREAS, the staff of the Light and Power Utility has identified a need to build a substation at Portner Road and Trilby Road as part of the 1984 Master Plan Study; and

WHEREAS, due to anticipated long range growth in the area and the annexation of the Southwest Enclave, the Portner Substation is planned for construction in 2008; and

WHEREAS, City staff budgeted the cost of two transformers and associated equipment for the Portner Substation at \$3.9 million, but unusual increases in copper and core steel costs resulted in a bid that was \$1,072,918 more than the amount budgeted; and

WHEREAS, new load additions are also anticipated in the area of the Timberline Substation located near Timberline and Prospect Roads which necessitate the purchase and installation of two additional transformers at an estimated cost of \$2,944,686; and

WHEREAS, staff anticipates beginning construction of the capital additions to the Timberline Substation in 2010 but has decided that, due to the escalating cost of transformers, the transformers for the 2010 addition should be purchased this year and stored at the Timberline Substation site until needed; and

WHEREAS, there are adequate prior year reserves in the Light and Power Fund to cover the total appropriation for both substations of \$4,017,604; and

WHEREAS, Article V, Section 9, of the Charter of the City of Fort Collins permits the City Council to appropriate by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS that there is hereby appropriated for expenditure from the Light and Power Fund Reserves the sum of FOUR MILLION SEVENTEEN THOUSAND SIX HUNDRED FOUR DOLLARS (\$4,017,604) for the purchase and installation of Portner and Timberline Substation equipment.

Introduced, considered favorably on first reading, and ordered published this 1st day of July, A.D. 2008, and to be presented for final passage on the 15th day of July, A.D. 2008.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading this 15th day of July, A.D. 2008.

Mayor

ATTEST:

City Clerk