

## FOR BOARD ACTION

Agenda Item # 8

Meeting Date: 8/31/04

**SUBJECT:**

Pratt & Whitney Power Systems, Inc.  
Preferred Service Agreement

**PREPARED BY:**

Wally Schlink, Director of Power Resources

ITEM DESCRIPTION: In May, 2000 a contract was signed between the City of Rochester and Turbo Power & Marine Systems, Inc. for the purchase of a Pratt & Whitney Twin Pac combustion turbine generator. The unit was placed in commercial service on May 5, 2002 at the Cascade Creek facility.

Since the commercial operation of the combustion turbine commenced, RPU has been very pleased with the level of engineering support and technical assistance provided by Pratt & Whitney Power Systems, Inc. This support has continued even though the unit is no longer under warranty and has not been for over a year.

The operational and technical experience RPU has garnered has made us realize that a defined level of future support and service will be required to maintain the reliability and efficiency of the unit. Staff approached Pratt & Whitney and requested a customized program of service support that meets the specific needs of the utility but does not include unnecessary services that staff feels are best provided on an as needed basis.

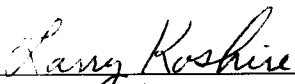
The Preferred Service Agreement includes a comprehensive on-site annual audit, refresher training for Utility staff, engineering support, Turbo Link support and technical & software updates as required.

The attached is a Preferred Service Agreement with exhibits, that has been crafted to reflect the specific needs of the utility and to support the continued operational and maintenance requirements of the unit.

Funds for this expenditure are included in the annual Cascade Creek Cost Center budget.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board approve a resolution requesting the Mayor to execute a 36 month agreement with Pratt & Whitney Power Systems, Inc to provide the services as defined in the Preferred Service Agreement for a contract price of \$90,000 for 2005 and escalated per the contract.

  
General Manager

8/27/04  
Date

**ROCHESTER PUBLIC UTILITIES**

## PREFERRED SERVICE AGREEMENT

This Preferred Service Agreement ("Agreement") effective as of the last date below is entered into by and between:

Rochester Public Utilities (RPU) (the "Buyer"), having a place of business at 4000 East River Road NE, Rochester, Minnesota, 55906-2813; and

Pratt & Whitney Power Systems, Inc (PWPS) (the "Seller"), having a place of business at 80 Lamberton Rd, Windsor, CT 06095 (together, the "Parties").

WHEREAS Seller is engaged in the business of providing aftermarket services for FT8® power plant equipment; and

WHEREAS Buyer desires to purchase certain aftermarket services from Seller to support Buyer's FT8® TWINPAC power plant located at Cascade Creek Unit 2 in Rochester, Minnesota as described herein:

NOW, THEREFORE, in consideration of the mutual promises stated herein, the Parties agree as follows:

### 1. Scope of Supply

Seller shall supply the goods and services provided under this Agreement and as further described in Exhibit A which includes the following:

- Comprehensive on-site Audit every 12 months as detailed in Exhibit B
- 5 days refresher training every 12 months as detailed in Exhibit D
- Preferred Engineering support and TurboLink™ support (TurboLink™ support detailed in Exhibit C)
- Controls software update as required to maintain and improve the reliability of the unit

### 2. Price

In consideration of the supply of the goods and services Buyer shall pay to Seller an annual fee of \$90,000. The annual fee will be invoiced in equal monthly increments on a monthly basis and is subject to yearly escalation as described in Exhibit G.

### 3. Delivery

Seller shall deliver the goods and services in accordance with terms listed in the Exhibit A.

### 4. Agreement

The entire Agreement between the Parties shall consist of this Preferred Service Agreement and the following Attachments and Exhibits:



- a. Exhibit A: Scope of Supply (Options shown in Exhibit A are not included in this agreement)
- b. Exhibit B: Annual on-site audit of the FT8 Gas Turbine Package as detailed in Attachment I of this Exhibit
- c. Exhibit C: TurboLink™ Monitoring Service
- d. Exhibit D: Customer Refresher Training
- e. Exhibit E: PWPS GG8/PT8 Field Service, Engineering & Training Rates
- f. Exhibit F: Terms for Technical Services Representatives
- g. Exhibit G: Escalation Formula

All goods and services between Buyer and Seller not covered by Exhibit A will be conducted on a transactional purchase order basis as may be mutually agreed between the Parties, including any on-site Field and/or Engineering services. On site Field and/or Engineering services will be billed at the Exhibit E rates and are subject to the Terms and Conditions in Exhibit F. Exhibit E rates may be revised at the discretion of PWPS while the Agreement is in effect.

5. Contract Terms and Effective Date

This Agreement shall be governed by the Exhibit F Terms and Conditions.

The Agreement shall become effective when signed by both Parties and shall terminate 36 months thereafter, provided however, that Buyer and/or Seller have the option of canceling this Agreement at end of each 12 month term and by providing a 30 day written advance notice of such intent to cancel to the other party.

This Agreement may only be amended by a writing signed by the duly authorized representatives of both Parties.

IN WITNESS WHEREOF the Parties have caused this document to be executed by their authorized representatives.

SELLER:

Pratt & Whitney Power Systems, Inc.

By: 

Printed Name: PETER CHRISTMAN

Title: President

Date: 8/10/04

BUYER:

Rochester Public Utilities

By: See attachment

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Dated: \_\_\_\_\_

ROCHESTER PUBLIC UTILITIES

\_\_\_\_\_  
Authorized Representative

\_\_\_\_\_  
General Manager

CITY OF ROCHESTER

\_\_\_\_\_  
Mayor

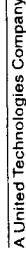
Attest:

\_\_\_\_\_  
City Clerk

Reviewed By:

\_\_\_\_\_  
City Attorney

## Pratt &amp; Whitney



Pratt &amp; Whitney Power Systems

A United Technologies Company

	SERVICE TERM:			Six Years Maximum			Pratt & Whitney Power Systems
	EQUIPMENT CONFIGURATION :			TWINPAC			
	FUEL TYPE:			Dual Fuel			
	QUANTITY:			One			
Line No.	Item	Description	Notes				
I.		PWPS RESPONSIBILITIES					
2		1 Annual Site Audit	See Exhibit B				
4	*	Conduct an annual site audit in accordance with Schedule B Attachment 1. The time of the annual site audit will be recommended by the Customer. PWPS will provide the calibration equipment and borescope, Customer responsible for consumables listed in Schedule B Attachment 4. Audit requires 14 day continuous outage per twinpac with a full load test of each twinpac during this outage.	The annual audit is to assess the overall condition of the gas turbine, maintain the calibration of critical sensors (which are listed in Schedule B Attachment 6), and the overall operation and condition of the various ancillary systems. PWPS will provide a yearly report to the Customer on results of the audit. If the scope of the annual audit is adjusted based on experience, the Schedule B attachments will be revised and transmitted to the Customer and the price of this agreement adjusted accordingly.				
5		Options					
6	1A	For additional price, PWPS will provide the consumables listed in Schedule B Attachment 4 for the annual audit.	If the scope of the annual audit is adjusted based on experience, the Schedule B attachments will be revised and the consumables price adjusted accordingly. Must be conducted at same time and in concurrence with basic annual site audit				
		For additional price, PWPS will conduct an audit of the site switch gear to the Maintenance Item M-SW-01 shown in Schedule B Attachment 1. This option will be available on a yearly basis for the terms of the agreement. Option requires one additional day of audit outage per twinpac.					
8	2	Technical Assistance	For overall FT8 Gas Turbine Plant Operation				

Line No.	Item	Description	Notes
	-	Preferred Engineering Assistance for troubleshooting operational problems, interpretation of data and condition of equipment, and emergency advisory support. This does not include any on-site support and PWPS Engineering level of effort will be monitored and managed by the PWPS Customer Service Manager.	Customer is expected to complete level 1 troubleshooting initially based on published Operating Instructions, Systems Maintenance Manual, GG and PT Maintenance Manual, control software tools and completed training courses. PWPS will provide support for further troubleshooting via TurboLink hookup, phone and E-mail communications. For emergency advisory support, a PWPS representative will respond by phone Monday - Friday ( 8:00 am - 5:00 pm) in less than four (4) hours after notification to PWPS. During the weekend or after normal working hours response time will be less than twelve (12) hours after notification to PWPS. Customer will have phone numbers for Customer Service Representatives and additional backups, and if for some reason cannot reach the person, can notify the PW 24 hour help desk at 866-769-3725 to complete the notification process.
10	-	On-Site Support.	Any PWPS on site support required to resolve technical issues or change out of equipment are not covered in this agreement. This type of service will be covered on a transactional basis to the rates in Schedule F
12	-	TurboLink Monitoring for Peaking Units as described in <b>Exhibit C - TurboLink Monitoring Service, Peaking Units</b>	Details provided in Exhibit C.
20			
37			
38	*	<b>Software Modifications/Upgrades.</b> PWPS will provide software modifications as deemed necessary by PWPS to improve the reliability of the unit. The software upgrades will be installed electronically from the PWPS home office. Customer will be notified when upgrades are available, what they consist of, and determine date when to install the software version.	Software modifications requested by the Customer that are not directly related to the improved reliability of the PWPS supplied equipment (such as balance of plant items) are not covered under this agreement. These will be provided separately on a transactional basis. PWPS has final decision on which software changes are covered under this agreement.
42	3	<b>Training</b>	

Line No.	Item	Description	Notes
44		Customer Refresher Training as described in Exhibit D - Customer Refresher Training	Up to five (5) continuous days per year of refresher training on operation and maintenance of the Equipment as described in the Exhibit D. Training will be conducted at customer's FT8 facilities. Customer also has option to have any other PWPS existing training course substituted for the refresher courses. Existing training courses will be discussed with Customer on yearly basis. Travel and lodging of PWPS Training Representative if inside North America is included in this agreement. Travel and lodging for customer's personnel if required is not included. New or unique requested training by Customer will be offered on a transactional basis, rate or price to be determined at time of request.
106			
174	II.	<b>CUSTOMER RESPONSIBILITIES</b>	
176			
		1 Operation & Maintenance	
		- Operation and Maintenance of the equipment is the responsibility of the Customer. To provide reliable and continuous operation, the recommended PWPS Operating and Maintenance Instructions should be adhered to and the Inspection and Maintenance items in Exhibit B Attachments 2 & 3 should be followed.	PWPS will provide automatic updates to technical manuals, service bulletins, and to Exhibit B tables.
178			
180	2 Personnel	- Mechanics	With all hand tools and instruments needed to perform maintenance and calibration of the equipment and to assist in the yearly audit of the unit. Personnel must have completed FT8 Familiarization Training as described in <b>Exhibit D - Customer Refresher Training</b> at a minimum.
182		- Electricians	With all hand tools and instruments needed to perform maintenance and calibration of the equipment and to assist in the yearly audit of the unit. Personnel must have completed FT8 Familiarization Training as described in <b>Exhibit D - Customer Refresher Training</b> at a minimum.
184		- Welders	With welding equipment, welding gases, weld rod, and heaters as may be required. Personnel must be certified and have completed FT8 Familiarization Training as described in <b>Exhibit D - Customer Refresher Training</b> at a minimum.

Line No.	Item	Description	Notes
		<ul style="list-style-type: none"> <li>- Painters</li> <li>- All plant operators, craft labor, and on-site subcontractors as may be required.</li> </ul>	For corrosion prevention Personnel must have completed FT8 Familiarization Training as described in <b>Exhibit D - Customer Refresher Training</b> at a minimum.
186			
188			
	<b>3</b>	<b>Site Services &amp; Facilities</b>	
	3a	When PWPS representatives are on site	
192		<ul style="list-style-type: none"> <li>- Phones and fax machines</li> </ul>	With local and long distance
194		<ul style="list-style-type: none"> <li>- Water</li> </ul>	For drinking purposes
196		<ul style="list-style-type: none"> <li>- Air conditioning and heating</li> <li>- Sanitary facilities, bathrooms</li> <li>- Site security</li> <li>- Safety equipment</li> </ul>	
		<ul style="list-style-type: none"> <li>- Lock out and tag out of all equipment prior to beginning any maintenance tasks.</li> <li>- Compressed air and electrical power for the operation of tools.</li> </ul>	Hard hats, safety glasses, disposable respirators, and gloves (mechanical, chemical and electrical)
		<ul style="list-style-type: none"> <li>- All site and portable lighting required for night work.</li> </ul>	Driven by customers tools, typically 120/220 volts for electrical and 90 - 120 PSI for Air
	3b	General items	
		<ul style="list-style-type: none"> <li>- Provide phone line link to FT8 controls for Turbolink monitoring and remote software uploading.</li> <li>- Secure climate-controlled storage facilities for equipment, tooling, and parts.</li> <li>- Storage for the FT8 engines in accordance with PWPS storage procedures for weekly and extended shutdown periods.</li> </ul>	Band width capability should be T1 or LAN capable for the best functionality Humidity below 70%, 900 - 1200 square feet storage, and dry
			As described in Gas Generator and Power Turbine Maintenance Manuals
126			
128			
	<b>4</b>	<b>Miscellaneous</b>	
		<ul style="list-style-type: none"> <li>- Transportation and insurance costs for customers gas generators and power turbine shipments to and from PWPS designated facility.</li> <li>- All liquids, fuel, water, and lubrication oils fluids in accordance with PWPS specifications in Exhibit E.</li> <li>- All cleaning fluids, greases, lubricants, oils, solvents, paint, and cleaning rags.</li> <li>- Disposal of all wastes.</li> </ul>	
130			



Line No.	Item	Description	Notes
132		- Required crating and shipping of returned parts.	To prevent damage to equipment via shipping method as mandated by specific location.
134		- Delivery of all services, parts, and tooling to the appropriate work area.	
		- Lay down space for maintenance.	
		- Care, custody, and insurance for PWPS parts and lease engines while on site.	
136		- Lease equipment installation	Installation of lease equipment (GG or PT) is the customer's responsibility. PWPS will provide, at additional price per rate sheet in <b>Exhibit F</b> , technical support during such events.



## **EXHIBIT F**

### **Terms for Technical Services Representatives for Rochester Public Utilities**

#### **1 General**

PRATT & WHITNEY POWER SYSTEMS, INC., (hereinafter referred to as "Seller"), a subsidiary of United Technologies Corporation (UTC), will, upon request and subject to availability, furnish representative(s) to advise Rochester Public Utilities, (hereinafter referred to as "Purchaser"), on the installation, retrofit, performance testing, operation, training or maintenance of equipment furnished by Seller. These services will be furnished under the following terms:

#### **2 Rates**

Seller will charge the rates set forth in the proposal for the services of representative(s) listed thereon that are made available to Purchaser at Purchaser's request. These rates are subject to change without notice; however, the rates normally change at the end of each calendar year.

- Rates apply to all labor time, including but not limited to domestic travel time, work time and report preparation time.
- Rates do not include expenses. All expenses including tool/test equipment shipping, rental vehicles and equipment rental will be charged at cost plus 10% handling fee.
- Customer is responsible for supplying any parts, consumables, specialty tooling, or heavy equipment (cranes, rigging, etc.) required while performing the work unless otherwise specified.
- Customer O&M personnel are responsible for lock-out/tag-out and de-energization of the equipment as necessary. These personnel should also be available as required to support completion of the work. PWPS personnel will inform the Customer O&M personnel when the units are ready for start-up during the test run of the engines and the Customer O&M personnel are responsible for following proper OEM start-up procedures.
- Any downtime in work due to reasons outside of the control of PWPS will be charged at the standard rates listed in the proposal. Overtime is charged for all hours over 8 per day Monday through Friday and for all hours on Saturday and Sunday. Double time is charged for all hours worked on PWPS Holidays.

#### **3 Rate Policy**

The basic rate will be charged for each calendar day beginning and including the day of departure from representative(s) headquarters to the work site and ending on the day of return to headquarters, including all non-working days. The rate is not to be pro-rated for partial days.

#### **4 Work Week**

The normal work week is understood to be eight (8) hours per day, Monday through Friday. If local conditions require, any five (5) consecutive calendar days may be considered if mutually agreed upon (subject to applicable rates). However, Seller recognizes that particular circumstances may require special work schedules and Seller is willing to negotiate with regard to the same when they arise, for not more than 21 working days per four calendar weeks. In such cases Seller may replace and/or rotate personnel as necessary for their proper rest within a four calendar week period at Purchaser's expense, including the cost of transportation to Seller's nearest established office or to the representative(s) home base(s) and return to the site.

#### **5 Travel Expenses**

Purchaser shall pay for all travel expenses from the representative(s) headquarters or home base(s) to the field location and return which shall be billed by Seller at cost including appropriate handling fees not to exceed 10% on the following basis:



**a. Air Travel**

Air travel flights will be scheduled with economy class accommodations for domestic flights and business class accommodations for international flights over 2,500 miles.

**b. Local Transportation, Stop-overs, and Living Quarters**

Purchaser shall pay for:

- (1) All expenses of local transportation or will provide suitable transportation where local transportation is not available;
- (2) Expenses incurred in stop-overs en route, including suitable hotel accommodations, food, laundry, local transportation and gratuities; and
- (3) Expenses for living quarters near the job site. If requested by Seller, Purchaser shall arrange for first-class or best available hotel accommodations, but in no case shall these accommodations be less than those normally provided for Purchaser's own executive personnel.

**c. Living Expenses**

- (1) For PWPS Contracted personnel, Purchaser shall pay living expenses which shall be billed at Seller's then current per diem rate applicable to the field location, per published OCONUS rates
- (2) For PWPS personnel, Purchaser shall pay living expenses which shall be billed at Seller's based on actual expenses

**d. Documentation**

Copies of receipts will be furnished to Purchaser upon request, but only for those items which Seller's policy requires receipts from the representative(s). These items include air, rail, or bus fare, hotel accommodations, rental autos, and in general, any single item in excess of \$25.

**7 Communications**

Communications between the representative(s) at the site and his headquarters will be by telephone or telegraph and will be billed at cost. Should commercial communications not be available, Purchaser shall provide access to his communication system on a reasonable basis.

**8 On-Site Labor and Equipment**

Purchaser shall furnish all necessary on-site labor, labor supervision, equipment, materials, tools, and instrumentation to accomplish the desired task(s). Seller's representative(s) will function as technical advisor only, and shall not be utilized by Purchaser in lieu of Purchaser's supervision at the site.

**9 Local Permits and Taxes**

Purchaser shall obtain any local working permits required. Any delay caused by failure to obtain permits while the representative(s) is (are) at the site shall be invoiced to Purchaser as a normal working day.

All local taxes, assessments, or other charges imposed by any local government or agency in connection with the representative's services provided under the contract are to be paid by Purchaser.

**10 Excusable Delays**

Seller shall not be charged with any liability for failure or delays in performing any order accepted by Seller when such failure or delay is due to causes, including causes arising from action or inaction by any government or governmental agency beyond the reasonable control of Seller. To the extent, that such causes actually retard performance on the part of Seller, the time for the performance shall be extended for as many days beyond the date therefore as is required to obtain removal of such causes. This provision shall not, however, relieve Seller from using reasonable efforts to avoid or remove such causes and continue performance with reasonable dispatch whenever such causes are removed.

**11 Warranties, Remedies, and Limitations**



Seller warrants to Purchaser that all services furnished hereunder will be performed in a workmanlike manner. Seller's liability and Purchaser's remedy under this warranty are limited to the correction of such services which are shown to Seller's reasonable satisfaction to have been incorrect; provided that written notice of the incorrectness of such services shall have been given by Purchaser to Seller within ninety (90) calendar days after the performance of such services by Seller.

THE FOREGOING WARRANTY IS EXCLUSIVE AND IS GIVEN AND ACCEPTED IN LIEU OF (i) ANY AND ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING WITHOUT LIMITATION THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE; AND (ii) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN CONTRACT OR TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE, ACTUAL OR IMPUTED OF SELLER AND UTC.

The remedies of Purchaser shall be limited to those provided herein to the exclusion, without limitation, of incidental, consequential, special or indirect damages and any and all other remedies. No agreement varying or extending the foregoing warranties, remedies or this limitation will be binding upon Seller unless in writing and signed by a duly authorized officer of Seller.

## **12 Invoicing and Payment**

Unless otherwise agreed in writing, Seller may invoice Purchaser on a monthly basis for all expenses incurred by representative(s) in the course of his duties.

Payment shall be due net thirty days from date of invoice. Pricing in this proposal and payment due shall be in United States Dollars without any setoff including, without limitation, setoff under this Agreement or other contracts with Seller, its affiliates or assigns.

## **13 Liability Limitation**

The price allocable in this contract to any services alleged to be the cause of any loss or damage to Purchaser shall be the ceiling limit on the liability of Seller and UTC, whether founded in contract or tort, including strict liability or negligence, actual or imputed, arising out of, or resulting from (i) this contract or the performance or breach thereof, (ii) the delivery, sale or correction of any such services or (iii) the furnishing of any such services.

Seller and UTC assume no responsibility for damages (under the warranty provided herein or otherwise) caused by improper installation, mis-operation or improper maintenance of the equipment.

Any claim(s) by Purchaser arising from Seller's performance or non-performance must be alleged in writing and sent to Seller by Purchaser within one (1) year from the date such claim first arose or is waived by Purchaser, releasing Seller and UTC from any and all liability relating thereto.

In no event shall Seller and UTC be liable for any incidental, consequential, special or indirect damages whatsoever, including without limitation, lost production, lost revenue, higher cost of production or loss of use of equipment, howsoever arising, whether premised in contract or tort, including negligence, actual or imputed.

## **14 Software**

In the event Seller provides any software in conjunction with the services (the "Software"), Seller grants to Purchaser a royalty-free, paid-up, perpetual, nontransferable, nonexclusive license to use object code and, to the extent provided by Seller, source code versions of the Software and accompanying documentation solely for the control, operation, monitoring, maintenance, repair and enhancement of its equipment. Purchaser agrees not to modify any such Software, nor reverse engineer, reverse assemble, reverse compile, or otherwise translate Software. Except as required by law Purchaser acknowledges and agrees that the Software contains valuable trade secrets of the Seller and that this contract establishes a confidential relationship between the parties with respect to this information. Purchaser agrees to protect the intellectual property of Seller by keeping the Software and documentation in confidence and shall not, without prior written consent of Seller, publish or disclose or otherwise make available the Software or documentation, in whole or in part, including but not limited to, operating manuals, scripts, and source codes (if any), in any form, to any



third parties (other than its employees, consultants and subcontractors described in the following clause) and shall (i) limit availability of Software and documentation only to those of its employees, consultants and subcontractors who need to have access to them and who have been informed by Purchaser of the proprietary nature of such Software and documentation; (ii) have such persons treat as confidential such Software and documentation; and (iii) avoid publication or other disclosure of such Software and documentation to other than those persons described in (i) above. Purchaser shall not be precluded from disclosing or making any use whatsoever of any information which it can show by written proof subsequently came into Purchaser's possession through persons independent of Seller, provided that such persons had the right to make such disclosures.

Seller's rights and obligations set forth in this paragraph shall survive any termination or expiration of this contract. If Purchaser requests authorization to disclose the Software or documentation to a third party and Seller grants written approval for such disclosure, Purchaser agrees to take appropriate action to enter into a written agreement with such third party that establishes protections for the Software and documentation at least as strict as those contained in this paragraph.

### **15 Applicable Laws, Construction and Captions**

Any contract between Purchaser and Seller shall be deemed entered into within the State of Minnesota, United States of America, which laws shall govern its interpretation and construction and the courts within the State of Minnesota shall be the exclusive forum for the adjudication of any disputes arising under or relating to said contract.

Captions, as used in these terms and conditions, are for convenience of reference only and shall not be deemed or construed as in any way limiting or extending the language of the provisions to which such captions may refer.

### **16 Entire Agreement**

The terms and conditions of this contract constitute the entire agreement between the parties hereto and shall supersede all previous communications, representations or agreements, either oral or written, between the parties hereto with respect to the subject matter hereof, and no agreement or understanding varying or extending the same, or any modification in the material ordered hereunder, shall be binding upon either party hereto unless in writing and signed by a duly authorized officer or representative thereof.

This transaction is expressly limited to the terms stated herein, and any additional or different terms proposed by Purchaser are rejected unless expressly assented to, in writing, by Seller.

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**NO PERSON HAS AUTHORITY TO MAKE A CLAIM, ANY REPRESENTATION, WARRANTY, TERMS, PROMISE OR CONDITION, WHICH IS NOT EXPRESSED HEREIN. ANY PURCHASE ORDER IN RESPONSE HERETO SHALL NOT BECOME A BINDING CONTRACT UNTIL WRITTEN ACCEPTANCE BY AN AUTHORIZED OFFICER OF SELLER. COMMENCING PERFORMANCE SHALL NOT CONSTITUTE AN ACCEPTANCE OF PURCHASE ORDER.**



## Exhibit G

### Escalation Formula

As stipulated in the contract, all fees will escalate at the greater of two percent or in accordance with the formula set forth below. In no event shall the fees decline on a year-to-year basis.

L	=	The Labor Indices defined below
M	=	The Material Indices defined below
n	=	The indices for the current calendar year
i	=	The indices for the prior calendar year
Y	=	The escalation factor to apply to the contractual rates
Y	=	$[0.4 \times (L_n - L_i) / L_i] + [0.6 \times (M_n - M_i) / M_i] + 1$

The Composite Price Index is the sum of forty percent (40%) of the Labor Ratio and sixty percent (60%) of the Material Ratio, rounded to the nearest ten thousandth.

The Labor Ratio is the "Hourly Earnings of Aircraft Engine and Engine Parts Production Workers, SIC Code 3724" as published by the Bureau of Labor Statistics, US Department of Labor, rounded to the nearest ten thousandth.

The Material Ratio is the "Producer Price Indexes, Code 10, Metals and Metal Products", as published by the Bureau of Labor Statistics, US Department of Labor, rounded to the nearest ten thousandth.

If the US Department of Labor, by footnote, appendix or any other method, discontinues or revises any of the data referred to above (not benchmark adjustments) revises the methodology for obtaining them, P2 Energy shall select a substitute for the adjustment of the revised or discontinued data. Said substitute is to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original data had it not been revised or discontinued.

In the event escalation provisions are made non enforceable or otherwise rendered null and void by any agency of the United States Government, the Parties agree, to the extent that they may lawfully do so, to equitably adjust the Service Fee prices of this Agreement to reflect an allowance for increases in labor and material costs occurring since Agreement execution date.



## RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a service agreement with Pratt & Whitney Power Systems, Inc. and that the Mayor and the City Clerk execute the agreement for

36 Month Preferred Service Agreement  
FT8 TWINPAC Unit Cascade Creek Unit 2

The amount of the contract agreement to be NINETY THOUSAND AND 00/100 DOLLARS (\$90,000.00) for 2005 and escalated per the contract.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 31<sup>st</sup> day of August, 2004.

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President

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Secretary