

1 of 2
FOR BOARD ACTION

Agenda Item # 8. a.

Meeting Date:

9/28/04

SUBJECT:

General Construction RPU Steam Supply Project Contract 02-28-C
Change Order 001

PREPARED BY:

Wally Schlink, Director of Power Resources

ITEM DESCRIPTION:

Background: In May, 2001 RPU staff presented the initial project concept of a steam supply project to the RPU Utility Board for consideration. In June, 2001 the Board approved the project at their regularly scheduled Board meeting. At that time the commercial operation of the project was anticipated to be December, 2002.

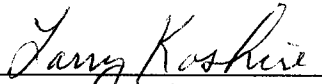
RPU began the process of design, bidding and permit application in the period immediately following Board approval of the project. It soon became apparent that the permit process was not going to support the aggressive construction schedule that had been established and the commercial operation date was extended to fall of 2003. The bid packages that were then issued reflected the new commercial date and the bidding, selection and approval process began.

On October 29, 2002 the RPU Utility Board approved a contract with Knutson Construction Services for the installation of a high pressure steam supply and condensate return system connecting the Silver Lake Plant with the Prospect Utility Plant portion of the project. The initial value of the approved contract was \$4,360,000. The contracts were signed in January 2003 with the anticipation that construction was to begin in the early spring of 2003 and substantial completion was to be by November 14, 2003.

The construction schedule and resultant contract price was established anticipating a construction permit would be issued in a timely manner. That has not been the case as the construction permit was delayed due to extensive modeling and administrative requirements. The permit was finally approved by the Minnesota Pollution Control Agency (MPCA) in June, 2003 and in July 2003 that permit was appealed to the EPA Environmental Appeals Board as is allowed by the administrative process. While the appeal was ongoing the permit was held in abeyance and no construction was allowed. RPU was notified in August, 2004 that an order was issued denying review of the permit. The notification process has begun that will result in the issuance of a construction permit.

During the permit delay period pre-construction work, some material purchases and other allowed work has taken place under this contract but no physical construction activities have begun.

RPU staff notified Stanley Consultants, the engineering firm designing and managing the project, and requested a revised schedule and process be issued to bring the contract documents current and to



General Manager

9/23/04

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reflect any changes in the contracts that were a result of changes of scope, delays, or inflation due to construction permit issuance interruption. We also requested that Stanley perform a review process to determine the appropriateness of any increases and to apply recognized construction standards to the evaluation. A correspondence from Stanley referencing these issues is attached to the FBA.

The changes are designated by an ITC number and are identified as ITC 001 through ITC 021 on the attachments. The ITCs related to changes in the contract scope are \$310,000, the ITCs related to the construction permit delays are \$995,085 for a total for Change Order 001 of \$1,305,950.

These changes are connected to the portion of the project that is a "pass through" cost and will be recovered as incurred from the end customer.

Attached are the results of their review as well as support documentation defining the specifics applied to determine the changes.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Utility Board approve a change order to the contract with Knutson Construction Services in the amount of \$1,305,950 for the General Construction RPU Steam Supply Project. This brings the total amount of the contract to \$5,890,439

 General Manager

 Date



Stanley Consultants INC.

A Stanley Group Company
Engineering, Environmental and Construction Services - Worldwide

September 15, 2004

Mr. Walter Schlink
Rochester Public Utilities
4000 East River Road NE
Rochester, MN 55906-2813

Dear Mr. Schlink:

Subject: Change Order Review for Cost Increases Due To Permitting Delays

As agreed upon, Stanley Consultants requested that the contractors, for each of the three contracts, submit proposals for increase costs due to the delay caused by the legal issues associated in the approval of the environmental permit.

The following proposals were received and reviewed:

Contractor	Original Contract	Inflationary Cost Increase	Revised Contract Cost	Percent Increase	Contract
Knutson Construction Services	\$4,360,000	\$995,085	\$5,355,085	22.82%	RPR Steam & Condensate Lines
HiMECH Mechanical	\$2,687,000	\$345,500	\$3,032,500	12.86%	Silver Lake Plant Modifications
Wrigley Mechanical	\$ 63,722	\$ 13,466	\$ 76,188	21.47%	Silver Lake Plant Valve Tie In's - Labor Only

Wrigley Mechanical's price increase dealt with labor costs only. Price quotes for the X-ray and Heat Treat, according to Mr. Wrigley, can not be determined until the actual shutdown schedule for next April is made available. When that schedule has been determined, Mr. Wrigley will be able to submit a complete price for the Silver Lake Plant Modifications valve tie-in scope of work.

It seemed prudent in reviewing the submitted increased costs to approach each work task separately, considering the overall percentage increase requested, and comparing that increase with both the historical price increases and the percent increase forecast for the year 2005. When a task appeared to be questionable, I asked the contractor to supply additional documentation or adjust the pricing accordingly.

In the September 6, 2004, issue of Engineering News-Record, a weekly news publication for the construction industry, it was reported that steel prices have increased within the last year 26.2 percent, lumber prices increased 23.2 percent, and cement is up 1.9 percent.

These figures are historical. The forecast resources that I have reviewed report rising costs to continue. While there is disagreement as to the anticipated percentage of increase, the expectation of increased cost is unanimous.

Several factors that are taking place now will have a dramatic influence on the markets during the time frame of the three projects. The high oil prices continue to have an affect on the prices of gasoline, diesel fuel, asphalt, and PVC piping products. Fuel prices are also questionable due to the uncertainty of increased fuel taxes. Lumber prices have risen substantially and the increased demands created by the Florida storm activity have forecasters anticipating even greater price increases. The highly volatile steel market is not expected to stabilize, according to some sources, for at least another four to five years.

Within the last six months, the overall labor market in the various crafts, nationwide, have seen increases of as much as 8%, driving the overall national labor index upwards 5%. It is my understanding that there may be significant future labor increases during the time frame of these three contracts.

There does not seem to be an estimating process that has taken account of some of the fluctuating economic markets that have affected these two projects. For example, R.S. Means, an estimating system highly incorporated in the industry, reports a \$10 increase in the horizontal boring task of a 24" casing between the years 2002 and 2004. Within the last year, steel prices have risen significantly and R.S. Means does not account for this increase, probably due to the price increase happening after the estimating tables were published. One cannot rely on a single estimating process to analysis the price increases for these two projects.

There has been no hesitation by any of the contractors to provide documentation for these increases. This indicates that if there is profit taking being done in these increases; it is not on the contractor's level. Contractor's risk management procedures for the volatile markets and unknown pricing variations would generally call for additional sums to cover any anticipation of upward changes in those markets. While it is apparent that this has indeed occurred, I am confident that the contractors pricing strategies are within reason, and are justifiable, when the current market activity is considered.

With all of the above taken into account, it is the opinion of Stanley Consultants that these costs are reasonable and justifiable for both historical and future cost anticipation, and should be considered as valid additional costs to each of the three contracts.

If there are any further questions, comment, or concerns, please contact me.

Sincerely,

Stanley Consultants, Inc.



Gary L. Phillips

Resident Project Representative

cc: Mr. Mark Henthorn, Stanley Consultants



Stanley Consultants INC.

A Stanley Group Company
Engineering, Environmental and Construction Services - Worldwide

September 21, 2004

Walter Schlink
Rochester Public Utilities
4000 East River Road NE
Rochester, MN 55906-2813

Dear Mr. Schlink,

Subject: Change Order 001 Package - Rochester Public Utilities Steam and Condensate Project

Please refer to the enclosed proposed change order packet containing the change proposals submitted by Knutson Construction Services pertaining to scope changes directed through Stanley Consultants' Instruction to Contractors, numbers 001 through 021.

The attached table lists the proposed cost changes according to Instruction to Contractor number and the associated monetary amount. After reviewing each of these proposals and the associated back-up documentation, it is the opinion of Stanley Consultants, Inc., that the price adjustments represented here are within reasonable costs parameters for the directed scope changes.

It is, therefore, the recommendation of Stanley Consultants that these amounts be approved and incorporated into the contract documents.

If there are any questions, concerns, or comments, please contact me.

Sincerely,

Stanley Consultants, Inc.

Gary L. Phillips
Resident Project Representative

CC: Mr. Mark Henthorn, Stanley Consultants
Mr. Mark Browning, Mayo Foundation

This document was also sent electronically



Walter Schlink
 September 21, 2004
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Original Contract Amounts		Revised Contract Amounts	
Original Contract	\$4,360,000.00	Original Contract	\$4,360,000.00
Alternate No:1	\$54,000.00	Alternate No:1	\$54,000.00
Alternate No:2	\$15,000.00	Alternate No:2	\$15,000.00
Alternate No:3	\$118,000.00	Alternate No:3	\$118,000.00
Alternate No:4	\$33,000.00	Alternate No:4	\$33,000.00
Original Contract Total	\$4,580,000.00	Original Contract Total	\$4,580,000.00
		Submitted Scope Change Cost	
		ITC 001	(\$69,362)
		ITC 002	\$-0-
		ITC 003	\$-0-
		ITC 004	\$-0-
		ITC 005	(\$4,452)
		ITC 006	Declined
		ITC 007	\$4,489
		ITC 008	\$-0-
		ITC 009	\$14,873
		ITC 010	\$13,025
		ITC 011	\$9,066
		ITC 012	\$995,085
		ITC 013	Declined
		ITC 014	\$19,320
		ITC 015	No Cost Issue
		ITC 016	Declined
		ITC 017	\$9,132
		ITC 018	(\$4,973)
		ITC 019	\$84,744
		ITC 020	\$239,492
		ITC 021	No Cost Issue
		Total ITC Costs	\$1,305,950
		Revised Contract Amount	\$5,890,439



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Change Order No. 001 to the General Construction RPU Steam Supply Project Contract 02-28-C between Rochester Public Utilities and Knutson Construction Services in the amount of \$1,305,950. This brings the total amount of the contract to \$5,890,439.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 28th day of September 2004.

President

Secretary