



## Legislation Text

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**File #:** 15-0342, **Version:** 1

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Recommendation to authorize City Manager to execute an amendment to the Southeast Resource Recovery Facility (SERRF) Operations and Maintenance Agreement No. 23336 with Covanta Long Beach Renewable Energy Corporation. This amendment will extend the term of the agreement from December 8, 2018 to June 30, 2024, provide a discount to the operating fee, and recognize a change in the name of the operator. (District 2)

On March 1, 1994, the City Council authorized a contract with Montenay Pacific Power Corporation, which later became Covanta Long Beach Renewable Energy Corporation. The operator is experienced in the operation of waste-to-energy facilities and specifically the operation of SERRF. The operator has provided specialized professional, technical, and scientific services to the City under the current agreement.

The term of the existing contract expires December 2018. This proposed amendment will allow for continuous operation of SERRF for a period of five years beyond the current term, while the City explores the long-term financial feasibility of operating SERRF well beyond 2018. To continue long-term, it is expected that SERRF will face some major financial and regulatory challenges post 2018, including factors such as the need for a new power purchase agreement, new partnership opportunities, legislation and regulatory changes, competitive landfill tipping fees, and capital investment for improvements to the existing facility.

This proposed amendment will be beneficial to the City in that a longer term commitment with the current operator will help facilitate long-term planning with a contractor that intimately knows the operational, regulatory, and business needs of the facility, as well as make possible about \$4 million in annual major maintenance and capital replacement to the facility by the contractor to extend the life of SERRF. The proposed amendment would discount the operations fee that is paid by the City to the contractor by \$500,000 a year, beginning next year through the term of the extended agreement.

Additionally, the proposed amendment would increase the annual waste threshold at which the City pays a bonus fee, resulting in savings to the City of \$500,000 annually. This expected \$1,000,000 in reduced costs to the City will greatly increase the feasibility of continued operation of SERRF beyond 2018.

The amendment also recognizes a change in name of the operator to Covanta Long Beach Renewable Energy Corporation.

This matter was reviewed by Deputy City Attorney Amy Webber on March 13, 2015 and by

Budget Management Officer Victoria Bell on March 25, 2015.

City Council action on this matter is not time critical.

Annual costs of this contract are based on fees for tons of waste processed at SERRF and various pass-through expenses associated with operating the facility. For FY 2015, the total cost of the contract is estimated at \$28,366,600. If approved, the amended terms of the contract will result in estimated net contract savings of \$1,000,000 per year, beginning January 1, 2016. Contract fees will be adjusted annually for inflation based upon the Consumer Price Index for the Los Angeles Area as reported by the U.S. Department of Labor Bureau of Labor Statistics.

The estimated savings are based on a combination of a fixed annual discount of \$500,000 and savings due to an increase to the base threshold of cumulative tons of waste processed from 428,000 tons to 455,000 tons, after which the City pays a bonus fee. Waste volume is expected to remain constant at 460,000 tons to 470,000 tons processed per year. Costs of this contract will be budgeted annually in the SERRF Fund (EF 331) in the Long Beach Gas and Oil Department (GO). There is no local job impact associated with this action.

Approve recommendation.

CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:

PATRICK H. WEST  
CITY MANAGER