



## AGENDA MEMORANDUM

Action Item for the City Council Meeting August 10, 2021

**DATE:** August 10, 2021

**TO:** Peter Zaroni, City Manager

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### **Service Agreement for the Demand Response Program to Upgrade Generators for the Utilities Department**

#### **CAPTION**

Motion authorizing a five-year service agreement with Enel X North America, Inc. of Boston, Massachusetts, for air emission upgrades to three diesel generators at the O.N. Stevens Water Treatment Plant and management of the City's participation in the Electric Reliability Council of Texas (ERCOT) Demand Response Program, with total estimated payment revenues to the City of \$322,000 for helping ERCOT reduce the possibility of blackouts by participating in the Demand Response Program.

#### **SUMMARY:**

This service agreement is for the contractor to manage the City's participation in the ERCOT Demand Response Program under a 70/30 revenue-sharing partnership (70% to City, 30% to contractor) and includes contractor-financed air emission upgrades to three 2,000-kilowatt diesel generators at O.N. Stevens Water Treatment Plant, which is required for participation and payments from the ERCOT Demand Response Program.

#### **BACKGROUND AND FINDINGS:**

The contractor, Enel X, has extensive experience providing Demand Response Program management for over 230 utilities customers across the United States and Canada, which includes the Texas cities of Tyler, Webster, and Sugar Land. Enel X was an ERCOT Demand Response Program partner with the City from 2009 to 2015, when this agreement was discontinued due to a new environmental regulation that required air

emission upgrades to the diesel generators for participation in the program. The O. N. Stevens Water Treatment Plant (ONSWTP) has three 2,000-kilowatt diesel generators that are eligible for upgrades under the Reciprocating Internal Combustion Engines National Emission Standards for Hazardous Air Pollutants (RICE NESHAP), to meet Air Compliance standards that allow participation in the ERCOT Demand Response Program. These generator upgrades provide cleaner air emissions and are required by the US Environmental Protection Agency. The contractor hired by Enel X, E2Comply, will perform the upgrades to the generators, and E2Comply has their headquarters in Bonita Springs, Florida.

Staff does not anticipate any detrimental effects on our three generators because currently ONSWTP runs three 2,000-kilowatt generators for an hour each week to test functionality, with one of those hours on a shared load every month to ensure the generators can handle power demand of the water plant. The cost of diesel fuel at the current usage is \$625.00 per month. Under the Demand Response Program, the generators may be required for a maximum amount of 12 hours every 4 months (average of 3 hours per month). The cost of diesel fuel to run three generators under this program for a maximum of 12 hours every 4 months is \$1,875.00.

The Demand Response Program is deployed by ERCOT when there is a high demand for electricity that potentially risks system reliability. ERCOT pays qualified customers in the Demand Response Program that have load-shedding equipment or backup generators to be available for scheduled load curtailments during an electric grid emergency. Load curtailments are scheduled during designated periods during the year for 10-30 minutes to reduce the possibility of blackouts within the ERCOT electric grid.

ERCOT Demand Response Program payments are earned by transitioning electrical load off the grid and onto the ONSWTP backup diesel generators without shutting down treatment plant equipment. The contractor will finance and implement the required air emission upgrades to ensure the diesel generators are compliant with regulations to participate in the Demand Response Program. During the five-year agreement, it is expected that the generator upgrade costs will be reimbursed to the contractor with revenues earned in the first two years of the program. For the remainder of the contract, the Demand Response Program revenues will be split under a 70/30 revenue-sharing partnership (70% to City, 30% to contractor). The generator upgrades are estimated to be \$171,000 total, and the annual revenues are estimated as \$141,000 per year that would be split 70/30 between the City and contractor. Summary table is below.

<b>Year</b>	<b>Generator Upgrades</b>	<b>City Revenue</b>	<b>Contractor Revenue</b>
1	\$85.5K	\$98.6K - \$85.5K = \$13.1K	\$42.3K
2	\$85.5K	\$98.6K - \$85.5K = \$13.1K	\$42.3K
3		\$98.6K	\$42.3K
4		\$98.6K	\$42.3K
5		\$98.6K	\$42.3K
<b>Total</b>	<b>\$171,000</b>	<b>\$322,000</b>	<b>\$211,500</b>

**PROCUREMENT DETAIL:**

Contracts and Procurement conducted a Request for Proposal process to obtain qualified firms to assist with upgrades of generators to meet Air Compliance standards to participate in a Demand Response Program. The City received two submittals that continued through the evaluation process. The proposals were reviewed by a five-member evaluation committee. The technical proposals were scored based on the published evaluation criteria: 1) firm's experience and qualifications, 2) experience and qualifications of key staff, 3) demonstrated capability/capacity on comparable projects, 4) reference checks and past performance. The Proposer offering the lowest price received higher points, the other proposer received a proportional share of the points based on the proration for their price to the lowest price provided. Based on the outcome of the evaluation, it is recommended that the contract be awarded to the highest scoring proposer, Enel X.

**ALTERNATIVES:**

An alternative is to not participate in the Demand Response Program, but the ONSWTP generators would not receive the required RICE NESHAP air emissions upgrades and would remain non-compliant until the City funds the upgrades.

**FISCAL IMPACT:**

The fiscal impact for the Water Fund in FY 2021 will be \$0.00 since the contractor will use the Demand Response Program revenues to offset the generator upgrade costs.

**Funding Detail:**

Fund:	4010	Water Fund
Organization/Activity:	N/A	
Mission Element:	N/A	
Project # (CIP Only):	N/A	
Accounts:	N/A	

**RECOMMENDATION:**

Staff recommends approval of the motion authorizing a five-year service agreement with Enel X North America, Inc. as presented.

**LIST OF SUPPORTING DOCUMENTS:**

Matrix Evaluation  
Service Agreement