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DEPARTMENT OF
PUBLIC WORKS

SOLID WASTE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

921 TENTH STREET
SUITE 500
SACRAMENTO, CA
95814-2715

916-449-5757

DAVID A. PELSER
SOLID WASTE
DIVISION MANAGER

April 24, 1990

Transportation and Community Development/
Budget and Finance Committees
Sacramento, California

Honorable Members in Session:

SUBJECT: AMENDING THE EXISTING AGREEMENT BETWEEN THE CITY AND GAS
RECOVERY SYSTEMS

SUMMARY

The Department of Public Works, Solid Waste Division, is requesting approval of the attached resolution authorizing the City Manager to amend the existing agreement between the City and Gas Recovery Systems. This amendment would allow the City to reimburse Gas Recovery Systems for the cost of the landfill gas management system if operation of the system becomes uneconomical.

BACKGROUND

The City of Sacramento has an existing lease agreement (City Agreement No. 85176) with Gas Recovery Systems (GRS) dated January 1987. The lease agreement allows GRS to construct a landfill gas (LFG) collection system on the 113 acre 28th Street Landfill and extract the gas. GRS would pay the City a royalty of 25 percent of the gross proceeds received from the sale of the processed LFG produced at the landfill.

GRS has chosen not to construct the LFG collection system under the existing agreement due to uncertainties that GRS would be able to sell the gas to the California Almond Growers Exchange (CAGE). The local Air Quality Management District (AQMD) was not willing to grant a permit to operate the CAGE biomass boiler if it were co-firing a combination of LFG and almond shells. Co-firing of almonds shells and LFG had not been done in the State of California and therefore the AQMD required stack gas emissions testing. CAGE was reluctant to perform the required testing and uncertain as to whether the AQMD

would grant a permit to operate the biomass boiler on LFG even if the emission tests were performed. Therefore, GRS was not willing to risk the investment required to install the collection system if the sale of the LFG to the CAGE was not assured.

Amending the existing agreement between the City and GRS would allow the City to reimburse GRS for the cost of the collection system, should AQMD not grant a permit to operate the boiler on LFG and almond shells. Due to the continued violation of the 28th street landfill's operating permit for off site migration of LFG, the City is faced with the need to install a collection and control system just to bring the landfill back into compliance. Staff believes that allowing GRS to construct the collection system at no cost to the City would be the best alternative. If the AQMD does not grant a permit to operate the CAGE boiler on almond shells and LFG, then the City will reimburse GRS and thus pay for a collection system that was needed in any case.

An independent construction cost estimate was performed by Anderson Geotechnical Consultants to verify the appropriateness of GRS's estimate. The collection system construction cost estimates were comparable, and on that basis the reimbursement amount in the proposed amendment is deemed reasonable.

FINANCIAL DATA

The Solid Waste Division's capital improvement project YA36, "Landfill Gas Control", contains partial funding for this project. Additional funding has been requested in the Division's 1990-1991 Proposed CIP Budget. These requested funds could be deleted from the Division's current budget submittal if the proposed resolution is approved. Currently, GRS will not proceed to construct the landfill gas collection system as explained above. In order to comply with permit conditions requiring control of off site migration, the City will have to construct the system at City cost, estimated to be approximately \$757,000. Approval of the proposed amendment would result in the City not having to pay these costs unless the development of the landfill gas becomes uneconomical due to air quality requirements.

If the project were to become uneconomical for GRS, the Solid Waste Division would submit a request in a future budget year for funds to reimburse GRS approximately \$757,000 less depreciation in accordance with the proposed amendment. Reimbursement of GRS would take place 18 months after GRS notifies the City of its intent to terminate the agreement.

POLICY MATTERS

A LFG collection system must be constructed at the 28th Street Landfill in order to control off site migration of LFG, to bring the landfill into compliance with it's operating permit and to allow planting of the Elderberry bushes along the American River Parkway. This proposed amendment would allow a private gas developer to pay for the installation of the collection system.

MBE/WBE

No impact.

RECOMMENDATION

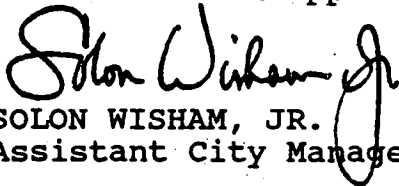
Staff recommends that the Joint Committees recommend that the full Council adopt the attached Resolution authorizing the City Manager to execute the proposed modification agreement between the City and GRS.

Respectfully submitted,



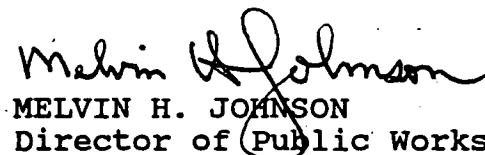
DAVID A. PELSER
Solid Waste Division Manager

Recommendation Approved:



SOLON WISHAM, JR.
Assistant City Manager

Approved:



MELVIN H. JOHNSON
Director of Public Works

Contact Person to
Answer Questions:

April 24, 1990
All Districts

DAVID A. PELSER, SOLID WASTE DIVISION MANAGER
449-2043

Attachments: Proposed Resolution
Proposed Modification Agreement

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

RESOLUTION AUTHORIZING THE CITY MANAGER TO AMEND THE EXISTING AGREEMENT BETWEEN THE CITY AND GAS RECOVERY SYSTEMS.

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO that the Modification Agreement to the January 1987 agreement with Gas Recovery Systems (City Agreement No. 85176) is approved and the City Manager is hereby authorized and directed to execute said Modification Agreement.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

MODIFICATION AGREEMENT

City of Sacramento, a municipal corporation (hereinafter referred to as "City") and Gas Recovery Systems, a California corporation (hereinafter referred to as "GRS"), agree as follows:

Relationship of Parties

1. The parties agree that the provisions of that certain contract between them called Gas Lease Agreement No. 85176, dated January 21, 1987, pursuant to which City leased a portion of landfill to GRS for the purpose of collecting, testing, treating, processing and producing Refuse Gas and its Constituent Products, ("Original Contract") shall continue in effect except as to those provisions modified in Paragraph 2. A copy of the Original Contract is attached hereto and incorporated herein by reference.

Modification

2. For valuable consideration received, the parties agree to modify and supplement the Original Contract as follows:

A. GRS will reimburse the City \$19,500 for the cost of engineering/design cost to prepare the plans and specifications of the gas processing and flaring system used to obtain the land use and air quality permits, together with all permit fees. This fee will be paid within thirty (30) days of the start of construction of the gas collection system.

B. GRS will reimburse City for the cost of the John Zink, Inc. flare in the amount of \$67,620, plus any sales tax paid by the City, within thirty (30) days of the start of construction of the gas collection system.

C. GRS will reimburse the City \$14,800 plus \$435 for the cost of the Southern Pacific Easement which will connect the gas processing plant and the California Almond Grower's (CAGE) boiler. The fee to be paid within thirty (30) days of CAGE obtaining a permanent permit to operate from the AQMD. The City will then transfer and record the ownership of the easement to GRS.

D. Within fifteen (15) days of the execution of this Modification, GRS will prepare a revised project schedule and submit it to the City. This schedule will include dates for the installation of each phase of the collection system, installation of the gas processing and flaring system, and commencement of operation of the first phase of the test during which gas will be burned at the CAGE boiler. Once a permanent operating permit is issued by the AQMD, GRS will prepare and submit to the City within fifteen (15) days a construction schedule for installing the high pressure compression equipment if required at the gas processing site.

E. The City has obtained a sewer discharge permit for leachate and condensate disposal via the sewer system. GRS will comply with all of the provisions and requirements of the City's existing permit with respect to the disposal of the collection and gas processing system's condensate.

F. GRS agrees to complete the first phase of the gas collection and flaring system as defined in Paragraph G below, consistent with the prepared plans and specifications, within seven (7) months following the issuance of all building permits. The operational date of the project is that date on which gas is first sold to CAGE. Royalty amounts will be based strictly on the gross revenue received for CAGE per articles 6.1, 6.2 and 6.3 of the Original Agreement.

G. Because the landfill is not completed, the gas collection wells will be installed in two phases. The total cost of equipment and construction of each of the phases is as follows:

Phase 1 - Gas Collection and Flaring (GCF) System with approximately 43 wells.	
	\$492,300
Phase 2 - 25 additional wells plus horizontal collection system.	
	\$150,000
Total	\$642,300

If the project is terminated prior to any installation of phase 2, then the total equipment and construction cost will be \$492,300.

H. If the project becomes uneconomic in the sole opinion of GRS, then GRS shall give the City forty-five (45) days' written advance notice of its intent to terminate the project (termination notice). In the event of GRS' termination of the project, the following amounts shall be reimbursed by the City:

- (1) \$19,500 - engineering/design costs of ^CG/F system; GRS
- (2) Permit fees paid on project;
- (3) \$14,800 plus \$435 for the cost of the Southern Pacific Easement connecting the gas processing plant and the CAGE boiler. GRS will transfer and record the ownership of the easement immediately upon being reimbursed by City;
- (4) Equipment and Construction Costs of the GCF System as outlined in Paragraph G and depreciated per Paragraph I. These costs are derived from the GRS drawings, sheet numbers 1 through 9, and dated 5/31/89. This amount shall be complete compensation for all construction costs associated with the gas collection and flaring system. No costs accounting or list of expenditures will be required by either party;

- (5) Cost of the pipeline taking the gas from the gas flare station to the CAGE Boiler. This amount will include piping, installation, condensate retrieval system, and any measuring devices and flanging at CAGE. GRS will provide the City with a cost accounting of the pipeline and will be entitled to an additional 15% profit; however, the entire cost will not exceed Eighty Thousand Dollars (\$80,000).

I. The gas collection and flaring system and conveyance pipeline has a useful life of twenty (20) years. The straight line method of determining depreciation shall be used to adjust the amount of reimbursement. The specific depreciation by year shall be as follows:

- (1) For three (3) years after the operational date defined in Paragraph F, no depreciation.
- (2) For year four (4), reimbursement shall be $17/20$ of the amounts stated in Paragraph H.
- (3) For year 5 on, the depreciation shall be one twentieth ($1/20$) per year of the amounts stated in Paragraph H.

J. Reimbursement of all costs outlined in Paragraph H by the City shall occur no later than the end of the 18th month following the giving of the termination notice together with interest at a rate of prime plus one percent computed each month payment is not made and starting at the termination notice date. If the City requests in writing that GRS continue to operate the gas collection and flaring system following the giving of the termination notice, GRS will operate the system per an operation and maintenance contract to be submitted to the City within thirty (30) days of execution of this Modification Agreement. If the City does not have GRS operate and maintain the system at the time the termination notice is given, GRS will terminate all operations.

K. Prior to the giving of a termination notice as defined in Paragraph H above, GRS will evaluate and present to the City alternatives that may be available which will include but not be limited to modification of the Agreement, evaluation of alternative users for the gas and/or modifications to the gas processing system. These alternatives will be reviewed in an attempt to keep the project operating.

L. Following the termination of the project and payment of all monies due to GRS from the City, GRS will transfer title of all equipment to the City. At that time, the original Agreement will be terminated.

M. Following the execution of this Modification, GRS agrees to comply with all permit conditions and regulatory requirements and to assume responsibility for all fines, etc., resulting for GRS actions relative to the construction and operation of the gas collection and flaring system. GRS will not accept responsibility for fines, etc., incurred by others prior to the Modification execution or after termination of operations.

N. Article 17.3, GRS' address should be changed to:

Gas Recovery Systems
39899 Balentine Drive, Suite 275
Newark, CA 94560
Attn: George R. Jansen

Construction

3. In the event of any conflict or inconsistency between the provisions of this Modification Agreement and the Original Contract, the provisions of this Modification Agreement shall control in all respects.

Warranty

4. Each party hereby warrants that the execution of this Modification Agreement and the performance by such party hereunder have been authorized by all necessary actions and that the person or persons executing this Agreement on behalf of such party are competent and authorized to do so.

IN WITNESS WHEREOF, the parties hereto have executed this Modification Agreement on the dates set forth opposite their respective signatures.

LESSOR

CITY OF SACRAMENTO,
a Municipal Corporation

By: _____
CITY MANAGER Date

ATTEST:

LESSEE

GAS RECOVERY SYSTEMS,
a California Corporation

City Clerk Date

APPROVED AS TO FORM:

By: George R. Jansen 3/29/90
Date
Vice President
Title

Sabrina M. Thompson 4/2/90
Deputy City Attorney Date