

**CITY OF GLENDALE, CALIFORNIA
REPORT TO THE CITY COUNCIL**

AGENDA ITEM

Report: Request to Increase the ARB, Inc. Balance of Site Engineering, Procurement, and Construction Contract's current Contingency of \$36,270,000 by \$30,000,000 to a New Contingency Amount of \$66,270,000 as it Relates to the Potential Tariffs which may be Imposed on Various Equipment for the Grayson Repowering Project.

1. Motion increasing the ARB, Inc. Balance of Site Engineering, Procurement, and Construction Contract's, Contract No. 8002399, current Contingency of \$36,270,000 by \$30,000,000 to a New Contingency Amount of \$66,270,000.
2. Resolution of Appropriation requesting \$30,000,000 for Contract No. 8002399 with ARB, Inc.

COUNCIL ACTION

Item Type: Action

Approved for **May 20, 2025** **Calendar**

EXECUTIVE SUMMARY

Following the 2024 Presidential election through April, the new administration has proceeded to enact a series of primary, secondary, reciprocal, and retaliatory tariffs on imports to the United States. The application of these tariffs significantly affects the procurement of equipment needed for the Grayson Repowering Project, primarily the Battery Energy Storage System (BESS), and to a lesser extent the Wartsila North America, Inc. (Wartsila) Power Island (WPI) and the Balance of Site (BOS).

The financial impact of the current tariffs based on the most recent "presidential 90-day pause" with China issued May 11th is detailed in Exhibit 2 and summarized below. The current estimated value of the tariffs is:

Contractor	Wartsila Power	BESS Power	Balance of Site	Totals
ARB	\$0.2 million	\$22.85 million	\$1.15 million	\$24.2 million
Wartsila	\$8.6 million	\$0	\$0	\$8.6 million
Totals	\$8.8 million	\$22.85 million	\$1.15 million	\$32.8 million

The \$24.2 million of tariffs that fall within the scope of the Engineering, Procurement, and Construction (EPC) contract with ARB, Inc. (ARB), combined with the already committed contingency, exceeds the available contingency for the contract. At this time, GWP believes that the estimated value of tariffs for the Wartsila Engineering and Procurement (EP) contract can be accommodated by the existing contract contingency.

At this point, the City faces the following choices:

1. Increase the authorized contingency by \$30 million, an amount that GWP can support without a rate increase and authorize GWP to modify the scope of the BESS as may be necessary if the tariffs are not reduced/mitigated before the date when a final decision on the number of batteries must be made.
2. Largely complete the BESS project but defer purchase of the batteries until tariffs are reduced or identify an alternate battery supplier that can physically and electrically conform with the project infrastructure that is currently in construction.
3. Cancel the BESS portion of the project. This option is the least attractive, as while they have significant cost, there is relatively little money that can be saved this late in the procurement cycle from cancellation of the BESS Power Distribution Center, two Auxiliary Transformers, two Battery Step-up Transformers, or the PCSs. Thus option 2 is considered far superior.

We need to decide to increase the contingency now because the window to reduce the number of batteries will soon close and the City will be forced to cancel the batteries in their entirety due to very significant increase in the cost of the batteries due to tariffs and the lack of available contingency.

The request for the amount of increase is based on GWP's determination that it can be funded without an increase in rates. While this value is representative of the current tariff exposure, these estimates are based on a 90-day hold period which has no assumed guarantees after that period. The requested increase will allow staff to make some level of adjustments to contracts aligned with options identified above such as modifying scope, adjusting battery delivery dates, or adjusting the total battery size. It is staff's ultimate goal to complete the project with the originally scoped battery size. If future tariff scenarios create additional budgetary burden for this project beyond the requested \$30,000,000 it will be necessary to return to Council to request additional funds or cancel delivery of the batteries until more market stability is achieved.

RECOMMENDATION

Increase the ARB, Inc. Balance of Site Engineering, Procurement, and Construction Contract current contingency of \$36,270,000 by \$30,000,000 to a new contingency amount of \$66,270,000 and authorize GWP to modify the scope of the BESS as might be necessary to remain within the limits of the new contingency.

ANALYSIS

On November 14, 2023, the City Council adopted a resolution dispensing with competitive bidding and authorized entering into a contract with ARB for the Grayson Repowering Project to perform the construction of the WPI and the EPC of the BESS

Power Island and the BOS in the amount of \$362,700,000 with 10% contingency of \$36,270,000.

The contract value was based upon ARB's Indicative Price. That pricing was based on the then available, but not fully complete, Wartsila design and procurement scope and ARB's estimate of the BESS and BOS work scope as described in the EPC Request for Proposal. At the time, there was no expectation that the tariff ideas that were being discussed leading up to the 2024 Presidential election would come to pass.

Following the 2024 Presidential election, in February and March 2025, the new administration proceeded to enact a series of primary tariffs on imports to the United States. The application of these tariffs affects the procurement of equipment needed for the Grayson Repowering Project, primarily the BESS, and to a lesser extent the WPI and the BOS. The estimated impact of these tariffs was approximately \$17.9 million for the equipment being supplied by ARB for the BESS and BOS and approximately \$1.1 million for the equipment being supplied by Wartsila for the WPI.

On April 2, 2025, the Administration imposed "reciprocal tariffs" boosting the tariff on China to 54% and adding a 20% tariff for goods from the European Union (which includes Finland and Italy).

On April 9, the Administration raised the tariff on China imports to 125%, and separately delayed full implementation of other tariffs by 90 days while implementing an across-the-board tariff of 10% (except China).

On May 11, the tariff on China was reduced to 30% for at least ninety days. The financial impact of these tariffs is detailed in Exhibit 2 and summarized below. The current estimated value of the tariffs is:

Contractor	Wartsila Power Island	BESS Power Island	Balance of Site	Totals
ARB	\$0.2 million	\$22.85 million	\$1.15 million	\$24.2 million
Wartsila	\$8.6 million	\$0	\$0	\$8.6 million
Totals	\$8.8 million	\$22.85 million	\$1.15 million	\$32.8 million

The \$24.2 million of tariffs that fall within the scope of the EPC contract with ARB, combined with the already committed contingency, exceeds the available contingency for the contract. At this time, GWP believes that the estimated value of tariffs for the Wartsila EP contract can be accommodated by the existing contract contingency.

Some of the Wartsila equipment from Finland and Italy has already been delivered (and not included in the above tariff estimates). The only equipment that will remain to be shipped from Europe after April are the generator step-up transformers at the end of 2025, the Alternate Feed Transformer in the first quarter of 2026, and spare parts.

All the equipment, except for the batteries, is already well into fabrication, and some has already been shipped or is enroute to Glendale. The only equipment for which fabrication has not yet started (although critical materials have already been sourced)

are the BESS batteries since power to the batteries will not be available until January 2026, and they must be electrically connected shortly after delivery. Thus, delivery of the batteries is scheduled to begin in December 2025. If the batteries are received and not connected to an electrical source shortly thereafter, their energy capacity will begin to unrecoverably degrade.

The BESS consists of 23 PCS and 92 Batteries. Given that the batteries have not yet started fabrication, they are the only viable option to offset potential tariffs by reducing scope. For the other equipment, they are so far along in fabrication or already shipped, and the cancellation charges are so high that scope reductions in their case are not an option. The BESS, given its large value and the multiples of PCSs and batteries, does offer a viable option for scope reduction within limits if needed.

The previously approved contingency of \$36,270,000 in the ARB contract is not sufficient to cover the anticipated tariffs for the ARB supplied equipment in addition to the contingency already committed prior to the imposition of tariffs.

Engineering started in January 2024 with construction starting in September 2024 after demolition and site improvement work was completed. As work progressed, the scope and design evolved, equipment contracts were negotiated, and a significant portion of the contingency was utilized as described below.

1. Engineered Equipment Price Increases	\$7.3 million
2. Changes in Administration/Maintenance/Control (AMC) Buildings	\$16.5 million
3. Utility Building Heating Ventilation and Air Conditioning Scope Change	\$1.5 million
4. Wartsila Uninterruptable Power Supply (UPS) Building Addition	Part of Item 8
5. BESS Black Start Battery Building Addition	\$1.475 million
6. Unit 9 Restoration	\$0.45 million
7. Design Changes and Enhancements	\$1.25 million
8. Quantity Changes	\$9 million
9. Underground Exploration	\$0.95 million
10. Extended Schedule and Acceleration	\$4.5 million
Total	\$42.93 million

Further details of these changes are provided in Exhibit 3.

The Project Team took steps to mitigate cost increases to the project's Initial Estimate.

- The original project plan included leasing an off-site parking area for field crews, which would have incurred significant costs. There were also expenses associated with bussing the crews to and from the site, and the lost time costs due to travel. To mitigate these costs, the project team encouraged carpooling among the field crews and secured a portion of Fairmont Ave for material and equipment reducing the need for offsite laydown. This strategic move not only reduced the need for an off-site parking area but also minimized travel time and associated costs. As a result, the project saved approximately \$10.5 million.

- The original plan for temporary office trailers involved a smaller footprint with double-story trailers. Upon reevaluation, the project team decided to convert these to more traditional single-story trailers. By opting for single-story trailers, the team was able to simplify the setup process and reduce costs associated with the double-story trailers. This update resulted in savings of \$720,000.
- The initial stormwater management plan included the installation of a stormwater tank at a significant cost component. After a thorough review, the project team identified an opportunity to revise the plan and eliminate the need for the stormwater tank. By implementing alternative stormwater management solutions, the team was able to achieve the same level of effectiveness without the additional expense. This revision led to a savings of \$680,000.
- The AMC Building location overlies a 69 kV duct bank. The plan was to relocate this duct bank consistent with normal GWP practice. The AMC Building foundation was modified so that the duct bank could remain in place avoiding the substantial cost of the duct bank relocation.

These measures collectively resulted in total savings of \$11.9 million, reducing the overall cost increase to \$31.03 million, within the authorized contingency.

A \$30 million increase in contingency covers the current tariff on China. However, the current “presidential pause” is temporary and will expire before the delivery of the batteries. As seen with the tariff situation, particularly with China, this subject can change with little warning. There is potential that staff will need to return to Council to request additional funds to address any future tariff modifications as they align with contractual commitment dates for the batteries. This increase in contingency will provide GWP the flexibility to best meet the needs of the City depending on how the tariff situation evolves. The requested increase in contingency represents an approximate 8% increase over the base contract value of \$362,700,000 plus \$36,270,000 in committed contingency and tariffs.

At this point, the City faces the following choices:

1. Increase the authorized contingency by \$30 million, an amount that GWP can support without a rate increase and authorize GWP to modify the scope of the BESS as may be necessary if the tariffs are not reduced/mitigated before the date when a final decision on the number of batteries must be made.
2. Complete the BESS project but defer purchase of the batteries until tariffs are reduced or an alternate battery supplier that can fit the project physically and electrically is identified.
3. Cancel the BESS portion of the project. This option is the least attractive as while they have significant cost, there is relatively little money that can be saved this late in the procurement cycle from cancellation of the BESS Power Distribution Center, two Auxiliary Transformers, two Battery Step-up Transformers, or the PCSs. Thus option 2 is considered far superior.

A decision is required now because the window to decide on the batteries will soon close, and the City will be forced to cancel the batteries due to lack of available

contingency. With that in mind, GWP is requesting an increase in the authorized contingency of \$30,000,000. This is an amount that GWP has determined can be funded without an increase in rates. Based on how the tariff situation progresses, it would be GWP's goal to complete the project, and if necessary and possible, reduce the number of batteries as discussed previously, and if that were not sufficient in concert with the increased contingency, to complete the project but defer purchase of the batteries.

STAKEHOLDERS/OUTREACH

Not applicable.

FISCAL IMPACT

The ARB BOS EPC Contract increase in contingency will cost \$30,000,000, which was not included as a part of the FY 2024-25 budget. Therefore, staff is requesting the following appropriation from GWP's Electric Surplus Fund Balance:

Requesting Appropriation			
Amount	From (Account String)	To (Account String)	Funding Source
\$30,000,000	GL: 27900-5810-GWP-0000	GL: 43110-5830-GWP-0020-P0000 PL: GWP00171CN	Undesignated Fund Balance, Electric Surplus Fund

This additional appropriation will not impact the electric rates set by the COSA and can be absorbed due to the combination of budgetary savings, delayed capital improvement projects and additional revenues from sales to other agencies and interest income.

ENVIRONMENTAL REVIEW (CEQA/NEPA)

On February 15, 2022, the City certified a Final Environmental Impact Report (FEIR), Statement of Overriding Considerations and Mitigation Monitoring and Reporting Program for the Grayson Repowering Project ("Project") pursuant to the California Environmental Quality Act (CEQA) Guidelines (14 Cal Code Regs. 15000 et seq. and Public Resources Code Sections 21000 et seq.) The Project includes all aspects of Project implementation, including demolition and site improvements as well as mitigation monitoring and reporting. The action presented to the City Council here involves increasing the contingency for the ARB EPC contract to complete the Project. All actions are funding actions that are within the scope of the Project in certified FEIR.

CAMPAIGN DISCLOSURE

Attached as Exhibit 1, please see the Campaign Disclosure form for ARB, Inc. Staff has confirmed with ARB, Inc. that there are no changes in the information as stated in the Campaign Disclosure form executed on September 1, 2024 attached hereto as Exhibit 1.

ALTERNATIVES TO STAFF RECOMMENDATION

Alternative 1: Complete the BESS portion of the project but defer purchase of the batteries.

Alternative 2: Consider any other alternative not proposed by staff.

ADMINISTRATIVE ACTION

Submitted by:

Scott K. Mellon, P.E., Acting General Manager - Glendale Water and Power

Prepared by:

Rostamik Chetin, P.E., Senior Mechanical Engineer

Approved by:

Roubik R. Golanian, P.E., City Manager

EXHIBITS/ATTACHMENTS

Exhibit 1: Campaign Disclosure Form for ARB, Inc.

Exhibit 2: Table of Tariffs

Exhibit 3: Detailed Description of Contingency Commitments

