TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: UTILITIES
DATE: APRIL 3, 2007 CMR:173:07

SUBJECT: APPROVAL OF AMENDMENT NUMBER 1 TO ADD $14,484 TO THE CONTRACT WITH OSMOSE UTILITIES SERVICES, INC. FOR ADDITIONAL INSPECTION, TESTING, MAINTENANCE AND REINFORCING OF WOOD POWER POLES, FOR A TOTAL CONTRACT AMOUNT OF $92,871

RECOMMENDATION
Staff recommends that Council approve Amendment No. 1 to Contract No. S06115668 between the City of Palo Alto and Osmose Utilities Services, Inc. for the inspection, testing, and reinforcing of wood power poles, and authorize the City Manager or his designee to execute the Amendment No. 1 contract and increase the compensation amount by $14,484 for a total of $92,871.

DISCUSSION
The City of Palo Alto Utilities Department schedules inspection and testing of approximately 10% of its wood pole infrastructure every year. Once the inspection and testing of poles have been completed, a number of poles are reinforced and more seriously deteriorated poles are replaced. Dollar amounts can vary from year-to-year based on the number of poles needing steel reinforcement or replacement. Staff assumed that approximately 10% of the poles would be eligible for steel reinforcement based on prior experience.

On May 22, 2006, the City of Palo Alto entered into an agreement with Osmose Utilities Services, Inc. for the inspection, testing and reinforcing of wood power poles. The maximum compensation amount for the contract was $78,387.

The inspection and testing of approximately 700 poles under this contract was completed in July 2006. At that time, approximately $35,000 of the contract had been spent. Of the poles inspected, eleven were identified as eligible for steel reinforcement. The cost to reinforce the poles with steel is approximately $500 each. The City and Osmose agreed that the inspection would continue until the cost of the number of poles inspected plus those needing reinforcement reached the contract dollar limit.
The inspection and testing of an additional approximately 700 wood power poles was completed in August 2006. At that time, $60,609 had been spent for Osmose to inspect and test a total of approximately 1,400 wood poles. The reinforcement of the poles was completed in December 2006. The total amount spent on the contract was $77,746.

After the completion of the pole reinforcements, in December of 2006 Osmose contacted the City of Palo Alto. Osmose notified the City that an internal audit had discovered that certain line items had been left off of past invoices, and that the City was under-billed by $15,125. Since the total maximum compensation of the contract was set at $78,387, an amendment to the contract for an additional $14,484 would be needed to pay for the services provided.

As a result of competitive bid processes, the City of Palo Alto Utilities has contracted its pole inspection and testing services to Osmose for over ten years. During that time, Osmose has inspected and tested every wood pole owned by the City of Palo Alto Utilities. It has consistently performed outstanding work for the Utilities Department.

Osmose is aware that it is at fault for the incorrect billing, and that the City of Palo Alto is not obligated to pay. Staff verified that the services which the City was billed for $15,125 were performed and is recommending that Osmose be paid the $15,125 based on past performance and the necessity of the service provided.

The City will off-set the additional $15,125 expenditure by reducing the number of poles inspected during the second year of the contract with Osmose. This will not impact the overall schedule for pole inspection because the additional poles inspected in 2006 actually had the effect of accelerating the pole testing schedule.

Due to the nature of the on-going maintenance requirements of the wood poles and the working relationship the City of Palo Alto has experienced with Osmose, staff recommends an amendment to the contract to pay the outstanding invoice amount of $15,125. In addition, staff has discussed accountability for future billing errors with Osmose, and Osmose understands the need for accurate billing and records and has committed to ensuring such invoice errors will not occur in the future.

**RESOURCE IMPACT**

Funds for this contract amendment are available in the Electric Fund Capital Improvement Program Budget.

**POLICY IMPLICATIONS**

Approval of Amendment No. 1 does not represent a change to existing City policies.

**ENVIRONMENTAL REVIEW**

This is not a project for California Environmental Quality Act (CEQA) purposes.
ATTACHMENTS
A: Contract
B: Amendment

PREPARED BY: JIM THOMPSON
Senior Electric Project Engineer

DEPARTMENT HEAD: VALERIE O. FONG
Director of Utilities

CITY MANAGER APPROVAL: EMILY HARRISON
Assistant City Manager