



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by W. M. M. Date 5.11.07
General Manager

DATE: May 11, 2007
TO: General Manager
FROM: Assistant General Manager
SUBJECT: Update for the Landfill Gas System and Monterey Regional Water Pollution Control Agency (MRWPCA) project

INFORMATION ONLY: This staff report is an update of the Monterey Regional Waste Management District's (District) Landfill Gas to Energy Project and project interaction with the MRWPCA.

BACKGROUND

District staff and staff from the MRWPCA have been working on several issues of common interest over the past several months. One of the first projects contemplated for a joint approach between the District and MRWPCA Landfill Gas and Digester Gas Electrical Generation Project. This project could potentially involve the re-capitalization or construction of a new cogeneration facility for the MRWPCA and its potential application and/or joint use of this facility by the District.

During the past year District staff, staff from MRWPCA, and their consultant (Carollo Engineers) have met several times to discuss the financial and operational conditions of a shared facility. As reported to the Board in April 2006, the MRWPCA had already commissioned a study to help decide the appropriate next steps to take in order to handle digester gas from its operations.

MRWPCA PROJECT

District and MRWPCA staff met with Carollo Engineers last month and heard the MRWPCA projections for their project needs for either a Bio-gas Project or Fuel Cell Project. MRWPCA staff is contemplating a couple of approaches for their own long-term energy and plant operational needs. The MRWPCA has decided to undertake its own project Request for Proposals (RFP) with its own consultant without the need for the District's direct involvement at this time. Initial analysis has identified that the District's ability for the potential contribution for landfill gas to supplement the MRWPCA's digester gas would be several years in the future. Staff from both the MRWPCA and the District will continue work together on this project. The MRWPCA will develop its own project and capabilities within a timeframe and a structure that works best for their needs. The benefit that now appears to be available to the District from this project would be from the potential future sale of landfill gas or direct sale of electricity to the MRWPCA waste water treatment and water reclamation facilities to supplement their other power supplies.

If the decision is to not join into a project with the MRWPCA, then the District will need to begin the planning stages of the potential expansion of the physical plant and generation capacity of the Landfill Gas (LFG) to Energy building currently in use, almost immediately. The projection is that the amount of gas produced in

three to five years would outstrip the rated capacity for the four engines currently in service, and also produce more electricity for sale than currently permitted for sale by PG&E and the limitations of our power generation equipment. This time frame means that staff would need to have these decisions in place no later than the beginning of FY 2008/2009.

DISTRICT LFG PROJECT UPDATE

The timing of the MRWPCA's project and the private development of a number of other LFG projects in the Central Coast and Bay Area presents a unique window of opportunity for private gas development projects. The continued increase in costs of the operation and maintenance of our own LFG system, and the uniqueness of personnel skill sets and the challenge to find qualified personnel to manage these systems, presents a strategic timing opportunity to the District in order to evaluate our continued ownership and staffing of this distinct portion of the District's operations. An example of this continued financial support and operational burden was demonstrated this past month with a "catastrophic" failure of one of the landfill gas engines. All appropriate maintenance schedules and procedures had been adhered to, however the engine suffered damage to such an extent it required a complete replacement of the basic "block". The initial cost estimate for this replacement block is approximately \$400,000.

Staff anticipates that at a later date we would bring back for the Board's review several aspects of either our continued ownership status, some form of a combined resource utilization approach (partnering with the MRWPCA for example), or an outright private development management transition. These approaches would be analyzed from the sale of the gas rights and generation infrastructure for operational efficiencies, regulatory compliance purposes, projected financial impacts. There are non-financial advantages to continued ownership and operation of the LFG system. District staff would recommend that a complete analysis and projected sales pro forma be developed for Board review.

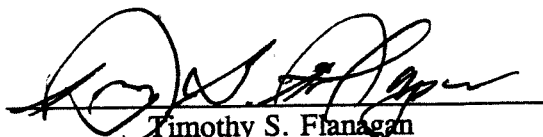
SUMMARY

The major business points of the review of the Landfill Gas to Energy Project for FY 2007/2008 are as follows:

1. Determine what course of action to take as to partnering with the MRWPCA and their Bio-gas Generation Project; with District needs in managing its landfill handling capacity in next three to five years.
2. Evaluate and decide on policy of continued ownership and operation of LFG Generation System or develop a Request for Quotes (RFQ) or RFP for the sale/lease, and/or transference of ownership and operation, or the Landfill Gas to Energy Project to private third party developers.

CONCLUSION

That the Board reviews these courses of action and provide direction to staff on evaluation of the stated options at some date in the future.



Timothy S. Flanagan