0220-06310-0000

TRANSMITTAL

TO	DATE	COUNCIL FILE NO.
Janisse Quinones, General Manager Los Angeles Department of Water and Power	07/25/2025	
FROM The Mayor		COUNCIL DISTRICT ALL

PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING USE OF THE COMPETITIVE SEALED PROPOSAL METHOD TO AWARD ONE OR MORE CONTRACTS FOR THE LARGE POWER TRANSFORMERS AND VARIABLE SHUNT REACTORS FOR VARIOUS SUBSTATIONS PROJECT PURSUANT TO SECTION 10.15(f)(1) OF THE LOS ANGELES ADMINISTRAIVE CODE

Transmitted for further processing, including Council consideration. See the City Administrative Officer report attached.

MAYOR

(Carolyn Webb de Macías for)

Attachment
MWS/PJH/JVW:DLG:10260003t

CAO 649-d

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 2, 2025

CAO File No. 0220-06310-0000
Council File No.
Council District: ALL

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Department of Water and Power dated May 9, 2025; referred by the Mayor for a report on May 13, 2025

Subject: **PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING USE OF THE COMPETITIVE SEALED PROPOSAL METHOD TO AWARD ONE OR MORE CONTRACTS FOR THE LARGE POWER TRANSFORMERS AND VARIABLE SHUNT REACTORS FOR VARIOUS SUBSTATIONS PROJECT PURSUANT TO SECTION 10.15(f) OF THE LOS ANGELES ADMINISTRATIVE CODE**

RECOMMENDATION

That the Mayor:

1. Approve the Los Angeles Department of Water and Power (LADWP) proposed Resolution and Ordinance for the Large Power Transformers and Variable Shunt Reactors for Various Substations Project:

    a. Authorizing the LADWP to use a competitive sealed bid proposal method in accordance with Charter Section 371(a) and Los Angeles Administrative Code Section 10.15(f), permitting negotiations after proposals are submitted to allow clarifications and changes to the proposal.

    b. Award in whole or in part, one or more contracts at an estimated cost of $732 million and a term not-to-exceed nine years, to procure large power transformers and variable shunt reactors for various substations, including spare parts and associated manufacturer representative services.

2. Return the proposed Resolution and draft Ordinance to LADWP for further processing, including Council consideration.

SUMMARY

The Los Angeles Department of Water and Power (LADWP; Department) requests approval of its April 21, 2025 proposed Resolution and draft Ordinance authorizing the use of a competitive sealed

proposal method to obtain outside resources to support the Large Power Transformer (LPT) and Variable Shunt Reactors (VSR) for Various Substations Project (Project). Under the Los Angeles Administrative Code Section 10.15(f)(1)(d), the use of a competitive sealed proposal method would enable LADWP to facilitate procurement of highly specialized equipment used for power generation, transmission, and distribution, including associated manufacturer representative services.

The requested authority includes the issuance of one Request for Proposals (RFP) for a term not-to-exceed nine years, which may result in one or more contracts awarded in whole or in parts at LADWP's discretion. The proposed procurement, valued at approximately $732 million, is part of an ongoing initiative to replace end-of-service-life equipment at various substations. The equipment furnished under this contract will be installed within one year of the contract's expiration.

Pursuant to Charter Section 1022, the proposed Resolution and draft Ordinance include a finding that procuring LPTs and VSRs require specialized knowledge and skills that are not available within LADWP. The finding further establishes that proceeding with the Project without external resources would lead to significant manufacturing and delivery delays of the required equipment, consequently delaying the completion of the Project. The evaluation criteria established by the proposed Ordinance also grants local businesses up to a 12 percent weighting factor and includes other provisions identified herein to ensure the fair and equitable evaluation of all proposals for selection and award of any contract(s).

The City Attorney has approved the proposed Resolution and draft Ordinance as to form. Pursuant to Charter Section 371(a), City Council approval by Ordinance is required to authorize the competitive sealed bid proposal method. Additionally, Charter Sections 373 and 674, along with Administrative Code Section 10.15(f), require Council approval. Our Office has reviewed the request and recommends approval.

BACKGROUND

In 2014, the Los Angeles Department of Water and Power launched the Power System Reliability Program (PSRP), a comprehensive infrastructure modernization initiative designed to replace, rebuild, and maintain critical power system assets throughout the City. The program prioritizes upgrades based on three key factors: equipment design life, regular inspection findings, and documented system failures. This multi-billion-dollar investment commits more than $10 billion over a five to 15 year timeline to modernize Los Angeles' aging electrical infrastructure. To date, LADWP has invested approximately $11 billion in the PSRP.

Enhancing System Reliability – The primary objective of the PSRP is to ensure consistent, reliable energy delivery for all Los Angeles residents while reducing the risk of power outages and system failures. The program aims to enhance system reliability through targeted improvements, including reducing temporary circuits, replacing aging distribution transformers, poles, underground cables, and substructures.

LADWP's Power Infrastructure Initiative - LPTs and VSRs are essential components of the electric power transmission system and distribution infrastructure. These high-voltage units have a lifespan of approximately 30 years and are used at power generation substations to control and stabilize voltage levels throughout the system. To support the PSRP, LADWP proposes a Resolution and Ordinance to systematically replace or install new LPTs and VSRs for various substations.

Key Role of LPT and VSR Upgrades in Achieving LA100 Carbon Neutral Goals - Installing and upgrading LPTs and VSRs is essential to achieving LADWP's LA100 carbon neutrality goals. These components improve both capacity and flexibility of the transmission system. Upgraded LPTs enable greater power transfer capability, allowing LADWP to reliably deliver clean energy from remote renewable resources to urban load centers. The added capacity also enhances operational flexibility, supporting planned outages for upgrades, maintenance, or emergency response without compromising grid reliability. Currently, several LADWP transmission upgrade projects are on hold due to LPT failures elsewhere in the system. VSRs help maintain voltage stability on lightly loaded or long-distance transmission lines, particularly under intermittent renewable output conditions.

Custom Engineering Solutions for LPT and VSR Design - LPT and VSR design require customized engineering solutions rather than standardized assembly. The specifications and configuration of this equipment must be tailored to the unique electrical characteristics and operational requirements of each substation and site. Attachment 1 to this report provides a detailed outline of the highly specialized technical nature of LPT and VSR equipment.

Equipment Procurement Strategy - Due to the highly specialized nature of substation LPTs and VSRs, LADWP must utilize a competitive sealed proposal contracting approach to procure equipment, spare parts, and associated manufacturer representative services. This method permits post-submission negotiations for bid clarifications in accordance with Charter Section 371(b) and Administrative Code Section 10.15(f)(1)(d), which provides flexibility to optimize contract terms while maintaining procurement integrity. This specialized expertise is not available within the Department, necessitating an external procurement process.

Contract Award - Approval of the proposed Resolution and Ordinance will authorize LADWP to award one or more comprehensive contracts with a term of up to nine years and an estimated cost of $732 million to obtain approximately up to a combined total of 58 LPTs and VSRs.

Procurement Method Transition - LADWP has traditionally purchased LPTs and VSRs through an Invitation for Bid (IFB) process, which mandates contract award to the lowest responsive and responsible bidder. However, current market conditions and strategic objectives necessitate a different approach. Due to the Project's complex technical requirements, ongoing global supply chain disruptions, and LADWP's ambitious goal to achieve 100 percent carbon-free energy by 2035, the traditional competitive bidding process is insufficient to deliver the specialized equipment needed for LPT and VSR replacement within the required timeframes and at the most cost-effective price.

Lead Time and Procurement Approach – The current industry lead time for acquiring LPTs and VSRs ranges from 16 to 48 months, making procurement timing and vendor capability critical

factors in project success. A competitive sealed proposal method is the preferred procurement approach because it enables a comprehensive evaluation of multiple factors beyond cost alone. This methodology allows LADWP to properly assess LPT and VSR manufacturers based on their capacity and capability to deliver required equipment in a timely and reliable manner. Key evaluation criteria include performance reliability, delivery timetables, manufacturer warranties, and global manufacturing flexibility factors that are essential for meeting LADWP's infrastructure timeline.

Equipment Delivery and Installation Timeline – Manufacturers assign production slots upon receipt of a purchase order or initial progress payment, securing the customer's place in the queue. Following order placement, manufacturers begin procuring long-lead materials and specialized subcomponents, allowing sufficient time to source critical items. Actual manufacturing begins approximately 24 months after the initial order. Equipment delivery to the customer begins approximately 36 months after award, with subsequent deliveries occurring quarterly throughout the remaining contractual period. Each component will undergo a six-month inspection, assembly, testing, and commissioning process after delivery. All equipment will be fully commissioned within LADWP substations approximately one year of final delivery.

Manufacturer Representative Services for Equipment Installation and Warranty Protection – Representative services are required to advise LADWP upon delivery. This specialized support is necessary because manufacturer representatives can address technical questions from LADWP crews and provide specific guidance based on the equipment's design specifications and installation requirements. This expert oversight ensures the equipment is properly commissioned according to manufacturer standards, preserving warranty coverage.

Customer Pass through Fees – The PSRP is financed by surcharges passed on to LADWP customers. These fees include Base Rates, which cover up to $320 million in capital costs and $290 million in annual operations and maintenance costs, and special charges known as pass-through factors. Expenses exceeding these amounts are recovered through additional surcharges: the Reliability Cost Adjustment (RCA) and the Incremental Reliability Cost Adjustment (iRCA). Base Rates have been frozen since Fiscal Year 2019-20 and will remain unchanged until new rates are approved. Annually, the LADWP Board of Commissioners approves the estimated expenses used to calculate the RCA and iRCA, which become effective on July 1. Attachment 1, Figure 1 of this report provides the current pass though rates for residential and general service customers for Fiscal Year 2024-25.

Alternatives Considered – The Department considered utilizing the IFB process for the Project. However, awarding a contract solely to the lowest responsive and responsible bidder is not feasible given the highly specialized nature of substation LPTs and VSRs. The IFB method presents significant limitations for this specialized equipment procurement as it cannot reliably deliver the required equipment at the lowest ultimate cost to LADWP, nor can it adequately address critical performance reliability, delivery timetables, manufacturer warranties, and global manufacturing flexibility—all of which are crucial for ensuring operational effectiveness and meeting LADWP's energy infrastructure improvement goals.

CITY COMPLIANCE

Small Business Enterprise (SBE), Local Business Enterprise (LBE), Local Small Business Enterprise (LSBE), and Disabled Veterans Business Enterprise (DVBE) Participation – A local Bid Preference will be for businesses located within Los Angeles County, in accordance with Chapter 1, Article 21 of the Administrative Code, Section 10.25, *et seq.* The criteria as established by the proposed Ordinance will grant local businesses up to an additional 12 percent weighting factor.

California Environmental Quality Act (CEQA) – LADWP has determined, subject to Board approval, that this item is exempt from CEQA pursuant to Section 15060(c)(3) that states an activity is not subject to CEQA if the activity is not a project. Section 15378(b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet that definition. Therefore, the approval of an ordinance to authorize procurement of power transformers, spare parts, and commissioning services is not subject to CEQA.

Charter Section 1022 – The Department determined that the services advertised through the proposed Request for Proposals are for expert services which require knowledge and skills that are not available within LADWP and therefore can be performed more economically and feasibly by independent contractors.

The City Attorney has reviewed and approved the proposed Resolution and draft Ordinance as to form. Pursuant to Charter Section 371(a) and Administrative Code Section 10.15(f), this proposed competitive sealed bid proposal method requires Council approval by Ordinance. Additionally, Council approval is required for Charter Sections 373 and 674. In accordance with Charter Section 371(a), and the Los Angeles Administrative Code Section 10.25, the Local Business Preference Program will apply. This Office has reviewed the request and recommends approval.

FISCAL IMPACT STATEMENT

There is no impact on the General Fund. The proposed Resolution and Ordinance authorizes the use of the competitive sealed proposal method under Administrative Code Section 10.15(f) to procure Large Power Transformers, Variable Shunt Reactors, spare parts, and associated manufacturer representative services. The Resolution and Ordinance covers only administrative costs and excludes any contract expenditures. The ensuing contract(s) is funded through a power reliability surcharge passed on to LADWP customers for a total estimated cost of approximately $732 million. The proposed recommendations in this report comply with the Los Angeles Department of Water and Power's adopted Financial Policies.

Attachment 1 Prepared by the CAO – Outline of the specialized nature of Large Power Transformers and Variable Shunt Reactors and 2024-25 PSRP Surcharges for Residential and General Service Customers

Attachment 2 – LADWP May 9, 2025 Transmittal, April 21, 2025 Board Correspondence, proposed Resolution and Ordinance

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Specialized Nature of Large Power Transformers and Variable Shunt Reactors

Custom Engineering Design - Each LPT and VSR is designed by engineers to meet the specific needs of a particular substation and site. The design takes into account numerous factors, including the electrical load, site configuration, and grid requirements. This customization ensures optimal performance for the particular location and electrical system.

Long Manufacturing Timeline - The manufacturing process for LPTs and VSRs is highly intricate and can take over 24 months due to the complexity and size of the equipment. This lengthy process requires careful planning, scheduling, and expertise to ensure quality and precision. Additionally, manufacturing slots for manufacturing LPTs and VSRs must often be secured many months or years in advance due to the demand and limited availability of the manufacturing slots.

Specialized Manufacturing Techniques - LPTs and VSRs are not mass-produced but are instead manufactured based on custom designs. The materials construction techniques, and quality control procedures involved are highly specialized to meet rigorous performance standards for power transmission.

Advanced Technological Requirements - LPTs and VSRs incorporate advanced electrical and mechanical technologies to handle high voltage levels, ensure safety, and improve efficiency in power transmission. Their design includes precise insulation, cooling, and electrical components tailored to specific operating conditions.

Installation and Maintenance Expertise - The installation and maintenance of LPTs and VSRs require specialized knowledge and experience. Technicians and engineers must be highly trained to ensure correct setup and safe operation, often involving manufacturer representatives who provide on-site technical guidance and support throughout the process.

Figure 1

2024-25 PSRP Surcharges for Residential and General Service Customers						
Customer	RCA (Capped) $/kWh	RCA (Capped) $/kW	iRCA $/kWh	iRCA $kW	Energy Charge Total $/kWh	Demand Charge Total $/kW
Residential	$0.003	-	$0.04208	-	$0.04508	-
General Service	-	$0.96	$0.03100	$2.84	$0.03100	$3.80

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