



DATE ISSUED: February 21, 2007 REPORT NO: CCDC-07-05

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of February 27, 2007

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Balboa Theatre (868 Fourth Avenue) – Agreement with NRG
Energy Center San Diego, LLC -- Horton Plaza Redevelopment
Project

COUNCIL DISTRICT(S): 2

REFERENCE: None

STAFF CONTACT: Eli Sanchez, Senior Project Manager (619)533-7121

REQUESTED ACTION:

Redevelopment Agency approval of an Agreement with NRG Energy Center San Diego, LLC for chilled water supply service to the historic Balboa Theatre.

STAFF RECOMMENDATION:

That the Redevelopment Agency of the City of San Diego (“Agency”):

- Approve a fifteen-year Agreement with NRG Energy Center San Diego, LLC (“NRG”) in an amount not to exceed \$85,000, plus monthly payments for chilled water service to the Balboa Theatre, located at 868 Fourth Avenue in the Horton Plaza Redevelopment Project; and
- Adopt a resolution stating for the record that the Agency has previously reviewed and considered information contained in the Master Environmental Impact Report (“MEIR”), as it pertains to the rehabilitation of the Theatre.

SUMMARY:

The historic rehabilitation of the Balboa Theatre (“Theatre”) is currently under construction by the Agency with a planned opening date of December 2007. CCDC staff serves as the project manager. The NRG chilled water supply agreement is an integral part of the approved design and construction budget for the rehabilitation of the Theatre. The use of chilled water, under the NRG Agreement, is an efficient and effective alternative to onsite chillers.

FISCAL CONSIDERATIONS:

The Agency will reimburse NRG approximately \$85,000 for the estimated costs associated with providing a chilled water connection from NRG’s current interconnect at Horton Plaza to the chilled water meter location in the Theatre. In addition, payments for monthly chilled water service will be paid as part of Theatre operations. Funds are available in the Fiscal Year 2006-2007 budget. The total project cost for rehabilitation of the Theatre is \$26,000,000.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:

On January 31, 2007, the Centre City Development Corporation Board of Directors voted 6 to 0 in favor of the Agreement.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

None.

BACKGROUND

The rehabilitation of the Theatre advances the Visions and Goals of the Centre City Community Plan and the Objectives of the Horton Plaza Redevelopment Project by:

- Eliminating blight through the rehabilitation and upgrade of a significant historic structure;
- Strengthening the Arts District, thereby contributing to the growth of making downtown the dominant regional center for the arts, entertainment, dining and public festivals; and
- Providing a community facility to cater toward both downtown residents and visitors.

In addition, the Historic Preservation Focus Plan and the 2004-2009 Implementation Plans for Centre City and Horton Plaza specifically list the rehabilitation of the Theatre as a focus project.

At the October 2, 2002 joint meeting of the CCDC Projects and Budget/Finance Joint Committee, staff was directed to proceed with the rehabilitation of the Theatre as a public initiative, and proceed with issuing a Request for Qualifications for professional services. The rehabilitation of the Theatre has progressed through design and is now in Phase 3 of construction. Construction is projected to be complete by October 2007 and the Theatre opening is anticipated to be in December 2007. The design of the cooling system included receiving chilled water from NRG.

At the January 17, 2006 meeting of the Budget Finance and Administration Committee, the Committee inquired into the remedy for a default for NRG under Section 20 that provides that under no circumstances shall NRG be liable for special, exemplary or consequential damages, including without limitation, loss of profit or revenue or interference with operations. This Section 20 provision was previously negotiated to consider recovery of costs but NRG is not willing to accept any additional liability under Section 20 for default. The most likely loss would be theatre ticket refunds and/or loss of rents if a performance could not be provided due to a lack of air conditioning.

DISCUSSION

Scope of the Project – To provide a chilled-water connection from NRG's interconnection at Horton Plaza to the Balboa Theatre and to provide chilled water service for the air-conditioning system in the Theatre.

Project Budget and Financing– Funds for the cost of the interconnection (\$85,000) are included in the budget for the rehabilitation of the Balboa Theatre and are available in the Fiscal Year 2006-2007 budget.

Project Benefits – The use of chilled water, under the NRG Agreement, is an efficient and effective alternative to onsite chillers.

During the value engineering process, a chilled water supply service was introduced into the project to reduce the capital costs of the mechanical system. Instead of expending capital funds for the purchase and installation of a chilled water system, the mechanical system was modified to accept chilled water from NRG for an estimated capital cost of \$85,000 for materials and construction to prepare the Theatre to accept the chilled water service from NRG.

The term of the Agreement is for fifteen (15) years from the date of commencement of service. The Agreement also provides the Agency with up to two (2) ten-year extensions at the option of the Agency. The Agreement further provides that if the Theatre was to go “dark” for more than thirty (30) days or is all or partially damaged or destroyed, then, upon Agency’s election, the Agreement can be suspended or charges can be reduced to be paid on a pro rated basis for a period of up to one (1) year.

Under the NRG Agreement, monthly payments for services are based on a minimum Capacity Charge of \$19.00 per ton, per month of 120 tons of peak capacity, equal to \$2,280 per month plus the actual chilled water usage during the billing month. Staff estimates that the total cost per year for the Capacity Charge and chilled water service is approximately \$72,000. This cost is anticipated to be paid by the operator/manager of the Theatre.

The NRG Agreement provides that the costs for chilled water service are subject to adjustment to the Capacity Charge, Usage Charge and Energy Charge. The adjustment for the Capacity and Usage charges will be equal to the percent increase or decrease in the Consumer Price Index for San Diego, California for the preceding 12 months from January 1 of each year. The Energy Charge will be increased or decreased each month based on the actual change in cost of energy and water, including natural gas, electricity and related transmission, distribution and other energy charges and associated taxes incurred by NRG per ton hour of chilled water. NRG has declined to negotiate a “cap” of these charges with the Agency. NRG indicates that such a provision is essentially a “pass through” of costs and is not a negotiable term for new service contracts.

Chilled Water Analysis

During the design process, the design team evaluated the best option for the Theatre’s air-conditioning system. Initially, the design team evaluated direct expansion (DX) cooling versus chilled water-cooling. It was concluded that the chilled water-cooling system was 30% less to operate annually.

Having made the decision to use chilled water, the following three options for chilled water systems were compared:

1. Water-cooled chillers with a roof-mounted cooling tower and associated pumps;

2. Air-cooled chillers with associated pumps; and
3. District chilled water from NRG.

Option 1 provided the best overall system efficiency but had the highest initial construction cost. Higher initial costs were due to mechanical piping between the chiller and cooling tower, acoustics isolating the sound from the cooling tower from the audience chamber and structural requirements in supporting the weight of the cooling tower on the existing roof.

Option 2 had a slightly lower overall construction cost than Option 1. The cost was lower due to not requiring a cooling tower, condenser water piping and associated pumps, but the structural and acoustical requirements were higher than Option 1, due to the weight and sound power levels of the air-cooled chiller.

Option 3 provided the lowest construction cost due to minimizing the chilled water piping and equipment. The only equipment required was the chilled water pump. In a theatre, all piping connected to rotating or vibrating equipment must be isolated from the building by spring isolation hangers. Since this option minimized the piping, it had a significant impact on the construction cost. Since there was no roof-mounted equipment such as a cooling tower or chiller, the project eliminated any associated costs dealing with additional structures to support the equipment and expensive acoustical solutions to stop the sound penetration into the audience chamber.

The option for choosing the district-chilled water provided by NRG was based upon the following factors:

- Lowest initial construction cost for a chilled water system;
- Provided the best acoustical solution for the Theatre;
- Eliminated the need to restructure the roof for supporting the roof-mounted equipment;
- Eliminated the maintenance costs associated with chillers and cooling towers;
- Saved on water consumption (make-up water for the systems) and water treatment chemicals; and
- The chilled water source was located nearby in Horton Plaza.

PROJECT ANALYSIS AND IMPACT ASSESSMENT

Environmental Impact– The Agency/Council has previously reviewed and considered information contained in the Master Environmental Impact Report for the Centre City Redevelopment Project, and the Environmental Secondary Study prepared for the rehabilitation of the Theatre. No further environmental review is required.

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SUMMARY/CONCLUSION

The use of chilled water from NRG results in the lowest initial construction cost for a chilled water system within the Theatre; reduces repair and maintenance costs; and saves water and water treatment costs. The use of chilled water under the NRG Agreement is an efficient and effective alternative to onsite chillers. Staff recommends approval of the 15-year Agreement.

Respectfully submitted,

Concurred by:

Eli Sanchez
Senior Project Manager

Nancy C. Graham
President

Attachment(s):

A – NRG Agreement

B – NRG Letter

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Staff Final Memo- agency - 2.20.07.doc