SUMMARY STATEMENT

ITEM NO.: DRPA-11-085
SUBJECT: Authorization to Approve and Execute Contracts for Purchase of Electric Energy

COMMITTEE: New Business

COMMITTEE MEETING DATE: N/A

BOARD ACTION DATE: October 19, 2011

PROPOSAL: That the Board authorizes the Chairman and Vice Chairman acting jointly to enter into agreements for the purchase of electric power for DRPA and PATCO facilities, to include One Port Center, in an amount estimated not to exceed $8,000,000 in total for all DRPA and PATCO accounts in any year. This authorization to last for a three year period.

PURPOSE: To enable DRPA/PATCO to obtain electrical energy for its operations and facilities at competitive rates utilizing a competitive process. Granting limited contracting authority to the Chairman and Vice Chairman will enable the DRPA/PATCO to take advantage of rapidly changing market opportunities by soliciting price quotes for electrical energy service when rates are low. The intent is to leverage the electrical demand of PATCO to secure more favorable pricing for the entire Authority. In order to offer the lowest rates, suppliers often require a response within 24 hours or less.

BACKGROUND: For a number of years prior to January 1, 2005, PATCO obtained its electric energy for traction power from PSE&G through an Off-Tariff Rate Agreement (OTRA) which locked in very favorable rates for PATCO. Electric energy that was supplied to the DRPA bridges from New Jersey utility companies was purchased at the tariff rate, which was set by a regulated process. In 2004, the electric energy industry in New Jersey underwent deregulation and consumers such as DRPA and PATCO were required to either competitively bid their energy requirements or receive default pricing from their utility company. The price is set according to regional demand and availability, and there is no maximum. In December 2010, PATCO began obtaining electrical energy for PATCO operations in Philadelphia from PECO. On January 1, 2011, the electric energy market in Pennsylvania also underwent deregulation. Contracting for electric power from a third party supplier provides the opportunity to negotiate prices and terms that are favorable
to the DRPA and PATCO, while mitigating the risk of spikes in the market price. PEPCO Energy Services serviced several of the large DRPA/PATCO accounts in New Jersey. This contract with PEPCO expired in April of 2011. Currently, the DRPA/PATCO are paying the default rates on all accounts serviced by Atlantic City Electric, PECO, and PSE&G.

In August 2004, and again in September 2007, the DRPA/PATCO Board approved a Resolution to allow the Authority to receive bids for its electric energy requirements and to quickly award a contract for its energy requirements with the approval of the Chair and Vice Chair of the Board. This approval was for a three year period, which expired in September, 2010.

Staff is seeking approval from the Board for a similar approval for another three year period.

The current market for electricity is extremely sensitive and the generation prices per kilowatt hour have risen dramatically in recent years. The price of electricity can and does vary from day to day, and even within the course of one day, not unlike other forms of commodities trading. Factors that affect electricity pricing include but are not limited to the cost of source fuel for generation, the availability of those fuel sources, storage, facility maintenance schedules, weather, emerging consumer markets, and world politics. These factors require DRPA to have considerable flexibility in its contracting process.

The bidding methodology the DRPA and PATCO plan to utilize is the “Reverse Auction”. A “Reverse Auction” provides a transparent and competitive bidding platform that affords the greatest number of electric generators the opportunity to bid for DRPA/PATCO business. There is no direct cost to the DRPA/PATCO associated with conducting a “Reverse Auction”. The electrical energy generator(s) who submit the winning bid(s) compensates the electric energy consultant. In April 2011, DRPA/PATCO advertised its intent to solicit bids for its electric energy consultant. Firms were prequalified to receive Requests for Proposals which were issued on July 20, 2011. The selected firm will conduct a “Reverse Auction” on behalf of the DRPA/PATCO.
The contracting process for electricity purchases is extremely time-sensitive, and there is a short time frame for making procurement decisions and contracting commitments. Vendors generally will agree to hold a price only until the close of business on the day it is issued, and “close of business” for trading desks is approximately 2 p.m. Vendors also require that upon acceptance of a quoted price, the customer enters into an agreement that day.

DRPA’s Request for Proposal documents will include a form contract and terms and conditions to which electrical generators would already have agreed before the price bidding process begins, which will streamline the contracting process considerably. Nevertheless, securing the best prices requires an expedient process for approving and entering into electric power contracts. Accordingly, the attached resolution would authorize the Chairman and Vice Chairman acting jointly to enter into electricity purchase agreements on DRPA’s behalf.

SUMMARY:

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<th>Amount:</th>
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<tr>
<td>Source of Funds:</td>
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<tr>
<td>Capital Project #:</td>
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<tr>
<td>Operating Budget:</td>
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<td>Master Plan Status:</td>
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<td>Other Fund Sources:</td>
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<td>Duration of Contract:</td>
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<td>Other Parties Involved:</td>
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RESOLUTION

RESOLVED: That the Board authorizes the Chair and Vice Chair acting jointly to approve and execute agreements and contracts with qualified suppliers for the purchase of electric power in amounts not to exceed $8,000,000 in any year and under terms and conditions favoring the Authority; and be it further

RESOLVED: That staff will report on the results of the energy procurement effort on a regular basis, and will return to the Board for further authorization not later than three years from the effective date of this resolution; and be it further

RESOLVED: The Chair, Vice Chair and the Chief Executive Officer must approve and are hereby authorized to approve and execute all necessary agreements, contracts, or other documents on behalf of the DRPA. If such agreements, contracts, or other documents have been approved by the Chair, Vice Chair and Chief Executive Officer and if thereafter either the Chair or Vice Chair is absent or unavailable, the remaining Officer may execute the said document(s) on behalf of DRPA along with the Chief Executive Officer. If both the Chair and Vice Chair are absent or unavailable, and if it is necessary to execute the said document(s) while they are absent or unavailable, then the Chief Executive Officer shall execute such documents on behalf of DRPA.

SUMMARY:

Amount: N/A
Source of Funds: N/A
Capital Project #: N/A
Operating Budget: N/A
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: N/A
Other Parties Involved: N/A