SUMMARY STATEMENT

ITEM NO. DRPA-20-073
SUBJECT: Authorization to Approve and Execute Contracts for Purchase of Electric Energy
COMMITTEE: Operations & Maintenance
COMMITTEE MEETING DATE: May 5, 2020
BOARD ACTION DATE: May 20, 2020

PROPOSAL: That the DRPA Board authorize PATCO 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 $7,600,000 in total for all DRPA and PATCO accounts in any one year. This authorization is for up to a three-year period ending November 20, 2023.

PURPOSE: To enable DRPA and PATCO to obtain electrical energy for their operations and facilities at competitive rates utilizing a competitive process in an auction format. In order to offer the lowest rates, suppliers require a response within 12 hours or less. Granting limited contracting authority to PATCO will enable the DRPA and PATCO to benefit from 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.

BACKGROUND: Prior to 2005, PATCO obtained its electric energy for traction power from PSE&G through an Off-Tariff Rate Agreement (OTRA) that locked in very favorable rates for PATCO. 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. In December 2010, PATCO began obtaining electrical energy for PATCO operations in Philadelphia from PECO.

At the current time the planned installation of solar panels at seven (7) DRPA/PATCO sites is intended to provide up to 50% of all kilowatts required by PATCO and DRPA in their operations.

Since 2004, DRPA and PATCO solicited and received bids for electric energy requirements with a rapid approval of contract terms with the approval of the Board’s Chair and Vice Chair. The most recent approval (Resolution #PATCO-17-034) for a three-year period will expire in November 20, 2020. Staff is seeking approval from the Board for an additional 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, not unlike other forms of commodities, can and does vary from during each day and from day to day. 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 and PATCO to have considerable flexibility and to be able to move quickly in its contracting process. Inasmuch as this contracting process for electricity purchases is extremely time-sensitive, 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 offered, and “close of business” for trading desks is approximately 2 p.m. Vendors also require that upon acceptance of a quoted price, the customer enter into an agreement on the day of acceptance.

The Request for Proposal documents will include a formal contract with terms and conditions to which electricity generators would already have agreed before the price bidding process begins, thus streamlining the contracting process. Nevertheless, securing the best prices requires an expedited process for approving and entering into electric power contracts. Accordingly, the attached resolution would authorize PATCO to enter into electricity purchase agreements for the DRPA and PATCO.
RESOLUTION

RESOLVED: The DRPA Board authorizes PATCO to approve and execute agreements and contracts with qualified suppliers for the purchase of electric power in amounts not to exceed $7,600,000 in any one year for the DRPA and PATCO under terms and conditions favorable to the DRPA and PATCO.

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