SUMMARY STATEMENT

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

COMMITTEE:           Operations and Maintenance

COMMITTEE MEETING DATE: August 15, 2007

BOARD ACTION DATE:    September 19, 2007

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 in an amount estimated not to exceed $7,000,000 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. 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. 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 was deregulated 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 default price for electric power for large accounts is the hourly market price plus an up charge of one half cent per kilowatt hour. The price is set according to regional demand and availability, and there is no maximum. 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.

In August, 2004, 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 expires in September, 2007.

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 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.

In 2004, DRPA/PATCO advertised its intent to solicit bids for its electric energy needs. Firms were prequalified to receive Requests for Proposals. Firms that have been prequalified will be requested to submit price quotes at various times in order to take advantage of favorable market opportunities.

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 vendors 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.
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<th>SUMMARY:</th>
<th>Amount:</th>
<th>Not to Exceed $7.0 per year [PATCO and DRPA]</th>
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<tr>
<td>Source of Funds:</td>
<td>Revenue Funds, General Funds</td>
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<tr>
<td>Capital Project #:</td>
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<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 pricing and execute agreements and contracts with qualified suppliers for the purchase of electric power in amounts not to exceed $7,000,000 in any year; 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: That once the Chair and Vice Chair have approved the pricing for Electric energy, then 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: Not to Exceed $7.0 million per year [for DRPA and PATCO]
Source of Funds: Revenue Funds, General Funds
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