

SUMMARY STATEMENT

ITEM NO.: PATCO-17-034

SUBJECT: Authorization to Approve and Execute Contracts for Purchase of Electric Energy

COMMITTEE:

Operations & Maintenance

COMMITTEE MEETING DATE:

October 5, 2017

BOARD ACTION DATE:

October 18, 2017

PROPOSAL: That the Board authorizes staff to negotiate 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 year. This authorization is to last for a three-year period ending December 31, 2020.

PURPOSE: To enable DRPA/PATCO staff to obtain electrical energy for its operations and facilities at competitive rates utilizing a competitive process. Granting limited contracting authority to the Chief Executive Officer/President, Chairman and Vice Chairman will enable the DRPA/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. 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 industry in Pennsylvania was deregulated as well. 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, September 2007, October 2011, and most recently in November 2014, the DRPA/PATCO Board approved Resolutions 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. The most recent approval (Resolution #PATCO-14-040) was for a three-year period, which will expire in December 31, 2017.

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 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 formal contract with 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 Chief Executive Officer/President, with the consent or approval of the Chairman and Vice Chairman acting jointly, to enter into electricity purchase agreements on DRPA/PATCO’s behalf.

SUMMARY STATEMENT (3)
O&M 10/5/17

**Authorization to Approve and Execute
Contracts for Purchase of Electric Energy**

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

PATCO-17-034
Operations and Maintenance: October 5, 2017
Board Date: October 18, 2017
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RESOLUTION

RESOLVED: That the Board authorizes staff to negotiate agreements and contracts with qualified suppliers for the purchase of electric power in amounts not to exceed \$7,600,000 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: That the Chairman, Vice Chairman and Chief Executive Officer/President must approve and are hereby authorized to approve and execute all necessary agreements, contracts, or other documents on behalf of the DRPA/PATCO. If such agreements, contracts, or other documents have been approved by the Chief Executive Officer/President and with the consent or approval of the Chairman and Vice Chairman, the Chief Executive Officer/President may execute the said document(s) on behalf of DRPA/PATCO.

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