

TOWNSHIP OF LOWER MERION

Finance Committee

Issue Briefing

Topic: Electric and Natural Gas Pricing Solicitation

Prepared By: Ernie B. McNeely, Township Manager

Date: September 14, 2018

I. Action To Be Considered By The Board:

Authorize Township staff and Provident Energy to solicit pricing for electric and natural gas pricing for Township facilities.

II. Why This Issue Requires Board Consideration:

The Board of Commissioners would have to approve contracting with Provident Energy to solicit energy pricing.

III. Current Policy Or Practice (If Applicable): N/A

IV. Other Relevant Background Information:

The Township has a multi-year fixed rate contract with Constellation Energy for electric supply which is expiring in November 2018. The Township also has a floating rate contract for natural gas supply with Titan Gas which terms essentially expired in June 2018. Accordingly, it is time to solicit new pricing for supply of these essential energy services. The current spend on Natural Gas is about \$100,500 per year while the current spend on electric is approximately \$1,353,000 per year.

Under the current contract with Constellation Energy for electric the Township is paying \$.0672 per kWh (kilowatt-hour) exclusive of gross receipts tax which was a sharp reduction from what the Township had been paying before entering the Constellation contract. This pricing was obtained by going through the Pennsylvania Municipal League's (PML) Municipal Utility Alliance (MUA) that aggregates municipal electric needs across the state and obtains pricing for municipalities. This program is advised by a local Lower Merion resident Mr. Lew Cohen. While it represented a sharp cost reduction at the time, rates have continued to fall over recent years and there is an opportunity to further reduce electric supply rates for the future through shopping the contract.

The Titan floating rate for natural gas has also done well for the Township in the declining rate environment but it may make sense to lock in some future fixed rate pricing depending on the results of a solicitation. Provident Energy is about to solicit natural gas pricing for four area counties along with several municipalities and Lower Merion's natural gas needs can be bundled together with those others to solicit a pricing.

The Township also has the opportunity now to authorize Provident Energy to solicit pricing for electric supply but should carve out Constellation Energy pricing which can be priced by the Pennsylvania Municipal League's (PML) Municipal Utility Alliance. This will create a very competitive process and the pricing will be requested with streetlights segregated and with streetlights bundled so the options can be evaluated. It is the opinion of the Municipal Utility Alliance expert and Provident Energy that the Township will be well served to lock in pricing as far out as 3-4 years but that too will be analyzed after the solicitation proposals are received. Pricing can also be obtained to show what different percentages of green power would cost noting that the Township currently purchases ten percent green power.

Both the Municipal Utility Alliance and Provident Energy charge a fee for accessing the pricing they can obtain. The MUA fee is \$.00075 per kWh and the Provident Energy fee is \$.001 per kWh. Those fees are incorporated into the rate paid monthly on the bills and the MUA fee is currently part of the rate paid by the Township for electric. Assuming 10.5 million kWh per year for Township usage those fees add \$7,875 or \$10,500 respectively to the Townships annual cost but are easily offset by obtaining the most advantageous pricing on a total annual expense of over \$1,350,000. Provident Energy would shop the Township's electric supply to various major providers while the MUA pricing has essentially already been shopped and awarded to Constellation Energy, so they would provide pricing only from Constellation Energy.

The Provident Energy fee for shopping natural gas supply with the solicitation they are about to do for three counties and other users would be \$.01 or one cents per Therm of natural gas or natural gas BTU equivalent again incorporated into the monthly rate obtained. At 12,076 annual mmBTU (million British Thermal Units) the consultant the fee would amount to an annual charge of \$1,208 and could easily be offset by the better rate obtained. Again, options would be reviewed for length of contract and even whether different sites should be split to different suppliers.

An option here since the Township natural gas usage is so small would be to shop the account without use of the Provident Energy consultant however then the Township capacity would not be combined with the much larger block of business that Provident is about to market and the price quote to us may be higher due to the Township's small usage.

V. Impact On Township Finances:

The impact on Township finances will be a sharp reduction in the amounts paid for energy supply but the total savings cannot be quantified until the solicitation of pricing is complete.

VI. Staff Recommendation:

The recommendation is to authorize Township staff using the MUA program and Provident Energy using various markets to solicit pricing for electric and natural gas pricing for Township facilities.