

# Agenda Report

Date: October 16, 2006

**TO:** CITY COUNCIL

**FROM:** CITY MANAGER

**SUBJECT: AUTHORIZATION TO ENTER INTO PURCHASE ORDER CONTRACTS WITH CENTRAL MOLONEY INC, HOWARD INDUSTRIES INC AND WESCO DISTRIBUTION FOR THE FURNISHING AND DELIVERY OF DISTRIBUTION TRANSFORMERS FOR PASADENA WATER & POWER DEPARTMENT**

## **RECOMMENDATION**

It is recommended that the City Council authorize the issuance of Purchase Order Contracts to Central Moloney, Howard Industries and Wesco Distribution to purchase various distribution transformers and find that competitive bidding is not required pursuant to City Charter, Section 1002 (G).

## **BACKGROUND:**

In August 2003, Specification LD-03-6 was issued inviting bids to furnish and deliver distribution transformers. On November 3, 2003, City Council authorized contracts of \$294,187 per year with Central Moloney, Inc; \$213,164.72 per year with Howard Industries; and \$327,607.68 per year with Wesco Distribution for various types of transformers. Each contract was for a period of three years and allowed two one-year optional extensions following the third year, with a fixed price cap tied to the Los Angeles County Consumer Price Index. The delivery time was specified as no longer than twelve weeks.

After completing the third year of the contracts, Pasadena Water and Power (PWP) expected to extend each contract for an additional two years; however, the vendors have advised they can no longer honor fixed price guarantees tied to the CPI or meet the twelve-week delivery commitments. All of these vendors have increased their prices to keep pace with the commodity market index and increased their lead time delivery schedules due to the price volatility of raw materials and increased demand. The City has received documentation detailing price increases of 15-300% for the various distribution transformers. Lead times for these materials are now 16 to 40 weeks.

The following conditions have contributed to the price and lead time increases:

- The CPI, which is the contractual basis for price increases, increased from 2.1% in 2003 to 5.4% in 2006. In comparison, since 2003, significant materials such as copper and aluminum used in the manufacturing of transformers and electrical equipment, have increased more than 350% and 110% respectively. Also oil used inside transformers as an insulator has doubled in price. Although commodity and crude oil prices have recently declined, their pricing remains volatile.
- Increased world-wide demand for limited raw materials.

According to our vendors, other suppliers and neighboring utilities, increased prices and lead times will continue well into 2008. Other utilities are experiencing procurement issues similar to the City of Pasadena.

PWP has embarked on a program to improve and update its electrical utility system as described in its Electrical Distribution System Master Plan. As PWP is moving aggressively to complete all major capital projects outlined in the Master Plan while accommodating the City's growth in both the residential and commercial sectors, PWP has depleted its inventory of various most commonly used types of transformers, including the 50kVA and 100kVA transformers. Inventory levels must be brought back to normal levels to protect the integrity of the distribution system and ensure the health and safety of the public.

Because the City is unable to extend the current contracts, and this puts the reliability of our system in question, PWP is requesting Council approve purchase order contracts with the current vendors without competitive bidding for the following Not To Exceed amounts:

- Central Moloney: \$480,000
  - Howard Industries \$320,000
  - Wesco Distribution \$500,000
- \$1,300,000

The requested amounts provide for a fifty percent increase over the amounts purchased from each vendor in fiscal year 2006, to cover price increases and increased demand due to system expansion and Master Plan projects.

PWP's inventory of transformers is depleted, and there is a current backlog of more than twenty customer projects that cannot be completed due to the unavailability of transformers. PWP receives an average of twenty requests for new transformers every month due to increased levels of electrical service requests by residential and commercial customers, aggressive work on Master Plan projects and increased levels of system upgrades.

Authorizing these contracts would allow 8 to 12 weeks acceleration in the procurement cycle of these transformers. Manufacturers' drawings have already been submitted and

approved by PWP (8 to 12 weeks savings) for purchases made in the past three years and testing protocols have been approved and established.

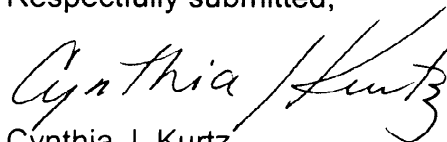
Electricity is a vital service provided by the City, and PWP is concerned that its inability to replace a failed transformer or transfer load from one circuit to another may lead to many extended outages to both residential and commercial and cause an immediate threat to the stability of the electrical infrastructure. PWP deems that this situation has now become an emergency and approving these contracts would be in the best interests of the City.

Staff recommends Council approve these contracts to provide time for PWP to prepare new specifications and to seek new bids for the same transformers. Approval will allow PWP to replenish its inventory of transformers quickly, to continue to provide electric service in a timely manner, to continue the pace of work on the Master Plan projects, and will safeguard the integrity of the electric distribution system and the health and safety of the public.

**FISCAL IMPACT:**

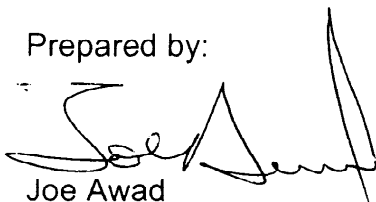
If these contracts are authorized, PWP will spend up to \$1,300,000 to purchase transformers during fiscal year 2007. Sufficient funds are available in the Power Funds 401 (operating) and 411 (capital), to cover the increased funding requested below. Funds have been appropriated in CIP #3161, Capacity and Reliability Sustaining Program and CIP #3002, Distribution System Expansion.

Respectfully submitted,



Cynthia J. Kurtz  
City Manager

Prepared by:



Joe Awad  
Business Unit Director  
Water and Power Department

Approved by:



Phyllis E. Currie  
General Manager  
Water and Power Department

Disclosure Pursuant to the  
City of Pasadena Taxpayer Protection Amendment of 2000  
Pasadena City Charter, Article XVII

Contractor hereby discloses its trustees, directors, partners, officers, and those with more than a 10% equity, participation, or revenue interest in Contractor, as follows:  
(If printing, please print legibly. Use additional sheets as necessary.)

1. Contractor Name:

Central Moloney, Inc.

2. Name(s) of trustees, directors, partners, officers of Contractor:

<u>E. W. Copeland, Chairman of the Board</u>
<u>R. R. Siever, President and Director</u>
<u>Joe Ratliff, Director</u>
<u>A. D. Glover, Secretary</u>

3. Names of those with more than a 10% equity, participation or revenue interest in Contractor:

<u>n/a</u>
<u>Central Moloney, Inc. is a 100% Employee Stock Ownership</u>
<u>Plan (ESOP) Company</u>

Prepared by: *Chris J. Glover*

Title: Vice President Finance & Administration  
Corporate Secretary

Date: Jan. 17, 2006

For office use only

Contract No. \_\_\_\_\_



Attachment C

Disclosure Pursuant to the  
City of Pasadena Taxpayer Protection Amendment of 2000  
Pasadena City Charter, Article XVII

Contractor hereby discloses its trustees, directors, partners, officers, and those with more than a 10% equity, participation, or revenue interest in Contractor, as follows:  
(If printing, please print legibly. Use additional sheets as necessary.)

1. Contractor Name:

WESCO DISTRIBUTION

2. Name(s) of trustees, directors, partners, officers of Contractor:


3. Names of those with more than a 10% equity, participation or revenue interest in Contractor:


Prepared by: HENRY RODRIGUEZ *Henry Rodriguez*

Title: BRANCH MANAGER

Date: 4/10/06

For office use only
Contract No. _____