



**Purchasing Modification
CITY OF AUSTIN
RECOMMENDATION FOR COUNCIL ACTION**

AGENDA ITEM NO.: 15
AGENDA DATE: Thu 02/17/2005
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SUBJECT: Authorize execution of Amendment No. 2 to the contract with POWER SUPPLY, Austin, TX, to contractually modify the current pricing structure for oil and goods manufactured from steel and non-ferrous metals to allow price surcharges due to prevailing market conditions.

AMOUNT & SOURCE OF FUNDING: Funding is available in the Fiscal Year 2004-2005 Amended Operating Budget of Austin Energy.

FISCAL NOTE: There is no unanticipated fiscal impact. A fiscal note is not required.

REQUESTING Purchasing **DIRECTOR'S**
DEPARTMENT: for Austin Energy; **AUTHORIZATION:** Vickie Schubert

FOR MORE INFORMATION CONTACT: Dolores Castillo, Senior Buyer/322-6466

PRIOR COUNCIL ACTION: 6/24/04, Council approved original agreement.

BOARD AND COMMISSION ACTION: N/A

PURCHASING: N/A

MBE / WBE: This contract will be awarded in compliance with Chapter 2-9 of the City Code (Minority-Owned and Women-Owned Business Enterprise Procurement Program). No subcontracting opportunities were identified; therefore, no goals were established for this solicitation.

This contract was established through a competitive solicitation for padmount transformers for twenty-four months with three 12-month extension options. The contract included a price adjustment clause which specified the process for the review of prices after the initial contract period, based on the Bureau of Labor Statistics, Producer Price Index. The contract included City of Austin Standard Terms & Conditions that state prices must be firm during the initial contract period. Amendment No. 1 is a related item, RCA No. 6549, which increases the contract to reallocate the original award for transformers.

This contract was awarded to the lowest evaluated bidder based on "total owning cost". The total owning cost is the purchase price plus the value of losses (electricity lost during the voltage reduction) over the expected 30-year-life span of the transformer. A mathematical formula was published in the solicitation to calculate the total owning cost offered in each bid.

Amendment No. 2 would allow staff to review, consider, and authorize out of cycle increases or surcharges due to prevailing market conditions for the purchase of transformers that are manufactured with or from oil, steel and non-ferrous metals. A surcharge is a dollar amount that is temporarily paid in addition to the unit prices stated in the contract, which covers only the increased cost to the contractor. No increase to the total contract dollar amount will be authorized.

Pricing for transformer suppliers has become unpredictable and unforeseeable. Soaring prices, strong demand from key consumer sectors and other trade barriers have caused the global oil, steel and metal markets to operate outside normal market conditions. These transformers are necessary for underground power distribution systems such as apartment buildings, schools, hospitals, and industrial sites.



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Should these markets drop and stabilize, the use of surcharges will be discontinued.