

Legislation Text

File #: 23-0119, Version: 1

CITY COUNCIL AGENDA ITEM**ACTION REQUESTED:**

Approve the award of RFQ 23-034, Single and Three Phase Transformer Qualifications, to UUSCO of Illinois, Inc. and WEG Transformers USA for an amount not to exceed \$7,300,000 and a two-year term (Item 1 of 2)

DEPARTMENT: Electric Utility

SUBMITTED BY: Brian Groth, Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The other related item on the City Council agenda is:

- 23-0409: Award of change order #1

Electric utilities use distribution transformers to supply the correct type of power to residential and commercial customers.

- Transmission lines bring power to the City at a high voltage to efficiently move the power over long distances;
- Substation transformers reduce the voltage so that feeder cable can distribute the power throughout the City; and
- Smaller distribution transformers (grey cylinders seen on pole tops, or green boxes seen in backyards) reduce the power from the feeders to a level the customer can use.

The Naperville Electric Utility (Electric) currently has approximately 8,900 distribution transformers installed throughout the City. Electric purchases new single and three phase distribution transformers every year to replace units as part of normal maintenance operations of the City's power grid and to support new construction of homes, businesses and service upgrades for things like electric vehicle chargers.

Changes in the Transformer Market

Before COVID, the transformer market was more stable. Delivery times were typically no more than six to nine months from the time a manufacturer received an order to delivery. Post-COVID, delivery times are now more than two years due to the following:

- Manufacturers reduced production during COVID due to labor and material shortages, which resulted in less available supply when post-COVID operations resumed. Labor and material shortages are still prevalent and are estimated to restrict supply for the foreseeable future.

- Electric utilities impacted by natural disasters (i.e. wildfires, hurricanes, tornados, etc.) have increased demand and changed manufacturer priorities to address emergencies. For example, distributors told Electric last year after the hurricanes in Florida to expect lead times to increase an additional six months due to the increased demand because priority was being given to those areas without power over orders for material for non-emergency use.

Without transformers, the Utility cannot supply electricity to its customers. Electric has taken steps to reduce its exposure in the current transformer market, including:

- Modifying its reorder criteria to purchase for work two to three years out rather than within the current year.
- Moving transformers around in the field to replace failed units.
- Training Electric staff to repair transformers in-house where possible.
- Working with vendors to refurbish City transformers.
- Allowing non-US manufactured transformers.

DISCUSSION:

In January 2023, the City conducted RFQ 23-034 to shortlist vendors to supply single and three phase distribution transformers. The City conducts a Request for Qualifications (RFQ) rather than a bid because transformer pricing has always been volatile based on the market price of the component metals at the time of manufacture. Distributors are unable to hold prices for more than a few days. As part of the RFQ, vendors submit responses demonstrating the transformer models they supply meet Electric's specifications. There are 23 transformer models used by Electric.

Award

Two vendors responded to RFQ 23-034, UUSCO of Illinois, Inc. and WEG Transformers USA. Electric staff reviewed their responses and confirmed the transformers they supply meet the utility's specifications.

The \$7.3 million award amount was developed for work Electric anticipates completing in 2025 and 2026, including new installations and maintenance of existing assets. As indicated in the background section, delivery times for transformers are over two years. As such, orders submitted in 2023 are not anticipated to be delivered until 2025 or later. In addition, a 16% annual increase was factored into the costs based on current and forecasted increases.

The term of the award is two years from the date of the award with three, one-year options to extend.

Change Order #1

Past distribution transformer RFQs have resulted in 4-6 distributors who could provide spot quotes when the Electric Utility needed to purchase transformers. Staff contacted vendors who did not respond. Staff received responses that manufacturers were too busy to provide the required information as well as a response that a vendor only supplied refurbished transformers, which were not allowed in the RFQ.

Recognizing that lead times are not expected to reduce in the next few years and the two distributors currently recommended for award may not be able to provide Electric with the transformers they need in the appropriate timeframe, staff recommends processing a change order to the RFQ to:

- Extend RFQ response time through the end of the award term: This will allow distributors and

manufacturers to respond when their workloads permit. However, it will not delay Electric from requesting quotes from the currently shortlisted vendors when transformer needs are identified.

- Allow vendors to submit refurbished transformers: To date, Electric has worked with a vendor to refurbish City transformers. However, there are also vendors in the market who sell generally refurbished transformers. Staff would like to allow these vendors to submit quotes. Depending upon their stock at the time of quotes, they may be able to provide transformers in a reduced amount of time.

FISCAL IMPACT:

CIP#: Various

Single and three phase transformers are components of several Electric Utility capital projects. This award supports the purchase of equipment that will not be delivered and paid for until 2025 and 2026. The 2023-2027 Capital Improvement Program (CIP) includes funds in several CIPs that will support the award in 2025 and 2026, including EU003 - New Electric System Installations (\$3,600,000) and EU065 - Electric Distribution Transformer Purchases (\$2,800,000). While the total award exceeds the amount contemplated in the current five-year CIP, staff will make necessary adjustments to future budgets to ensure that transformer purchases are accommodated within the full scope of the Electric Utility CIP.

Account Number	Fund Description	Total Budget Amount
40101300-541407	Operating Supplies	TBD