



BOROUGH OF TARENTUM

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MEMORANDUM

TO: Borough Council, Mayor
FROM: Dwight Boddorf, Borough Manager
DATE: September 26, 2026
RE: 2027 Electric Budget Outlook, Wholesale Power Costs, and Rate Planning

Council Members,

As part of the 2027 budget process, this memo updates Council on the electric system's wholesale power outlook, the significant change in PJM capacity costs over the last several years, the Borough's rate-smoothing approach, and the operating and capital work needed to maintain a reliable municipal electric system. For budget planning, the working assumption is a 5% electric rate adjustment for 2027 within the Borough's 3-5% annual planning framework. Stabilization reserves would continue to be used as a shock absorber against short-term volatility rather than as a permanent substitute for recurring rate revenue.

2027 Budget Planning Assumption

Use a 5% electric rate adjustment as the 2027 budget assumption; retain the 3-5% annual planning range; continue price smoothing; preserve stabilization reserves for volatility, capital needs, and reliability risk; and continue the planned investment in staffing, equipment, and distribution-system maintenance.

Capacity Costs Changed the Economics of Wholesale Power

The major change has not been energy price alone. Tarentum has taken steps to hedge its base energy supply through American Municipal Power (AMP), but PJM capacity, transmission, congestion, and other grid charges remain variable pass-through costs. Capacity is the payment required to ensure that enough generation is available to serve peak demand and maintain regional reliability; it is separate from the energy commodity itself.

PJM's capacity market moved from a low-price environment to a sustained high-price environment in one auction cycle. The RTO clearing price increased from \$28.92/MW-day for the 2024/2025 delivery year to \$269.92/MW-day for 2025/2026 - an increase of approximately 833%. It then increased to \$329.17 for 2026/2027 and \$333.44 for 2027/2028. The 2028/2029 auction cleared at the temporary price cap of \$325/MW-day and still left PJM 6,831 MW short of its reliability requirement. These are delivery-year prices, generally June through May, not calendar-year energy prices.

PJM Delivery Year	RTO Capacity Price	Change / Context
2023/2024	\$34.13 / MW-day	Pre-spike baseline
2024/2025	\$28.92 / MW-day	Low-price baseline
2025/2026	\$269.92 / MW-day	+833% vs. prior year
2026/2027	\$329.17 / MW-day	+22% vs. 2025/2026; at cap
2027/2028	\$333.44 / MW-day	At cap; reliability shortfall
2028/2029	\$325.00 / MW-day	At temporary cap; 6,831 MW short

Tarentum's own AMP analysis shows the same effect at the Borough level. In AMP's September 2024 fixed-price comparison, the estimated PJM capacity component rose from \$2.75/MWh for January-May 2025 to \$23.85/MWh beginning in June 2025 - about an 8.7-fold increase. In that same example, the estimated all-in wholesale power cost moved from \$71.30/MWh to \$91.82/MWh, a 28.8% increase, even though the fixed energy component itself did not change.

Tarentum's Wholesale Cost Trend

The most recent AMP material projects annual wholesale power costs of roughly \$89/MWh in 2026 and \$94/MWh in 2027. That is a year-over-year increase of about 5.6%. The same projection rises to \$97/MWh in 2028, \$103/MWh in 2029, and \$106/MWh in 2030.

Calendar Year	Projected Wholesale Cost	Change vs. Prior Year
2025	\$85 / MWh	-
2026	\$89 / MWh	+4.7%
2027	\$94 / MWh	+5.6%
2028	\$97 / MWh	+3.2%
2029	\$103 / MWh	+6.2%
2030	\$106 / MWh	+2.9%

This matters for budget planning because the 2027 wholesale forecast is rising by about the same magnitude as the 5% retail rate scenario. A 5% retail adjustment does not eliminate market risk or pass through every wholesale component dollar for dollar, but it keeps the budget assumption broadly aligned with the forecast's direction and scale, rather than requiring the stabilization reserve to absorb a recurring cost increase.

How the Borough Has Been Managing the Increase

- **Advance purchasing and hedging.** Through AMP, the Borough has secured its base energy supply for a defined period and has also entered into longer-term generation arrangements that provide energy and capacity value. This reduces the portion of the system left fully exposed to short-term energy and PJM capacity-market volatility.
- **Potomac Energy Center PPA.** In 2026, the Borough entered into a 15-year schedule through AMP tied to the Potomac Energy Center combined-cycle facility, effective June 1, 2026. The schedule is structured to provide a pro-rata share of energy and installed capacity from the project and includes an explicit capacity-credit mechanism in the rate structure. This diversifies how Tarentum meets its capacity needs and creates a long-term resource that can offset a portion of the Borough's exposure to annual PJM capacity-market pricing.
- **Bright Mountain Solar PPA.** The Borough also entered into the long-term Bright Mountain Solar schedule through AMP. The schedule lists Tarentum for up to 1.5 MW and is structured for a 25-year term following commercial operation, currently expected at the end of 2027. It provides energy, installed-capacity/RPM value, and renewable attributes. Although solar capacity differs from a dispatchable generator, the project adds another long-term contracted resource to Tarentum's portfolio beginning in 2028 and further reduces reliance on purchasing all future capacity exposure at prevailing PJM auction prices.
- **Rate smoothing instead of reactive increases.** Council and staff have intentionally built reserves ahead of known cost increases so rates can be adjusted on a planned annual cycle rather than through emergency or mid-year changes.
- **Dedicated market reserves.** In March 2026, the Borough documented approximately \$600,000 specifically reserved for market fluctuations within an Electric Fund balance of about \$1.6 million. The exact year-end reserve level should be refreshed as the 2027 budget is finalized.
- **Transparent capacity pricing.** Beginning in 2025, the Borough separated the regional capacity charge on customer bills so residents can see a major external cost driver rather than having it buried in the base energy rate.
- **Reduced dependence on Electric Fund transfers.** The Borough has been moving away from using electric margins to subsidize recurring General Fund operations so that electric revenue remains available for wholesale power, system operations, stabilization, and reinvestment.
- **Load and portfolio management.** The Borough will continue evaluating peak-load reduction, smart-meter tools, future supply opportunities, and other AMP portfolio options. The Potomac and Bright Mountain agreements demonstrate the broader strategy: combine predictable long-term resources, selective capacity hedges, load management, and reserves rather than depending on any one tool to manage a volatile regional market.

2027 Operations, Capital, Data, and Reliability Plan

Wholesale power is only one side of the Electric Fund budget. The retail rate must also support the local distribution system: qualified staffing, vehicles and equipment, vegetation management, poles, meters, transformers, technology, data systems, reserves, customer communication, and planned capital maintenance. The Borough has increasingly treated these items as an integrated utility-management program rather than isolated projects. The 2027 budget should continue investing in these areas rather than defer routine work until it becomes an outage, emergency, or much larger capital expense.

- **Transition core lineman services back in-house.** The Borough anticipates transitioning day-to-day lineman services back in-house while maintaining contractor backup for major outages, work requiring multiple qualified linemen or specialized equipment, storm restoration, and larger infrastructure projects. This model gives the Borough greater control over scheduling and priorities, strengthens preventative maintenance, preserves system-specific knowledge, improves outage response and contractor coordination, and allows outside crews to be used strategically when additional manpower is actually required.
- **Use grants as strategic offsets, not an operating strategy.** The Borough will continue to pursue grant funding when an appropriate opportunity exists, including the funding secured for the electric bucket truck. Grants can lower the local cost of major capital purchases and allow ratepayer dollars to go further. However, they are competitive, restricted, and uncertain, and are not a sustainable substitute for recurring utility revenue. The system should be budgeted to remain financially sustainable on its own, with grants treated as strategic offsets when secured.
- **Continue planned meter replacement and make better use of AMI data.** The Borough will continue replacing electric meters on a planned annual cycle rather than waiting for large groups of meters to fail or become obsolete. This supports billing accuracy and maintains the value of the Borough's AMI investment. Just as importantly, the Borough has become better at using the data the meters already provide. Automated text messages can alert key staff when the system detects a loss of service, improving awareness and shortening the time between an outage occurring and the Borough beginning its response.
- **Plan earlier for transformers and other long-lead equipment.** The Borough will continue refurbishing or replacing transformers when appropriate. Increasingly, lead times for transformers and other electric equipment range from about 6 to 18 months, depending on the item ordered. This has changed how the Borough must forecast needs, manage inventory, schedule projects, and budget across multiple years. Equipment planning now has to occur well before a component reaches the point of failure.
- **Continue preventive tree trimming, pole replacement, and transformer refurbishment.** The Borough has shifted to recurring preventive maintenance rather than reacting primarily after failures. Annual tree trimming, planned pole replacement, meter replacement, and transformer refurbishment or replacement are now part of the ongoing reliability program. These programs reduce outage risk, extend the useful life of the distribution system, and spread capital needs more predictably across multiple budget years.
- **Keep pursuing low-cost, practical innovation and outage visibility.** The Borough will continue looking for technology and process improvements that provide real operational value without creating unnecessary recurring costs. The Borough has implemented an online outage-reporting system, automatic outage-map reporting, and internal automated text alerts using data already available from the system. The Borough developed the online outage map and reporting tools in-house, and they cost about \$13 per year rather than the tens of thousands of dollars per year that comparable commercial products can cost. These tools improve visibility for staff and residents while preserving utility resources for infrastructure and reliability work.
- **Use multiple outage-communication channels.** Improved outage detection is only useful if the Borough can communicate quickly. In addition to the website outage-reporting and map tools, the Borough uses Savvy Citizen to push outage notices and restoration updates directly to residents by app and email. This creates a more complete communications chain: automated system information and resident reports help staff identify problems; key staff receive internal alerts; and Savvy Citizen, the Borough website, and other official channels provide timely public updates.

- **Continue replacing critical electric equipment.** The Borough has replaced one electric bucket truck and has secured grant funding toward another. These vehicles are essential operating equipment, not discretionary fleet purchases. The Borough will continue to pursue grants when appropriate, but grants will remain strategic offsets rather than the financial foundation of the utility. Equipment replacement must still be incorporated into long-term rates, reserves, and capital planning.
- **Strengthen commercial load planning and cost recovery.** The Borough has begun requiring load studies for significant new or expanded commercial electric service and has strengthened agreements governing customer-requested electric infrastructure work. This allows the Borough to understand the effect of large loads on transformers, circuits, peak demand, and future capacity requirements before commitments are made, while also establishing clearer responsibility for upgrade costs and other project obligations.
- **Clean up permitting and coordination around electric work.** The Borough has also tightened the permitting and review process so work affecting electric infrastructure is identified earlier and coordinated with the appropriate Borough staff, engineer, lineman, and contractors. This reduces informal or after-the-fact decisions and helps align development, utility capacity, safety, procurement, and cost recovery before work proceeds.

Organizational Capacity and Management Structure

The increasing complexity of the electric system should be considered within the Borough's broader organizational responsibilities. The Borough Manager's Office is responsible not only for the administration and strategic oversight of the electric utility, but also for a municipal water treatment and distribution system with significant infrastructure and regulatory needs, a shared regional police operation, and the traditional functions of municipal government including public works, roads, parks, code enforcement, zoning, finance, personnel, procurement, resident complaints and customer service, website and public communications, capital planning, emergency coordination, and day-to-day Council administration.

Within the electric system alone, the Manager's responsibilities include oversight of power-supply and load-following contracts; coordination with AMP, suppliers, consultants, engineers, and contractors; rate and capacity planning; capital planning and funding; outage communications; meter disconnect and theft monitoring; GIS and system analytics; revenue recovery; and regular reporting to Council. AMP's 2026 capacity plan forecasts approximately 31,488 MWh of annual energy and about \$2.81 million in purchased power costs, including roughly \$730,000 in capacity charges. The Borough's master agreement with AMP also requires continuing administration of power-supply schedules, load and consumption information, delivery arrangements, billing, and related contractual obligations. The issue is therefore broader than the workload created by any one utility. Many of these functions require specialized legal, financial, technical, regulatory, procurement, and operational knowledge that, in larger organizations, would typically be distributed among utility management, engineering, finance, operations, public works, communications, and other administrative staff. Tarentum has successfully operated with a comparatively lean structure, but concentrating so many specialized functions in a small number of positions creates workload, continuity, and succession risk. As the Borough brings core line services back in-house, manages long-term power and capacity contracts, addresses water-system needs, maintains a regional police arrangement, plans around long equipment lead times, and continues expanding asset management and technology, responsibilities should continue to be documented, cross-trained, delegated where practical, and supported by outside professionals when specialized assistance is appropriate. Council should continue evaluating whether the Borough's administrative and technical capacity remains appropriate as these responsibilities continue to expand.

Taken together, these changes represent a broader shift in how Tarentum manages the electric utility. Since 2023, the Borough has moved from a more transactional, reactive model to an integrated system that combines forward rate planning, reserves, cooperative power procurement, capacity hedging, data and outage visibility, preventive maintenance, asset replacement, commercial-load controls, clearer permitting, and faster resident communication. Each element addresses a different risk, and the value comes from using them together rather than depending on any single contract, reserve, grant, or technology.

2027 Rate Planning

For the 2027 budget, I strongly recommend a 5% electric rate adjustment within the Borough's 3-5% annual planning framework. The range provides predictability: review the wholesale forecast, Electric

Fund position, staffing, capital requirements, and market conditions each year, then make one measured annual adjustment rather than waiting until a much larger correction becomes unavoidable.

Price smoothing remains central to that approach, but it has limits. The stabilization reserve should absorb temporary volatility, timing differences, and unusually high market months. It should not be used year after year to hold the recurring retail rate below a recurring wholesale cost structure. Doing so would convert a reserve intended for risk management into an operating subsidy and would reduce the Borough's ability to respond to the next market or infrastructure shock. The 5% 2027 recommendation therefore continues the Borough's existing strategy, not a reset. It pairs a measured annual rate change with reserve smoothing, long-term energy procurement, the Potomac Energy Center and Bright Mountain Solar arrangements that add contracted capacity value to the portfolio, the transition of core line services back in-house, and continued reinvestment in meters, transformers, poles, vegetation management, equipment, and practical technology improvements. The goal is to keep the system reliable and financially stable while avoiding the larger, less predictable corrections that result from unmanaged market exposure, deferred maintenance, or reactive rate setting.

Illustrative Customer Impact and Competitive Position

The 2026 Pennsylvania Municipal Electric Association residential survey lists Tarentum at \$178.50 for a 1,000 kWh monthly residential bill. A simple 5% proportional illustration would raise that benchmark to about \$187.43, or \$8.93 per month. This is an illustration only; the actual customer impact will depend on the final tariff structure, usage, and how the adjustment is allocated among rate components.

1,000 kWh Monthly Benchmark	2026 Survey / Illustration
Tarentum - 2026 PMEA survey	\$178.50
Tarentum - 5% proportional illustration	\$187.43
West Penn Power - 2026 PMEA survey	\$212.21
Duquesne Light - 2026 PMEA survey	\$272.53

Using the 2026 survey only as a point-in-time benchmark, the illustrated Tarentum amount would remain below both West Penn Power and Duquesne Light. Those investor-owned utility rates can change independently, so treat the comparison as context rather than a guarantee of future relative pricing.

2027 Budget Planning Summary

I strongly recommend that the 2027 budget use a 5% electric rate adjustment, continue the Borough's 3-5% annual planning framework, and maintain price smoothing. The strategy now in place was built over several years: identify higher costs early, begin moving rates before the shock arrives, retain temporary margin as stabilization reserves, use AMP for specialized expertise and purchasing leverage, diversify energy and capacity exposure, and continually improve the local distribution system. The Borough has paired that financial strategy with better use of AMI data, automated staff outage text alerts, online outage reporting and automatic mapping, Savvy Citizen communications, bucket-truck replacement, recurring tree trimming, meter and pole replacement, transformer refurbishment, commercial load studies, stronger infrastructure agreements, and a cleaner permitting process. Capacity pricing remains a major external pressure, but Tarentum is managing it with multiple tools rather than reacting after the fact. Maintaining a measured annual adjustment, preserving reserves for true volatility, pursuing grants as strategic offsets, and continuing disciplined system reinvestment provides the most stable path for customers and the long-term operation of the municipal electric system.

Sincerely,

Dwight Boddorf, Borough Manager