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City Council Report

Date: December 1, 2014

To: City Council

Through: Christopher J. Brady, City Manager

From: Kari Kent, Deputy City Manager
Frank McRae, Energy Resources Department Director

Subject: Modification of Electric Economic Development and Retention Rate
Council Districts #1, #3, and #4

Strategic Initiatives

economic development

financial stability

regional leadership

Purpose and Recommendation

The purpose of this report is to propose and seek approval for specific modifications to the existing electric rate schedule E3.6: Non-Residential Customer Retention/Economic Development and to have the modified rate introduced as a replacement rate subsequent to the approval. It is the recommendation that the proposed modifications be approved and adopted by ordinance as set forth in the revised rate schedule.

Background

In the spring of 2009, one of the City's higher consumption electric customers, provided notice to the City that the company was considering moving its Mesa operations to a newer facility served by another electric utility in the Phoenix Metropolitan area. The potential loss of this electric customer and Mesa business was the impetus for the development of E3.6.

In August 2009, the electric Retention/Economic Development rate (E3.6) was proposed and was adopted by Mesa's City Council. The purpose of the schedule is to provide a rate for electric commercial customers that demonstrate, but for the reduction in electrical rates, they will reduce or eliminate their future consumption of electric energy. The rate provides a reduction in energy usage based charges for eligible electric customers with an average monthly kilowatt hour use of 250,000 or more. In addition to a required historical use, eligible customers were required to enter into an agreement providing adequate assurance to the City that the customer will (a) retain its business operation in the City and maintain and continue a specified level of consumption for a period of five (5) years, and (b) use reasonable efforts to increase the number of jobs that are part of the business operations within the City. A financial instrument was required in an amount equal to the difference in the general rate and E3.6.

Discussion

While available to all E3.1 electric customers able and willing to meet the eligibility requirements, since adoption of E3.6, there has been only one customer that has applied for Electric utility service under E3.6. During the term of its five year agreement, this customer has met or exceeded the required electric consumption as well as has continued to reinvest in its City facility including the addition of a new cooling tower.

At the time of its development, proposal, and approval the primary purpose of E3.6 was retention of large consumption, existing customers. Modifications to the rate are being proposed such that it will continue to retain these eligible electric customers but also more efficiently accommodate economic development opportunities with new or expanding businesses in Mesa's electric service area with significant electric consumption. Proposed modifications to the rate are:

1. The addition of eligibility based on projected consumption (within 3 years) has been added to the existing qualification of recent 12 month historic consumption;
2. A reduction in the minimum annual consumption from 250,000 average kilowatt hours (kWh) per month to 200,000 average kWh per month (annual from 3,000,000 kWh to 2,400,000 kWh);
3. The consolidation of up to four meters for eligibility and billing;
4. The total term of rate applicability modified from "not to exceed five years" to "for an initial term of five (5) years; and subsequent terms shall be for a term of one (1) year.
5. The requirement for a financial instrument would be applicable only during the first five (5) years of rate applicability but would be optional (City option) in any extensions/continuation of service under the E3.6 rate.

There is no change in the proposed rate/charge amounts.

Alternatives

APPROVE THE MODIFICATIONS TO E3.6 AS SET FORTH ON EXHIBIT A. The modification would continue to provide the possibility of retaining existing large electric customers. Additionally, the proposed modifications would provide another method to attract new businesses into Mesa's electric service territory. These opportunities may include the redevelopment of underutilized or vacant properties. The proposed modifications are only to the terms of the rate and eligibility criterion. There is no change to the actual rates charged for E3.6 service.

DO NOT APPROVE THE MODIFICATIONS TO E3.6 AS SET FORTH ON EXHIBIT A. The current rate would continue to apply to eligible, existing customers. The rate would continue to only focus on retaining existing, eligible customers and would continue to be available for that purpose for a maximum term of five (5) years. The current customer on the rate would no longer be eligible for the rate.

Fiscal Impact

The ability to attract new and significant customers into the City's electric service area potentially results in significant benefits to the City including additional electric revenues, jobs, and taxes. Annual electric revenues for a customer at the revised minimum consumption level are approximately $53,000.

The proposed reduction in the eligibility requirement from an average of 250,000 kWh per month to 200,000 kWh per month does result in the potential eligibility of two (2) existing customers at their current levels of consumption to qualify for E3.6 service. The estimated reduction in annual revenue if these customers were to qualify for E3.6 service is $48,000 or about 26%.

Coordinated with

The proposed modifications and recommendation has been coordinated with, and are supported by the City Attorney's Office, the Office of Management and Budget, and Economic Development Departments.