



City Council Report

Date: February 23, 2015
To: City Council
Through: Kari Kent, Deputy City Manager
From: Frank McRae, Energy Resources Department Director
Subject: Modification of Electric Economic Development and Retention Rate Council Districts #1 and #4

Strategic Initiatives



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 was to provide a rate for electric commercial customers that, but for the reduction in electrical rates, 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 (kWh) 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 would (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 the 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, and 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 allow for 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. A reduction in the minimum consumption from 250,000 average kWh per month (annual of 3,000,000 kWh) to 2,400,0000 annual kWh;
2. The addition of eligibility for new or expanding customers based on projected consumption (within 3 years and 2 years, respectively) meeting the minimum, who also either (i) add five (5) full-time employees per 100 kilowatts (kW) of monthly demand, or (ii) make a minimum capital investment of \$500,000;
3. The requirement for a financial instrument would be applicable and required only for eligible existing customers. Such customers will still be required to sign an five year agreement evidencing a commitment to continue operations and electric consumption. During any renewal periods the financial instrument would be optional (City option);
4. The total term of rate applicability modified from "not to exceed five years" to "for an initial term of five (5) years." Any subsequent terms shall be for a term of one (1) year; and
5. The deletion of non-specific job creation requirements for eligible existing customers.

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

Alternatives

APPROVE THE MODIFICATIONS TO E3.6. The modification would continue to provide for the possibility of retaining existing large electric customers. Additionally, the proposed modifications would provide another method to attract new businesses and the expansion of existing businesses in 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. 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 revision in the eligibility requirement from an average of 250,000 kWh per month (annual 3,000,000 kWh) to the annual 2,400,000 kWh does result in the potential eligibility of two (2) additional 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 Office of Management and Budget, and Economic Development Departments and has been coordinated with the City Attorney's Office.