



City Council Report

Date: November 9, 2015
To: City Council
Through: Kari Kent, Deputy City Manager
From: Frank McRae, Energy Resources Department Director
Pedro Serrano, Energy Resources Program Manager
Anthony Cadorin, Energy Resources Coordinator
Subject: Agreements for Firm Supplies of Natural Gas, and an Associated Management Services Agreement

Citywide Project

Strategic Initiatives



Purpose and Recommendation

The Energy Resources Department (Mesa ERD) secures firm supplies of natural gas, as well as associated management services to schedule and balance supplies (Management Services) to Mesa's delivery points. Firm supplies must be available and sufficient to meet customers' demand for natural gas. A Request for Proposals (RFP) for both supply and Management Services is issued every two to four years.

Mesa ERD has evaluated the responses to the RFP and recommends execution of North American Energy Standards Board's Master Enabling Agreements or similar contracts (Enabling Agreements). Mesa ERD also recommends entering into further negotiations (with those parties who submitted priced supply offers) to secure firm natural gas supplies for up to five years (Supply Period) whereby the selected Supplier (the "Base Supplier") shall provide the City a minimum of 2,500 Dekatherms ("DTh")/Day (the "Base Supply") and up to 100% of the City's total gas delivery requirements per day, and by which the City will also retain a right to secure firm natural gas supplies from Suppliers on a periodic basis to meet any of its needs over and above the Base Supply. Mesa ERD also recommends authorizing the procurement of short term firm supplemental supplies in amounts not to exceed a total of 5,000 DTh/Day (not to exceed 6 months in term) as market conditions are

favorable from time to time during the Supply Period.

Finally, Mesa ERD recommends entering a contract for Management Services pursuant to which during the Supply Period the selected Supplier will provide the Management Services, including the scheduling and balancing of gas supplies on an hourly, daily and monthly basis through purchase and sale of gas as necessary to meet Mesa's total gas delivery requirements.

Background

Mesa operates a natural gas, local distribution utility that provides local gas distribution to two major service areas: 1) the City area, approximately 90-square miles primarily within City limits, and 2) the Magma area, a 236-square mile system located southeast of the City primarily in Pinal County. Mesa's combined natural gas system is comprised of approximately 1,260 miles of distribution mains and, as of October, 2015, served approximately 57,800 customer accounts.

Mesa's historic annual natural gas supply requirements range between 2,800,000 and 3,200,000 Dekatherms (DTh), depending most significantly on weather. The projected natural gas supply requirement for FY 15/16 is approximately 3,050,000 DTh at an estimated cost of \$9.7 million. The current natural gas supply and Management Services contracts were acquired through an RFP process in 2011. The initial 36 month term of the existing agreement expired December 31, 2014 and the first optional renewal term extended the agreement through December 31, 2015.

Natural gas market conditions are constantly changing. Natural gas commodity pricing remained favorable for Mesa's previous supply throughout much of calendar year 2014, however, prices have recently dropped and so Mesa stands to save significant commodity costs (which are then passed on to the utility's customers) by opting to seek supplies on the market. Mesa provided notice to Shell Energy North America that the City will not exercise the second renewal option (for CY2016).

Proposals were solicited via an RFP process (released on October 15, 2015) that would continue to provide the flexibility to manage transportation services and acquire natural gas supplies at advantageous prices while ensuring the adequacy and security of the supply and delivery. Bids were requested on (i) a bundled basis whereby a respondent would bid on both the supply of natural gas and Management Services, and (ii) an unbundled basis, whereby the bidder would agree to supply gas only or Management Services only.

Discussion

Three proposals were submitted, from Shell Energy, Sequent Energy Management, and BP Energy. Mesa ERD proposes an agreement for up to one hundred percent

(100%) of Mesa's gas supply requirements, with Base Supplies of a minimum 2,500 DTh/Day (seasonally sculpted option), for an initial term of 36 months with subsequent renewal term or terms of up to 24 more months. Mesa ERD also recommends that NAESBs be entered into with each of the other responsive entities. This will streamline the RFP process going forward and will allow Mesa ERD to procure seasonal firm supplemental supplies for periods of up to six months whenever market pricing is favorable during the Supply Period.

Alternatives

Mesa could reject all bids and issue another RFP, however, this would push the RFP timing into the winter (peak demand months) which could result in increased pricing due to market uncertainty.

Fiscal Impact

The costs of natural gas supplies and Management Services provided through these agreements are recovered through the monthly natural gas Tariff Adjustment and are adjusted as frequently as monthly as costs increase or decrease throughout the year. As stated above, the projected natural gas supply requirement for FY 15/16 is approximately 3,050,000 DTh at an estimated cost of \$9.7 million.

Coordinated With

The Purchasing Division and the City Attorney's Office.