



City Council Report

Date: 12/12/2016
To: City Council
Through: Kari Kent, Assistant City Manager
From: Frank McRae, Energy Resources Department Director
Pedro Serrano, Energy Resources Program Manager
Anthony Cadorin, Energy Resources Coordinator
Subject: Electric Supply Agreements: Approval of Agreements and Associated Letters of Confirmation for up to two (2) Years of Supply of Electric Power and Energy - Council District #1 & 4

Strategic Initiatives



Purpose and Recommendation

The Energy Resources Department recommends that the City Council authorize the City Manager or his designee to enter agreements with terms up to two (2) years ("Supply Period") for the purchase of electric power and energy with any one or more of the following parties: Shell Energy North America (US), L.P. (SENA); Exelon Generation Company, LLC (Constellation); Sempra Generation LLC (Sempra), Morgan Stanley Capital Group Inc. (Morgan Stanley), BP Energy Company (BP), and Twin Eagle Resource Management (Twin Eagle). The contract(s) will be in the form of an Edison Electric Institute Master Power Purchase and Sales Agreement or similar agreement (EEI) with associated Letter(s) of Confirmation (Confirmation) documenting the quantities and pricing (collectively, the "Agreements").

Background

The City of Mesa (Mesa) operates an electric service area (ESA) of approximately 5.5 square miles encompassing the heart of the city, including the original town-site. As of November, 2016, electric service is provided to approximately 16,400 customers of whom 13,600 are residential and 2,800 are commercial, interdepartmental or another public authority. The City itself is the largest customer within the ESA (based on the combined use of all Mesa's facilities in the ESA). Summer peak demand in 2016 for the electric utility was 85 Megawatts (MW).

Mesa's current electric power supply portfolio consists of the following electric generation and purchased power supplies:

- Western Area Power Administration ("Western")

- Parker-Davis Project (Hydroelectric): 10.4 MW (Summer); Expires September 2028
- Colorado River Storage Project (Hydroelectric): 4.3 MW (Summer); Expires September 2024
- SENA
 - Agreement Number 1:
 - Part 1A: 10 MW, Expires December 2018 (Sculpted Base Supply)
 - Part 1B: 15 MW, Expires September 2020 (Summer Peak Supply)
- Constellation
 - Base Supply: 15 MW, Expires March 2017
 - July-August Peak Supply: 10 MW, Expires August 2020
 - Dispatchable Peak: 10 MW, Expires October 2018

This portfolio met approximately 95% of Mesa's customers' annual energy requirements in FY2015-2016. The proposed Agreements serve to replace the Constellation Base supply contract that expires in March of 2017. It is anticipated that the proposed Agreement, combined with the current supply agreements, will provide approximately the same percentage of Mesa's customers' energy requirements in the near term. The remainder of the customers' requirements can vary significantly due to weather fluctuations and are met by real-time purchases from the regional wholesale markets on an *ad hoc* basis. Western acquires these additional resources on behalf of Mesa (and other similarly situated publicly-owned utilities on an aggregate basis) through its Resources Management Services (RMS) program, allowing Mesa to take advantage of economies of scale that would not otherwise be available.

Discussion

On October 6, 2016, Mesa distributed an Electric Power Request for Proposals 2016-10 (RFP) to 62 energy suppliers who actively trade energy at Mesa's supply points. The RFP solicited proposals to replace the expiring Constellation Base Supply. This supply meets approximately 40% of our customers' annual energy supplies and comprises approximately 33% of our annual energy supply costs. The RFP requested pricing for the terms listed in Table 1.

Table 1) Requested RFP Terms

RFP Term	Term Beginning	Term Ending
Initial Term (18 months)	4/1/2017	9/30/2018
36-month total term	10/1/2018	3/31/2020
60-month total term		3/31/2022

The dividing line between the terms, 9/30/2018, is the date when Mesa's electric transmission contracts expire. The terms were requested to provide the flexibility for Mesa to take delivery of the energy at locations that would be less costly. At this time, Mesa will not pursue the 36 and 60 month total terms and will instead work to secure and firm its transmission options with the intention to put these supplies in place at a

later date.

Mesa received responsive, complete proposals from SENA, Constellation, Sempra, Morgan Stanley and BP Energy. Mesa also received a response electronically from Twin Eagle. The unit prices in the responses to the RFP (Indicative Prices) for the Summer Peak came in below the prior contract price. The RFP requested fixed pricing over the term of the contracts.

The final contract selection will be based upon best and final offers for the Supply Period taking into consideration Mesa's available transmission access under the authority granted by the proposed Resolution. The City Council has approved this process for previous procurements of wholesale electric power and energy. This method allows the City to timely and advantageously procure supplies in the rapidly changing energy markets

An alternative to procuring these supplies would be to rely upon Western to purchase electricity on a short-term basis through daily and monthly transactions on the wholesale electricity market. The volatility of the electric supply market causes this alternative to be risky due to the potential for both limited power supply availability and price spikes when supply constraints are experienced (such as during critical summer demand periods). Additionally, Mesa could elect not to utilize any of the proposals from this RFP and issue another RFP to solicit alternative proposals.

Fiscal Impact

The costs resulting from these proposed Agreements are recovered from electric utility customers through an energy cost adjustment mechanism which is adjusted as frequently as monthly ("EECAF"). This rate decreases when supply costs decline and increases when supply costs increase. Based on the Indicative Pricing offers received, it is anticipated that the EECAF rate will be reduced compared to recent levels, reflecting lower total costs for ERD's electric energy supplies. Final offers from the suppliers will determine the final savings to our customers (prices can vary significantly between indicative offers and refreshed, final pricing depending on the movement of the wholesale energy market).

Coordinated With

The development and administration of the RFP was coordinated with the City Attorney's Office and the Purchasing Department. The City Attorney's Office has reviewed, as to form, and will assist with negotiation of any final EEI agreements and associated Confirmations that will be used to complete any electric power supply transactions pursuant to Council authorization.