



City Council Report

Date: November 4, 2019
To: City Council
Through: Karolyn Kent, Deputy City Manager
From: Frank McRae, Energy Resources Department Director
Anthony Cadorin, Energy Resources Program Manager
Lori Bonilla, Energy Resources Business Development Coordinator
Subject: Authorization of the Procurement of Base and Peak Electric Energy Supplies with up to a three (3) year term - Council Districts 1 and 4

Purpose and Recommendation

The City of Mesa Energy Resources Department (“Mesa”) recommends that the City Council authorize the City Manager or his designee to enter into agreements for terms up to three (3) years for the following two electric supplies:

Base: This agreement will provide up to ten (10) megawatts (MW) of electric power and associated energy throughout the year (January – December 7x24 Firm Energy).

Peak: This agreement will provide 10 MW of electric power and associated energy during months of June through October. This agreement is for a peak product (7x16 or 7x8 Firm Energy).

The agreements will be with any one or more of the following suppliers: Shell Energy North America (US), L.P. (SENA); Exelon Generation Company, LLC (Constellation); CitiGroup Energy Inc. (Citi); Morgan Stanley Capital Group, Inc (Morgan Stanley); and Direct Energy Business Marketing LLC (Direct Energy) (collectively Suppliers). The contract will be in the form of an Edison Electric Institute Master Power Purchase and Sales Agreement (EEI) or a similar agreement with associated Letter(s) of Confirmation (Confirmation) documenting the quantities and pricing (collectively, the Agreement). In the instance that best and final offers from Suppliers aren’t favorable, then Mesa will continue to purchase such energy on the wholesale market through participation in the Western Area Power Administration’s Resource Management Group.

Background

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 October 2019, electric service is provided to approximately 16,550 customers of whom approximately 13,750 are residential and approximately 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 City facilities in the ESA). Summer peak demand in 2019 for the electric utility was 86 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
 - Part 1B: 15 MW, Expires September 2020 (Summer Peak Supply)
- Constellation
 - July-August Peak Supply: 10 MW, Expires August 2020
- Citi
 - Base Supply: 15 MW, Expires March 2020

Recently Expired Resources:

- SENA
 - Part 1A: 10 MW, Expired December 2018 (Sculpted Base Supply)
- Constellation
 - Dispatchable Peak: 10 MW, Expired October 2018

This portfolio met approximately 87% of Mesa's customers' annual energy requirements in fiscal year 18/19. The remainder of the customers' requirements can vary significantly due to weather fluctuations and therefore 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. This allows Mesa to take advantage of economies of scale that would not otherwise be available.

The final signed Agreements resulting from this RFP will essentially replace the expired SENA Part 1A and Constellation Dispatchable Peak resources. It is anticipated that the proposed Agreements combined will provide approximately 23% of Mesa's customers' annual energy requirements in the near term.

Discussion

On October 2, 2019 the City of Mesa's Energy Resources Department (Mesa) released Request for Proposals EPRFP-2019-10 (RFP) to a contact list of over 70 energy suppliers. The RFP was also posted on the City of Mesa Bid Opportunities website. The RFP requested indicative pricing on the Base product and Peak product for the following terms:

Product	Supply Term	Months of Supply	Supply Quantity	Product Requested
Base	1, 2, or 3 year	Jan. – Dec.	5 MW or 10 MW	7x24 Firm ^{1,2}
Peak	1, 2, or 3 year	June – Oct.	10 MW	7x16 Firm 7x16 Firm Dispatchable 7x8 Firm

1 "7x24" means that the energy is delivered 7 days a week, 24 hours a day. "7x16" means that the energy is delivered 7 days a week, 16 hours a day during the "Peak" hours of 7 AM to 11 PM. "7x8" means that the energy is delivered 7 days a week, 8 hours per day during the "Super Peak" hours of noon to 8 PM.

2 "Firm" means that the supplier is obligated to pay liquidated damages if energy is not delivered.

The supply start date for all terms is January 1, 2020. Mesa requested the different supply periods, quantities, and products to provide the greatest value to its customers and to adapt to a shifting wholesale electric market. Bidders were not required to, but were invited to, bid on both Base and Peak products and all of Supply Quantities and Supply Periods. Additionally, the RFP solicited bids from Suppliers to provide energy from traditional resources, renewable resources such as solar, biomass, geothermal, wind power, and/or energy storage devices. Delivery of the energy supplies was required to be to Delivery Points at which Mesa has existing agreement to receive energy.

The utility's electric energy requirements are seasonal and vary by hour and so it is important to only purchase energy when it is required by customers and not purchase excess which is often sold back onto the wholesale market at a loss. As such, Mesa purchases energy through various contracts which provide energy in different months, hours, and quantities which combine to meet the annual energy needs of Mesa's customers.

Responsive and responsible proposals were received from Suppliers. Indicative pricing offers were below the budgeted estimates for these supplies and so a savings is expected if Mesa proceeds with executing these supplies as long as the best and final offers are in line with indicative offers.

The final contract selection will be based upon best and final offers for the Supply Period taking into consideration Mesa's available transmission access, in accordance with the Council authorization set forth in the proposed Resolution accompanying this Report. This process has been successfully utilized for previous RFPs. In the instance that Suppliers' best and final pricing offers are not favorable, Mesa will continue using Western RMS to purchase energy on the wholesale energy market on Mesa's behalf.

Alternatives

If Council chooses not to enter into these contracts, the demand for electric energy that exceeds the supplies available through the currently established contracts will be purchased on the wholesale regional market on a daily or monthly basis as needed through ERD's agreement with Western. The volatility and uncertainties of the electric supply market typically causes this alternative to have higher risk, though an analysis of the market forward projections will be performed prior to final contract selection. Increased demand (such as during critical summer months) may result in the potential for both limited power supply availability and price uncertainties including spikes. Due to the risks of power supply availability and associated costs, the contract alternative is generally preferred.

Another alternative is to not utilize any of the proposals from this RFP and issue another RFP to solicit alternative proposals. Given the favorable indicative pricing, this alternative is also not recommended.

Fiscal Impact

The costs resulting from the proposed Agreement(s) are recovered from electric utility customers through an energy cost adjustment mechanism which is reviewed and revised on a monthly basis (EECAF). The EECAF 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 may be reduced compared to recent levels reflecting a lower total cost for ERD's electric energy supplies compared with expiring contracts. Energy markets and prices can vary between the indicative offers and best and final pricing. Therefore, the best and final offers from the suppliers will determine the ultimate impact on our customers' monthly EECAF. For this same reason, staff is requesting the Council approve the Resolution authorizing the purchase of the Base and Peak electric supplies on an expedited basis.

Coordinated With

The development and distribution of the RFP was coordinated with the City Attorney's Office and Business Services- Purchasing. The City Attorney's Office has reviewed, as to form, and will assist with negotiation of any final agreements used to complete any electric power supply transactions pursuant to Council authorization.