



City Council Report

Date: 11/4/2019
To: City Council
Through: Kari 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: Power Purchase Agreements: Approval of Power Purchase Agreements for up to Twenty-Five (25) Years and up to Fifteen (15) MW of Supply of Renewable Electric Power and Energy (Districts 1 & 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 negotiate and enter agreement(s) with a term of up to twenty five (25) years ("Supply Period") for the purchase of up to a maximum of fifteen (15) megawatts ("MW") of renewable electric power and energy with optional energy storage with any one or more of the following suppliers: Nextera Energy, Inc. (Nextera); Clēnera LLC (Clenera). The agreement(s) will be in the form of a Power Purchase Agreement ("PPA").

Background

Mesa operates an electric service area 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, with the combined use of all City facilities we serve, is our largest electric utility customer. 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
- Shell Energy North America ("SENA")
 - Part 1B: 15 MW, Expires September 2020 (Summer Peak Supply)
- Exelon Generation Company ("Constellation")
 - July-August Peak Supply: 10 MW, Expires August 2020
- CitiGroup Energy ("Citi")
 - Base Supply: 15 MW, Expires September 2018

This portfolio, along with two resources which have expired within the last fiscal year met approximately 87% of Mesa's customers' annual energy requirements in fiscal year 18/19. The remainder of our 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 multi party aggregating allows Mesa to take advantage of economies of scale that would not otherwise be available.

Discussion

In July 2019, Mesa distributed an Electric Power Request for Proposals (RFP) to over 60 energy suppliers who actively trade energy at Mesa's supply points and to other entities who have expressed an interest in entering into agreements to meet Mesa's energy supply needs, such as owners and developers of solar generation facilities. The RFP solicited proposals specifically for renewable resources that would be able to deliver renewable energy to Mesa's supply points.

Mesa received timely, responsive, and complete proposals from Clenera LLC, Nextera Energy, Inc and ibV Energy Partners. The responses from each contained pricing for a specified renewable resource both with and without energy storage. The responses were evaluated on power suitability, exceptions to Mesa's contractual provisions, the reliability of the power, the viability of the respondent, the viability of the resource, the completeness of the proposal, the pricing of the proposal and miscellaneous other considerations. Based on these evaluation criteria, Mesa determined that the responses from Clenera and Nextera, each for energy from solar facilities, passed the evaluation. Mesa is requesting authorization to proceed with further negotiations with both Clenera and Nextera (Suppliers) for the purpose of securing no more than a maximum of 15 MW, commencing no later than December 31, 2024.

Due to current technological limitations, there is a maximum amount solar generated energy that can be acquired without negatively impacting the economics and efficiencies of our electric energy supply portfolio. Acquiring the proposed solar energy resources will "fill" some of our solar energy "bucket" for a period of up to 25 years.

The prudent strategy for acquiring solar energy resources through this competitive solicitation is to:

1. Contract for up to 15 MW depending on 'best and final pricing' in the table below:

SOLAR MW (MAX)	MAX PRICE – NO STORAGE	MAX PRICE - W/ STORAGE
5 MW	\$ 32.00 / MWH	\$ 42.00 / MWH
10 MW	\$ 27.00 / MWH	\$ 37.00 / MWH
15 MW	\$ 25.00 / MWH	\$ 35.00 / MWH

2. Reserve space in the solar energy "bucket" to enable future acquisition(s) of lower priced solar resources and associated technologies (such as energy storage) that are projected to become available.

Granting the authority requested would enable a PPA(s) a contract term of up to 25 years, from one or both of the the solar resource providers indicated:

- Clenera, a solar facility in development located on the Gila River Reservation in Maricopa County.
- Nextera, a solar facility in development located at the Carlota Copper Mine.

The final selection of Supplier(s) and resources will be based upon best and final offers from the Suppliers and the ability for Mesa and the Suppliers' ability to reach an acceptable PPA. Mesa envisions that, ultimately, a PPA will be entered into with only one Supplier, however, if PPAs are entered into with both Suppliers, in no instance, shall the total summed capacity of those PPAs exceed 15 MW. This process has been successfully utilized for previous RFPs.

Alternatives

An alternative to procuring these supplies would be to not to utilize any of the proposals from this RFP and issue another RFP to solicit alternative proposals. Given the favorable indicative pricing, this alternative is not recommended at this point in the process.

Fiscal Impact

The costs resulting from the proposed PPA(s) are recovered from electric utility customers through an energy cost adjustment mechanism which is revised as frequently as monthly ("EECAF"). The EECAF decreases when supply costs decline and increases when supply costs increase. Prices can vary significantly between indicative offers and refreshed, final pricing depending on the movement of the wholesale energy market, equipment pricing and contingent unknowns within the process of developing renewable energy projects. Mesa will evaluate the decision of whether to act on these supplies (and their optional storage provisions) based on the final pricing and PPA terms.

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 will assist with negotiation of, and approve as to form, any final PPA used to complete any electric power supply transactions pursuant to Council authorization.