



City Council Report

Date: April 6, 2020
To: City Council
Through: Kari Kent, Assistant 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 for Base (term of up to 3 years) and Peak (term of up to 2 years) Electric Energy Supplies (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 of up to three years (Base) and up to two years (Peak) for the following two electric supplies:

Base: This agreement will provide up to fifteen (15) megawatts (MW) of electric power and associated energy for a term of up to three (3) years, throughout the year (January – December 7x24 Firm Energy).

Peak: This agreement will provide 10 MW of electric power and associated energy for a term of up to two (2) years, during months of June through September. This agreement is for a peak product (7x16 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(s) 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 (Confirms) 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 February 2020, electric service is provided to approximately 16,934 customers of whom approximately 14,377 are residential and approximately 2,557 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 88.3 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, Expired 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 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 multi-party aggregating allows Mesa to take advantage of economies of scale that would not otherwise be available.

Discussion

In February 2020, Mesa distributed an Electric Power Request for Proposals (RFP) to over 70 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. 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.	15 MW	7x24 Firm ^{1,2}
Peak	2 year	June – September	10 MW	7x16 Firm

The supply start date for all terms is anticipated to be April 2020. However, Mesa requested information regarding different supply periods, quantities, and products to examine what options would provide the greatest value to customers and considering a shifting wholesale electric market. Bidders were given the option to bid on some or all of the Base and Peak products and Supply Periods. Delivery of the energy supplies was required to be to Delivery Points at which Mesa has existing agreements to receive energy.

The utility's electric energy requirements are seasonal and vary by hour. 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, while avoiding the purchase of excess supplies, which are sold back into the market by RMS on Mesa's behalf.

Mesa received timely, responsive, and complete proposals from five RFP respondents, Citi, Shell, MSCG, Direct Energy, and Exelon. The final contract selection will be based upon best and final offers for the Supply Period taking into consideration Mesa's available transmission access and negotiation of an acceptable enabling agreement and transaction confirmation, 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, and issue a new RFP when conditions warrant.

Alternatives

An alternative to procuring these supplies and/or in the instance that best and final offers from Suppliers aren't favorable, then Mesa could issue another RFP to solicit alternative proposals, or opt to purchase such energy on the wholesale market through participation in the Western Area Power Administration's Resource Management Group. Given that this is part of Mesa's Base power requirements, this would subject a substantial portion of Mesa's base energy requirements to price and availability on the spot market and is not recommended.

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 per day during the "Peak" hours of 7 AM to 11 PM.

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

Fiscal Impact

The costs resulting from the proposed supplies 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 best and 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 will assist with negotiation of any enabling agreement and transaction confirmation that would complete an electric power supply transaction pursuant to the requested Council authorization.