



City Council Report

Date: October 21, 2024
To: City Council
Through: Marc Heirshberg, Deputy City Manager
From: Scott Bouchie, Energy Resources Department Director
Anthony Cadorin, Energy Resources Program Manager
Deb Ferraro, Energy Resources Coordinator
Subject: Power Purchase Agreements: Approval of Power Purchase Agreements of Electric Power and Energy for Maximum Five (5) Years Term - Council 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 enter into agreements for terms up to five (5) years for the following electric supplies:

Base: This agreement will provide fifteen (15) megawatts (MW) of electric power and associated energy throughout the year (January – December 7x24 Firm Energy, "Base").

Summer Peak: This agreement will provide between fifteen (15) and twenty-five (25) megawatts (MW) of electric power and associated energy (June – September 7x16 Firm Energy, "Summer Peak").

July-August Peak: This agreement will provide ten (10) megawatts (MW) of electric power and associated energy (July-August 7x16 or 6x16 Firm Energy, "July-August Peak").

Five (5) responses were received to the Electric Power Request for Proposal issued by Mesa on September 9, 2024. Responses were received from 1) BP Energy Corporation (BP); 2) Exelon Generation Company, LLC (Constellation); 3) Citigroup Energy Inc (Citi); 4) Energy Keepers Inc (EKI); and 5) Dynasty Power Inc (DPI), collectively, the "Suppliers". The contract(s) will be in the form of an Edison Electric Institute Master Power Purchase and Sales Agreement (The EEI Agreement) 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 are not 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 September 2024, electric service is provided to 18,128 customers of whom 15,354 are residential and 2,774 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 July 2024 for the electric utility reached 86.3 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 2057
- Exelon Generation Company, LLC (Constellation)
 - 10 MW for all days and all hours (24x7x365); Expires December 2025.
- Exelon Generation Company, LLC (Constellation)
 - 15 MW for all days and all hours (24x7x365); Expires April 2025.
- Exelon Generation Company, LLC (Constellation)
 - 25 MW for June through September Summer Peak, all days, and all hours (16x7); Expired September 2024.

This portfolio met about 96.2% of Mesa customers' energy requirements of 334,960 megawatt-hours (MWhs) in calendar year 2023 with 76.6% through competitively sourced market purchases and 19.6% through hydroelectric power and solar contracts. 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 September 2024, Mesa distributed an Electric Power Request for Proposals (RFP) to over 30 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 purchasing website. The RFP requested indicative pricing on the Base Product, Summer Peak Product and July-August Peak Product for the following terms:

Base Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Quantity	Supply Months	Delivery Points Requested
Supply A	5/1/2025	4/30/2027	7x24 Firm Energy Product	15 MW	January - December	Pinnacle Peak 230 kV or Mead 230 kV or West Wing 500 kV
Supply B	5/1/2025	4/30/2028				
Supply C	5/1/2025	4/30/2030				
Supply D	5/1/2025	Open Term ¹				

1 Supplier to fill in the maximum length term via the pricing sheet.

Summer Peak Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Quantity	Supply Months	Delivery Points Requested
Supply E	6/1/2025	5/31/2027	6x16 Firm Energy Product	15 and/or 25 MW	June - September	Pinnacle Peak 230 kV or Mead 230 kV or West Wing 500 kV
Supply F	6/1/2025	5/31/2028				
Supply G	6/1/2025	5/31/2030				
Supply H	6/1/2025	Open Term				

July-August Peak Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Quantity	Supply Months	Delivery Points Requested
Supply I	7/1/2025	8/31/2026	7x16 Firm Energy Product	10 MW	July - August	Pinnacle Peak 230 kV or Mead 230 kV
Supply J	7/1/2025	8/31/2027				
Supply K	7/1/2025	8/31/2029				
Supply L	7/1/2025	Open Term				

By the closing date and time for the RFP, five (5) Base Product indicative pricing submittals were received, four (4) Summer Peak Product indicative pricing submittals were received, and four (4) July-August Peak Product indicative pricing submittal were received².

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 at Delivery Points at which Mesa has existing agreements to receive energy.

¹ Supplier to fill in the maximum length term via the pricing sheet.

² The bids are referred to as "indicative pricing" because Mesa cannot transact on these offers prior to receiving council approval.

The indicative pricing received for the Base product is approximately 24% lower than the current Base product under contract that ends in April 2025 and approximately 13% higher than the current Base product under contract that ends in December 2025. However, indicative pricing is lower than the estimated pricing that was included in Mesa's forecasted budget.

Indicative pricing received for the Summer Peak Product is approximately 42% lower than the current Summer Peak product currently under contract that ended in September 2024. Mesa requested pricing for 15 MW or 25 MW for this product which will allow Mesa to elect the quantity during the final bids based on whether it elects to contract for the July-August Peak Product.

Mesa does not currently have a contract for a July-August Peak Product but has purchased this product in the past. Given the changes in Mesa's resource portfolio going into the summer of 2025, this product will be evaluated to determine if it is more advantageous than purchasing additional Summer Peak Product.

The Base Product supply start date for all terms is anticipated to be no sooner than May 1, 2025. The Summer Peak Product supply start date for all terms is anticipated to start June 1, 2025. The July-August Peak Product supply start date for all terms is anticipated to be July 1, 2025.

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. If 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

APPROVE POWER PURCHASE AGREEMENTS. This will enable the continuation of the delivery of electric service through a competitive RFP bidding process.

NOT APPROVE POWER PURCHASE AGREEMENTS. An alternative to procuring these supplies and/or if best and final offers from Suppliers are not favorable, 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 risks on the spot market and is not recommended. Electricity would likely be less affordable and less reliable.

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 Procurement. 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.