



City Council Report

Date: May 6, 2019
To: City Council
Through: Kari Kent, Assistant City Manager
From: Frank McRae, Energy Resources Department Director
Pedro Serrano, Energy Resources Program Manager
Tom LaVell, Management Assistant II
Subject: Approval of Agreement and Associated Letters of Confirmation for Procurement of Sculpted Monthly Base Electric Energy Supplies with up to a three (3) year term - Council Districts 1 and 4

Purpose and Recommendation

The Energy Resources Department (“ERD”) recommends that the City Council authorize the City Manager or his designee to enter into the electric power supply agreement described below.

Sculpted Monthly Base Electric Energy Supply: This agreement will provide between 6-11 MW of electric power and associated energy during selected months throughout the year. This agreement augments the ERD’s other annual and seasonal electric power supply agreements to provide additional electric power supplies during forecasted peak-demand months (December – February; and June – September). This agreement will be for up to a three-year term (the “Supply Period”) based on the pricing offers received.

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 December 31, 2018, electric service was provided to a total of approximately 16,847 customers of whom 14,287 were residential and 2,560 were commercial, interdepartmental or other public authorities. The City itself is the largest customer within the ESA (based on the combined use of all Mesa’s facilities in the ESA). The electric utility experienced a CY2018 Summer peak demand of 88.27 Megawatts (MW) on July 25, 2018.

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 (Annual Hydroelectric): 8.0 - 10.4 MW (Summer Peak); Expires September 2028
 - Colorado River Storage Project (Annual Hydroelectric): 3.4 - 4.3 MW (Summer Peak); Expires September 2057
 - Western Replacement Power: provides as-needed electrical power purchased by the City at market rates
- CitiGroup Energy, Inc
 - Fixed Price Base Supply (Annual): 15 MW; Expires October 2020
- SENA
 - Agreement Number 1, Part 1B (Summer Peak Supply): 15 MW, Expires September 2020
- Constellation
 - July-August Peak Supply: 10 MW, Expires August 2020

This portfolio met approximately 73.2% of Mesa's end-use customers' annual energy requirements through the twelve months ending December 2018. By entering into the recommended contract for the sculpted base, Mesa will be able to provide 89.4% of anticipated end-use customer demand, system losses and other system obligations at firm fixed rates.

Given that Mesa's electric utility end-use customers' requirements can vary significantly due to weather fluctuations, any demand beyond the amount secured through contracts are met by real-time energy purchases and RMS energy transactions 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 to it.

Discussion

On March 20, 2019 the Department released Electric Power Request for Proposals 2019-03 (RFP) to 58 energy suppliers including suppliers that are known to provide electric energy through renewable resources. The RFP was also posted on the City of Mesa Bid Opportunities website. The RFP solicited fixed price bids for the Sculpted Monthly Base Electric Energy Supply contract on one-year, two-year and three-year terms. The term was requested to provide the City with leeway in selecting contract terms, pricing, and delivery locations that provide the greatest value to customers and to maintain the flexibility to take advantage of changes in the market.

The RFP requested preliminary or indicative pricing from potential suppliers. If Council approves this request, ERD will request Best and Final Offers from the highest rated suppliers and enter into a contract at those prices. Responsive and responsible proposals were received from Citigroup Energy, Inc.; Exelon Generation Company, LLC; and Direct Energy Business Marketing, LLC.

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.

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 vagaries 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 due to increased demand (such as during critical summer months). Due to the risks to power supply availability and price spikes this alternative is not recommended.

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 not recommended.

Fiscal Impact

The costs resulting from the proposed Agreement 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 lower total costs for ERD's electric energy supplies. The best and final offers from the suppliers will, however, determine the ultimate impact on customer's monthly EECAF given that energy prices can vary between the indicative offers and best and final pricing depending on the movement of the wholesale energy market. For this reason, staff is requesting the Council approve the Resolution authorizing the purchase of the electric supplies on an expedited basis.

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 Agreement used to complete any electric power supply transactions pursuant to Council authorization.