City Council Report

Date: September 22nd, 2025

To: City Council

Through: Marc Heirshberg, Assistant City Manager

From: Scott Bouchie, Energy and Sustainability Director
Anthony Cadorin, Energy Resources Program Manager
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Subject: Approval of Natural Gas Master Agreements and Supply Confirmations Citywide

Purpose and Recommendation

The City of Mesa Energy Resources Department ("ERD") secures firm supplies of natural gas, and natural gas scheduling and balancing services on the Kinder Morgan El Paso Natural Gas interstate pipeline ("EPNG"). Firm supplies must be available and sufficient to meet customers' demand for natural gas.

ERD has evaluated the responses to a competitive request for proposals ("RFP") for natural gas supplies and services and recommends entering North American Energy Standards Board's Master Enabling Agreements ("NAESB Agreements") as necessary, an Asset Management Agreement ("AMA"), and entering supply confirmations ("Confirms") after receiving best and final offers from those bidders who provided responsive bids to the RFP up to the following supply periods ("Supply Period").

Product	Supply Period
Supplemental delivered natural gas supply (Dec. & Feb.)	December 2025 to February 2030
Asset Management Agreement	April 2026 to March 2029

ERD also recommends entering into short term seasonal supply confirmations on an ad-hoc basis as market conditions are favorable for up to 5,000 Dekatherms per day (Dth/Day) for up to two (2) terms, each not to exceed six months in any three hundred sixty-five (365) days, with any of Mesa's enabled natural gas suppliers.

Background

City of Mesa ("Mesa") operates a natural gas utility that provides service to two major service areas: 1) the City area which is approximately 90-square miles primarily within City limits, and 2) the Magma area which is approximately 236-square miles located southeast of the City in Pinal County. Mesa's combined natural gas system is

comprised of 1,552 miles of distribution mains[1] and serves 80,161 customers[2].

Mesa's historic annual natural gas supply requirements have ranged between 3.7 and 4.3 million Dekatherms ("DTh") within the past five years, depending most significantly on weather. Mesa has broken its gas supply up into several separate supplies that are all competitively bid to reduce costs to its customers and manage market risk.

The first supply is a fixed amount of natural gas that flows the same amount every day of the year which is referred to as "Base Daily Quantity 1" or "BDQ1[3]." The second supply, called BDQ2[4], is a base quantity of natural gas that flows during the winter months and provides price stability during those months (when market volatility is most likely to affect Mesa's natural gas customers).

The last supply is a combination of gas supply (known as Balancing Daily Volumes) and a service to schedule and balance all of the gas supplies (including the BDQs) on EPNG's pipeline. Balancing Daily Volumes are those volumes needed to fill in the gap between Mesa's actual daily natural gas demand and the total of the BDQs. As a result of Mesa's fluctuating system demand, the Balancing Daily Volumes also vary significantly day by day. As such, Mesa combines the Balancing Daily Volumes with services to schedule all of the gas and balance it with Mesa's demand.

More recently, Mesa has utilized an AMA where Mesa contracts with a supplier to maximize the value of Mesa's unused pipeline capacity (the "Asset Manager") while still scheduling and balancing all of Mesa's gas supply. The Asset Manager markets that unused capacity to other natural gas users on a daily basis to capture some previously unrealized value from that capacity. That value is passed back to Mesa in the form of a monthly payment.

Discussion

Natural gas market conditions are constantly changing. At a macro level, demand for natural gas is increasing both domestically and internationally through LNG exports. The desert southwest shows strong demand for energy demand growth projections from major electric utilities, which the industry is attributing to serve data center loads through natural gas power generation. This trend intensifies competition for both gas supply from producing basins and existing transportation capacity on the Kinder Morgan system. To address capacity constraints, the Transwestern Pipeline Company has proposed a new pipeline to transport additional gas from the Permian Basin to metro Phoenix, with completion expected by 2030.

PRODUCTS SOLICITED:

RFP 2026014 was issued for a total of four (4) products:

1 As of Mesa's last annual report, issued March 2025
2 Active Customer Information System billing customer accounts as of July 2025
3 Mesa currently has BDQ1A and BDQ1B to split up the base supply and diversify risk.
4 Mesa currently has a BDQ2 supply and a Delivered BDQ supply to split up the seasonal supply, diversify risk, and lessen transportation requirements.

1. A supply of Delivered Gas for the months of December and February

As Mesa's natural gas demand continues to grow, additional pipeline capacity on the interstate gas transportation system is required to continue reliable delivery of gas to Mesa's system and to avoid expensive penalties. When Mesa uses more gas than its contracted pipeline capacity, EPNG can assess a penalty on the excess flowed volumes. Mesa is at the highest risk of incurring these penalties in the months of December and February. One strategy to increase Mesa's ability to receive gas supplies and minimize the chance of incurring these penalties is to request that suppliers use their own pipeline capacity and bring the gas all the way to Mesa's gate stations ("Delivered Gas"). Mesa requested bids between one (1) to five (5) seasons of Delivered Gas supplies for the months of December and February at 2,000 Dth/day for each month.

2. Scheduling and balancing services and balancing volumes in the form of an Asset Management Agreement

Mesa has historically outsourced the management of its daily natural gas supply scheduling and balancing. All natural gas supplies above the Base Quantities must be purchased daily to deliver the same quantity of natural gas that Mesa's customers are using on that day. In 2023 Mesa began utilizing an AMA to both perform the scheduling and balancing and to maximize the value of Mesa's transportation assets. This arrangement has worked well for Mesa and the savings generated through the AMA have been passed on to Mesa's customers. The current AMA expires March 31st, 2026 and so a replacement AMA for up to three (3) years was bid through this RFP.

3. Interstate natural gas transmission capacity or long-term delivered natural gas supplies

Additional pipeline capacity will be critical to facilitating the growth in Mesa's natural gas systems and so Mesa solicited offers for interstate natural gas transmission capacity and/or long-term delivered gas supplies.

No favorable bids were received for this product so no award will be made under this RFP.

4. Renewal Natural Gas ("RNG") projects

RNG is a carbon neutral (or in some cases, carbon-negative) source of methane that has been cleaned and treated to meet pipeline natural gas standards. Certain RNG projects can have the benefit of providing natural gas locally which alleviates the requirement for interstate natural gas transmission capacity. Being carbon neutral, RNG is expected to play an important role in Mesa's Mesa Climate Action Plan ("MCAP") which targets a reduction of CO2 emissions from City facilities by 50% by the year 2030 and complete carbon neutrality by 2050.

No favorable bids were received for this product so no award will be made under this RFP.

SOLICITATION RESULTS:

The first two products were solicited as follows:

Product	Supply Period
Supplemental delivered natural gas supply (Dec. & Feb.)	December 2025 to February 2030
Asset Management Agreement	April 2026 to March 2029

Proposals were submitted by ARM Energy Management, LLC; BP Energy Company ("BP"); Glencore Ltd.; Koch Energy Services, LLC; NextEra Energy, Inc; Radiate Energy, LLC ("Radiate"); Symmetry Energy Solutions, LLC ("Symmetry", previously known as Centerpoint Energy); and Tenaska Marketing Ventures ("Tenaska") (collectively, the "Suppliers"). Mesa already has a signed NAESB Agreement with BP, Radiate Energy, Symmetry and Tenaska.

The indicative bids Mesa received from the Suppliers for the first product shows that current prices are some of lowest within the past three years. By procuring a portion of Mesa's gas supply at a relatively lower cost, Mesa can reduce the fluctuation in customers' bills for the next several years. This cost of natural gas is funded as a pass-through to the customers on a monthly basis known as the Purchased Natural Gas Cost Adjustment Factor ("PNGCAF").

The Asset Management Agreement proposals received through the RFP indicate that Mesa may be able to continue to offset its forecasted pipeline expenses to EPNG for the next three years. Since natural gas transportation cost is part of the cost of natural gas supply passed through to customers, a reduction in this expense will also be a passed-through as a cost savings to Mesa's gas customers.

Alternatives

Mesa could reject all bids and issue another RFP; however, this would push the RFP timing into the winter (peak demand months) which could result in increased pricing due to market uncertainty. Additionally, without the supplemental delivered gas supply, Mesa is also exposed to greater risks of penalties by EPNG due to inadequate pipeline capacity to meet customers' demand. Penalties are assessed at levels that are multiple(s) of the market's spot price, which is typically at a time when the market price is escalated due to higher demand.

Fiscal Impact

The costs of natural gas supplies provided through these agreements are recovered though the PNGCAF and are adjusted as frequently as monthly as costs increase or decrease throughout the year.

Coordinated With

This RFP was coordinated with Purchasing and the City Attorney's Office.