



City Council Report

Date: December 4, 2023
To: City Council
Through: Marc Heirshberg, Deputy City Manager
From: Scott Bouchie, Energy Resources Department Director
Anthony Cadorin, Energy Resources Program Manager
Tom Sheber, Energy Resources Coordinator
Subject: Electric Power Purchase Agreements: Approval to enter into electric Power Purchase Agreements for up to Four (4) Years for Electric Power and Energy for Mesa's electric utility - Council District #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 four (4) years for the following firm electric supplies:

Base: Up to fifteen (15) megawatts (MW) of electric power and associated energy throughout the year, 7x24 Firm Energy ("Base").

Summer Peak: Up to fifteen (15) MW of electric power and associated energy for the months June – September, 7x16 Firm Energy ("Summer Peak").

July-August Peak: Up to five (5) MW of electric power and associated energy for the months July-August, 7x16 or 6x16 Firm Energy ("July-August Peak").

Mesa issued Request for Proposal No. 2024044, for firm Electric Power Supply Products, on October 9, 2023 and received responses from Five (5) suppliers; Shell Energy North America ("SENA"); Exelon Generation Company, LLC ("Constellation"); Citigroup Energy Inc ("Citi"); Brookfield Energy Trading and Marketing LP ("Brookfield"); and eDF Renewables (collectively, the "Suppliers"). Mesa intends to enter Agreements with one or more of the Suppliers 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 quantities and pricing (collectively, the "Agreement"). Mesa intends to seek best and final price quotes from the Suppliers and thereafter enter into Agreements for the purchase of electric energy supplies.

If best and final offers from the Suppliers are not favorable, acceptable Agreements are unable to be negotiated, or contracted firm supplies are insufficient to meet the demands of Mesa's system, then Mesa will purchase such additional energy as is needed to meet the demands of the system via the wholesale market through

participation in the Western Area Power Administration's Resource Management Group ("Western").

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 October 2023, electric service is provided to approximately 17,927 customers of whom approximately 15,159 are residential and approximately 2,768 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 2023 for the electric utility reached 89.6 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 (contract extension to 2057 is in process).
- Brookfield Renewable Trading and Marketing LP (Brookfield)
 - 15 MW for all days and all hours (24x7x365); Expires April 2024.
- Exelon Generation Company, LLC (Constellation)
 - 10 MW for all days and all hours (24x7x365); Expires December 2025.
- Exelon Generation Company, LLC (Constellation)
 - 25 MW for June through September Summer Peak, all days, and all hours (16x7); Expires September 2024.

This portfolio met about 96% of Mesa customers' energy requirements of 333,437 megawatt-hours (MWhs) in calendar year 2022 with 77.1% through competitively sourced market purchases and 18.7% through hydroelectric power contracts. The remaining roughly 4% 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 October 2023, 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 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	5/1/2024	4/30/2025	7x24 Firm Energy Product	15 MW	January - December	Mead 230 kV or Pinnacle Peak 230 kV
Supply B	5/1/2024	4/30/2026				
Supply C	5/1/2024	4/30/2027				

Summer Peak Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Quantity	Supply Months	Delivery Points Requested
Supply D	6/1/2025	9/30/2025	6x16 Firm Energy Product	15 MW	June - September	Pinnacle Peak 230 kV or Mead 230 kV
Supply E	6/1/2025	9/30/2026				
Supply F	6/1/2025	9/30/2027				
Supply G	6/1/2025	9/30/2028				

July-August Peak Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Quantity	Supply Months	Delivery Points Requested
Supply H	7/1/2024	8/31/2025	7x16 Firm Energy Product	5 MW	July - August	Mead 230 kV
Supply I	7/1/2024	8/31/2026				
Supply J	7/1/2024	8/31/2027				

By the closing date and time for the RFP (i.e., October 26, 2021 3:00PM MST) four (4) Base Product indicative pricing submittals were received, three (3) Summer Peak Product indicative pricing submittals were received, and two (2) July-August Peak Product indicative pricing submittal was received¹. Responses to the above-listed supplies were received from the following potential counterparties:

1. SENA;
2. Constellation;
3. Citi; and
4. Brookfield

Mesa requested further information from the responsive Suppliers regarding different supply periods, quantities, and products to determine what options were available under current electric market conditions. 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. A bid was also received for alternative supplies from eDF Renewables, however, this bid is being evaluated independently and will be brought to Council at a later time if it is determined to be beneficial.

The indicative pricing received for the Base Product through the RFP is approximately

¹ The bids are referred to as "indicative pricing" because Mesa cannot transact on these offers prior to receiving council approval.

40% higher than the current Base Product price, which contract ends in April 2024. Indicative pricing received for the Summer Peak Product is approximately 9% lower than the current Summer Peak Product price, which contract ends in September 2024. Mesa does not currently have a contract for a July-August Peak Product; however, indicative pricing was received for a July-August Peak Product in this RFP that is approximately 22% higher than the indicative pricing received for the June-September Summer Peak Product .

The Products expected to be purchased under the RFP are anticipated to begin no earlier than:

Base Product -	May 1, 2024.
Summer Peak Product -	June 1, 2025.
July-August Peak Product -	July 1, 2024.

The final bid 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 Agreement, 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 market conditions warrant.

Alternatives

As an alternative to procuring the Products solicited through the RFP, Mesa could issue another RFP to solicit alternative proposals or opt to purchase energy on the wholesale market through participation in Western’s RMS group. Purchasing through Western instead of entering firm contracts through competitive bidding would subject a substantial portion of Mesa’s base energy requirements to price and availability risks on the spot market and is not typically preferable.

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.