



City Council Report

Date: December 1, 2021
To: City Council
Through: Marc Heirshberg/Deputy City Manager
From: Frank McRae, Energy Resources Department Director
Anthony Cadorin, Energy Resources Program Manager
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 associated administrative services (Associated Services) to schedule and manage transportation of those supplies to Mesa's delivery points on the El Paso Natural Gas Company interstate pipeline. Firm supplies must be available and sufficient to meet customers' demand for natural gas.

Requests for Proposals (RFP) for both supply and Associated Services are issued every two to five years. RFP 2022068 was issued for Mesa's seasonal fixed price winter natural gas supply to responsive supply firms in the southwest. ERD has evaluated the responses to the RFP and recommends entering North American Energy Standards Board's Master Enabling Agreements (NAESB Agreements) as necessary and entering a supply confirmation (Confirms) after receiving best and final offers from those bidders who provided responsive bids to the RFP for the winter season (January through April 2022 - the Supply Period).

Mesa also recommends entering into short term supply confirmations on an ad-hoc basis as market conditions are favorable for up to 5,000 Dth-Day during the Supply Period with any of those suppliers which have been determined responsive to the RFP.

Background

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 approximately 1,400 miles of distribution mains and, as of October, 2021, served approximately 70,700 customer accounts.

Mesa's historic annual natural gas supply requirements range between 2.8 and 3.6 million Dekatherms (DTh), depending most significantly on weather. The current natural gas supply and ASA contracts were acquired through an RFP process in 2020. After Winter Storm Uri, Mesa negotiated certain disputed pricing with its two

natural gas suppliers. Mesa successfully resolved the dispute with its secondary supplier; however, the agreement was terminated as part of that resolution. This RFP was issued to replace those supplies.

Natural gas market conditions are constantly changing. The City of Mesa's access to the Permian basin through calendar years 2018 and 2019 has historically provided low-priced natural gas supplies. This was a result of extensive oil production which generated natural gas as a byproduct, with very few places for the natural gas to flow. This favorable supply meant record low prices for Mesa and those savings were passed on to Mesa's natural gas customers. Market pressures have been increasing, however, with more natural gas now flowing south to Mexico for power generation and flowing east towards the Gulf of Mexico with the completion of the Gulf Coast Express pipeline in September 2019 and the Permian Highway Pipeline in January 2021. Additionally, plans continue to add further capacity eastwards out of the Permian basin, though these projects have encountered delays due to the COVID19 pandemic. Winter Storm Uri caused a temporary but drastic price increase in the natural gas markets of the west coast and central plains in February 2021, however, prices returned to "normal" shortly thereafter. However, since the spring, a global natural gas crisis has emerged, primarily in Europe, which is impacting pricing across all markets including in the southwest. With Permian production still ramping up from the pandemic, markets are expected to remain elevated across the United States through the 2021-2022 heating season.

Bids were requested on one season of natural gas for Mesa's "Base Daily Quantity 2" (BDQ2). The quantities listed in the table below are based on Mesa's seasonal changes natural gas demand during the winter:

Month	Quantity
January 2022	7,500 Dth/Day
February 2022	6,000 Dth/Day
March 2022	3,950 Dth/Day
April 2022	3,000 Dth/Day

Discussion

Proposals were submitted by BP Energy Company (BP), Spotlight Energy, LLC (Spotlight), and Tenaska Marketing Ventures (Tenaska) (collectively, the Suppliers). Mesa already has a signed NAESB Agreement with BP.

As expected, due to the increasing pipeline capacity leaving the Permian basin, the indicative bids from the suppliers show that the historic low prices seen by Mesa through 2018 and 2019 for natural gas supplies will not be continuing through 2021 and 2022. 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 remaining supply not provided by the RFP will continue to be procured on an *ad hoc* basis by Shell Energy North America (who was the successful bidder in Mesa's 2020 RFP), however, Mesa retains the options to look for other supplies of natural gas as necessary. For instance, if pricing is looking favorable for a three-month

period, Mesa would still be able to request bids, and ultimately purchase those natural gas supplies.

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.

Fiscal Impact

The costs of natural gas supplies provided through these agreements are recovered through 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.