



City Council Report

Date: January 24, 2022
To: City Council
Through: Marc Heirshberg, Deputy City Manager
From: Frank McRae, Energy Resources Department Director
Anthony Cadorin, Energy Resources Program Manager
Tom Sheber, Energy Resources Coordinator
Subject: Power Purchase Agreements: Approval of Power Purchase Agreements for up to Four (4) Years of Electric Power and Energy - 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 electric supplies:

Base: This agreement will provide ten(10) megawatts (MW) of electric power and associated energy throughout the year (January – December 7x24 Firm Energy, "Base")

Summer Peak: This agreement will provide 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").

Responses to the Electric Power Request for Proposals (that was issued in November 2021) were received from Shell Energy North America (SENA); Exelon Generation Company, LLC (Constellation); Tenaska Power Services Company (Tenaska); Citigroup Energy Inc (Citi); Morgan Stanley Capital Group, Inc (Morgan Stanley); and Brookfield Energy Trading and Marketing LP (Brookfield) (collectively, the "Suppliers"). The contract(s) will be 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 the quantities and pricing (collectively, the Agreement). In the instance that best and final offers from Suppliers aren't 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 December 2021, electric service is provided to approximately 17,539 customers of whom approximately 14,711 are residential and approximately 2,828 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 2021 for the electric utility was 85.3 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 2024.
- Brookfield Renewable Trading and Marketing LP (Brookfield)
 - 15 MW for all days and all hours (24x7x365); Expires April 2024.

This portfolio, along with two resources which have expired within the last fiscal year met approximately 77% of Mesa's customers' annual energy requirements in fiscal year 20/21. 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 November 2021, 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	2/1/2022	12/31/2023	7x24 Firm Energy Product	10 MW	January - December	Mead 230 kV West Wing 500 kV or Pinnacle Peak 230 kV
Supply B	2/1/2022	12/31/2024				
Supply C	2/1/2022	12/31/2025				

Summer Peak Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Quantity	Supply Months	Delivery Points Requested
Supply D	6/1/2022	9/30/2022	7x16 Firm Energy Product	25 MW	June - September	Mead 230 kV
Supply E	6/1/2022	9/30/2023				
Supply F	6/1/2022	9/30/2024				
Supply G	6/1/2022	9/30/2025				

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	7/1/2022	8/31/2023	7x16 or 6x16 Firm Energy Product	10 MW	July - August	Pinnacle Peak 230 kV
Supply I	7/1/2022	8/31/2024				
Supply J	7/1/2022	8/31/2025				

By the closing date and time for the RFP (i.e., December 15, 2021 3:00PM MST) Base Product submittals and Summer Peak Product indicative pricing submittals were received¹. There were no July-August Peak Product submittals received, however, due to shifting market conditions, Mesa will still request best and final offers from the Suppliers for this Product. Indicative pricing for the Base and Summer Peak products were approximately 70% higher than the previously administered 2020 electric supply RFP, however, this was anticipated and included in the electric utility's supply portfolio budget for FY21/22 and beyond. Initial supplier feedback continues to cite concerns over the possibility of a repeat of the impacts felt from the summer 2020 California electrical grid/pricing instability and general lack of available excess capacity in the Western Interconnect and Desert Southwest electrical grids.

The Base Product supply start date for all terms is anticipated to be no sooner than February 1, 2022. The Summer Peak Product supply start date for all terms is anticipated to start June 1, 2022. The July-August Peak Product supply start date for all terms is anticipated to be July 1, 2022.

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

The utility's electric energy requirements are seasonal and vary by hour. As such, Mesa purchases energy through various contracts which provide energy in different months, hours, and quantities which combine to meet the annual energy needs of Mesa's customers, while avoiding the purchase of excess supplies, which are sold back into the market by RMS on Mesa's behalf.

Mesa received timely, responsive, and complete proposals from multiple respondents. 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. 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 conditions warrant.

Alternatives

An alternative to procuring these supplies and/or in the instance that best and final offers from Suppliers aren't favorable, then 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.

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.