



# City Council Report

**Date:** April 19, 2021  
**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 Five (5) Years and up to Fifteen (15) MW 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 five (5) years for the following electric supply:

**Base:** This agreement will provide up to fifteen (15) megawatts (MW) of electric power and associated energy throughout the year (January – December 7x24 Firm Energy, "Base").

The agreement will be with any one or more of the multiple respondents to the Electric Power Request for Proposals (RFP) that was issued in February 2021, collectively Suppliers. The contract(s) will be in the form of an Edison Electric Institute Master Power Purchase and Sales Agreement (EPI) 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 February 2021, electric service is provided to approximately 16,934 customers of whom approximately 14,377 are residential and approximately 2,557 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 2020 for the electric utility was 86.8 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
- Exelon Generation Company (“Constellation”)
  - Base Supply: 15 MW, Expires April 2021
- CitiGroup Energy (“Citi”)
  - Base Supply: 5 MW, Expires December 2021

This portfolio, along with two resources which have expired within the last fiscal year met approximately 75% of Mesa's customers' annual energy requirements in fiscal year 19/20. 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 February 2021, Mesa distributed an Electric Power Request for Proposals (RFP) to over 70 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, and three other products (Summer Peak Product, July-August Peak Product, and Summer Call Option Product) for the following terms:

### Base Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Months	Supply Quantity	Delivery Points Requested
Supply A	4/1/2021	3/31/2023	7x24 Firm Energy (WSPP Schedule C or EEI Firm LD)	January - December	15 MW	Mead 230 kV or West Wing 500 kV
Supply B	4/1/2021	3/31/2024				
Supply C	4/1/2021	3/31/2026				

### Summer Peak Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Months	Supply Quantity	Delivery Points Requested
Supply D	6/1/2021	9/30/2021	7x16 Firm Energy (WSPP Schedule C or EEI Firm LD)	June - September	15 MW	Mead 230 kV or West Wing 500 kV
Supply E	6/1/2021	9/30/2022				
Supply F	6/1/2021	9/30/2023				

### July-August Peak Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Months	Supply Quantity	Delivery Points Requested
Supply G	7/1/2021	8/31/2022	7x16 Firm Energy Product	July - August	10 MW	Pinnacle Peak 230 kV
Supply H	7/1/2021	8/31/2023				
Supply I	7/1/2021	8/31/2022			25 MW	
Supply J	7/1/2021	8/31/2023				

### Summer Call Option Product

Supply	Supply Period Start Date	Supply Period Ending Date	Supply Product Description	Supply Months	Supply Quantity	Delivery Points Requested
Supply K	7/1/2021	8/31/2021	6x16 Firm Energy Call Option Product	July - August	15 MW	Pinnacle Peak 230 kV
Supply L	7/1/2021	8/31/2023				

By the closing date and time for the RFP (i.e., March 9, 2021 3:00PM MST) only Base Product submittals were received. Additionally, supply costs per MWh were about 70% higher than the previously administered 2020 electric supply RFP. Initial supplier feedback cites the concerns over the possibility of a repeat of the impacts felt from the summer 2020 California electrical grid/pricing instability and the recent energy market fluctuations due to the cold weather-related natural gas shortages from Texas gas suppliers.

The Base Product supply start date for all terms is anticipated to be no sooner than May 1, 2021. Efforts are underway to assess a path forward regarding Summer Peak Products. To increase the available pool of counter parties for purchasing electric power Mesa will also be joining the Western Systems Power Pool which is a one-time membership fee of \$25,000.

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.