

Agenda Report

March 15, 2021

TO: Honorable Mayor and City Council
FROM: Department of Public Works
THROUGH: Municipal Services Committee (March 9, 2021)
SUBJECT: AUTHORIZE AN AGREEMENT WITH CLEAN ENERGY FOR SUPPLY OF ENVIRONMENTALLY FRIENDLY RENEWABLE NATURAL GAS FOR CITY FLEET FUELING AND FOR MANAGEMENT OF NATURAL GAS FUEL REVENUE CREDITS

RECOMMENDATION:

It is recommended that the City Council:

1. Find that this action is exempt under the California Environmental Quality Act (CEQA) in accordance with Section 15061(b)(3), the General Rule that CEQA only applies to projects that may have an effect on the environment;
2. Authorize the City Manager to enter into an agreement without competitive bidding pursuant to the City Charter Section 1002 (H) contracts with other governmental entities or their contractors for labor, materials, supplies or services with Clean Energy for Supply of Environmentally Friendly Renewable Natural Gas (RNG) for City Fleet Fueling and for Management of Natural Gas Fuel Revenue Credit over a three-year period with the option for two additional one-year extensions at the discretion of the City Manager; and
3. Grant the proposed contract an exemption from the Competitive Selection process pursuant to P.M.C. Section 4.08.049(B) contracts for which the City's best interests are served.

BACKGROUND:

The California Air Resources Board (CARB) developed the Low Carbon Fuel Standard (LCFS) program in compliance with AB 32 (the Global Warming Solutions Act of 2006) to reduce the carbon intensity of transportation fuels used in California by 10% by 2020. The CARB regulations allow producers of low carbon fuels including fossil compressed natural gas (CNG) to earn LCFS credits. Consequently, the City with its own CNG fueling operation and facility qualifies to participate in this state program.

In addition, the City can potentially earn environmental commodity revenue by partnering with a RNG supplier to infuse RNG in its CNG pipeline. Under the Environmental Protection Agency (EPA) Renewable Fuel Standard (RFS) federal program, RNG, not fossil CNG, is eligible to receive Renewable Identification Number (RIN) and generate credits through this separate federal program.

RNG is a substantial lower carbon fuel compared to fossil CNG and is a cleaner burning fuel source compared to conventional natural gas. The harvesting and filtration process for RNG has fewer impurities as well. RNG is methane captured from the decomposition of organic materials at landfills, agricultural facilities and wastewater treatment plants that has been cleaned and treated to meet natural gas pipeline quality standards. The pipeline quality bio-methane is then injected into the natural gas pipeline grid; and the CNG currently used will be displaced with RNG. This "displacement" significantly reduces carbon footprint because for every unit of RNG injected into the pipeline, an equal unit of fossil fuel is not extracted from the earth.

The eligible credits generated are based on the amount dispensed from the City's CNG station to approximately 53 CNG vehicles including transit buses, sanitation trucks, dump trucks, sweepers, aerial trucks, and sewer trucks. Since Southern California Gas Company (SoCal Gas) currently provides natural gas to the City's compressing station through their existing pipeline infrastructure, the amount dispensed is verifiable through their monthly billings to the City.

The City anticipates dispensing approximately 480,000 Gasoline Gallon Equivalent per year and is potentially eligible to receive an estimated revenue of \$130,000 per year at current renewable identification numbers and LCFS prices. Staff, therefore, seeks to enlist and partner with a reputable vendor to supply RNG to the City's CNG pipeline and to provide comprehensive management of program credits made available to CNG operators and users through the CARB and EPA agencies. This action does not require modifications to the City's fleet or infrastructure but generates additional funds to the City. These funds will then be applied to cover CNG-related expenditures such as consistent updates and service needs to the CNG equipment and continued CNG software system upgrades, maintenance, and support.

On February 2020, the City of Lodi issued a Request for Proposal for Sale and Purchase of Natural Gas including special provisions for supplying RNG and managing fuel credits. Clean Energy was awarded the contract and has agreed to extend the special provisions per their recent agreement #LOD001-TC02 with the City of Lodi dated June 25, 2020. It is, therefore, in the best interest of the City to utilize the special provisions in this agreement.

Clean Energy, as the producer of RNG, gains to receive compensation credits through the governing agencies by supplying RNG to existing CNG facilities. As such, the City of Pasadena will receive the RNG at no cost and without any financial obligations to this vendor. Clean Energy will provide the City with 100% of the equivalent value of the fossil CNG LCFS credits plus additional incremental share of credit based upon the

usage quantity in our SoCal Gas monthly billing. Delivery of the RNG in equivalent volume to the CNG dispensed at the City's CNG station will be expected on a monthly basis. Additionally, Clean Energy will also perform the associated CARB and EPA natural gas fuel reporting and tracking including managing the RNG credits generated and selling these to the obligated parties (fuel importers or producers) that need these credits to offset their fuel emission deficits in order to avoid penalties or fines.

Clean Energy, is a leading natural gas fuel provider with an array of fuel solutions and management services including dealing with regulations and incentive programs. They have been in business for over 20 years and have multiple agreements with various municipalities including the Cities of Burbank, Glendale, Commerce, Long Beach, Santa Monica, Beverly Hills, Ontario, Norwalk, Torrance, and Culver City.

Staff, therefore, recommends authorizing the City Manager to enter into an agreement with Clean Energy to supply RNG and to provide natural gas fuel revenue credit management to the City for a three year term with an option for two one-year extension periods, renewable at the discretion of the City Manager. This action will allow the City to claim eligible credits already available through the state and federal natural gas fuel credit programs and to receive a proportionate share of the revenues generated from these credits. Moreover, this supports the City's use of cleaner fuel alternatives by opting to avail of a sustainable waste-to-energy fuel source, RNG. The use of RNG lowers the fuel carbon intensity impact by at least 40%, significantly reducing harmful greenhouse gas emissions and the City's emission of pollutants to the atmosphere. All of which promotes the City's continued commitment to protecting the environment and the community.

COUNCIL POLICY CONSIDERATION:

This agreement supports the City Council's strategic goal to maintain fiscal responsibility and stability; and increase conservation and sustainability.

ENVIRONMENTAL IMPACT:

This action is exempt from CEQA pursuant to State CEQA Guidelines Section 15061(b)(3), the General Rule that CEQA only applies to projects that may have an effect on the environment.

FISCAL IMPACT:

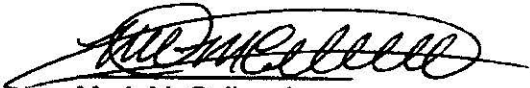
This proposed action allows for maximizing existing CNG fuel infrastructure at no cost to the City and will generate revenues estimated at \$130,000 annually to the Fleet Maintenance & Repair Fund budget account 51122058-817800.

Respectfully submitted,




ARA MALOYAN, P.E.
Director of Public Works

Prepared by:



Mark McCullough
Public Works Administrator (BSFMD)

Approved by:



STEVE MERMELL
City Manager