



Board Report

File #: 2020-0584, File Type: Contract

Agenda Number: 28.

OPERATIONS, SAFETY, AND CUSTOMER EXPERIENCE COMMITTEE OCTOBER 15, 2020

SUBJECT: BIOMETHANE PROVIDERS

ACTION: AWARD CONTRACT

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to:

- A. AWARD three (3) Indefinite Delivery/Indefinite Quantity Contracts under Request for Proposal (RFP) No. OP59812 each for five (5) years, plus a three (3)-year option, for a combined total Not-To-Exceed amount of \$66,893,882 for Renewable Natural Gas (RNG) to Clean Energy Renewables, Shell Corporation, and Trillium for Metro's Divisions 8, 9, 10, 13, 15 and 18. Board approval of contract awards is subject to resolution of any properly submitted protest(s) and
- B. AWARD Individual Transaction Confirmations (also known as Task Orders) to the qualified Renewable Natural Gas (RNG) suppliers for up to a not-to-exceed of \$5,000,000 each, not greater than the total combined Not-To-Exceed value of \$66,893,882.

ISSUE

Metro's long-term strategy to support California's ambitious air quality and greenhouse gas (GHG) goals is to procure and deploy a 100% Zero Emission Buses (ZEB) bus fleet by 2030. To ensure that our agency continues to achieve its greenhouse gas emissions and criteria air pollutant goals during this transition from compressed natural gas (CNG) fleet to ZEB fleet, we are using biomethane to power Ultra-Low Nitrogen Oxide (NOx) "Near Zero" CNG engines. Biomethane is also known as renewable natural gas.

The current biomethane contract was awarded in 2017 and will expire in 2022. The number of biomethane supply sources have increased and continued to diversify in the last three years. Low Carbon Fuel Standard (LCFS) rules have also evolved during that time. A new contract is necessary to ensure that our agency could access more diverse biomethane supplies and optimize the number of environmental credits we get from the use of biomethane, while continually minimizing the cost of our natural gas use.

DISCUSSION

Biomethane is natural gas derived from renewable sources such as landfills, dairies, and wastewater treatment plants rather than being extracted or mined from the ground. Therefore, biomethane has a much lower carbon intensity (CI) when compared to traditional forms of natural gas (i.e., “fossil natural gas”). The CI of a fuel is a measure of its GHG emissions over the lifecycle of that fuel’s production, including extraction, refinement, transportation, and consumption. Alternative sourcing, such as those associated with biomethane, reduce natural gas’ carbon intensity with improved greenhouse gas emissions benefits.

In June 2013, the Board adopted the Biomethane Implementation Plan. In May 2014, the Board approved a staff recommendation to pursue Pathway 2 of the Biomethane Implementation Plan whereby Metro would contract with an energy provider as a means of achieving a transition to biomethane. In the same report, staff demonstrated that the use of biomethane in our CNG buses would not need any new fueling infrastructure or fleet retrofits.

The current contract to use biomethane for our CNG fleet was awarded in 2017. Only after August 1, 2020 was the vendor able to temporarily supply 100% of the biomethane needs of our agency. The pace of biomethane source development prevented the full supply of biomethane from being delivered immediately. While there were no impacts to our bus operations, our ability to generate carbon credits from biomethane use was not optimized.

That temporary increase to 100% is only effective until contract OP59812000 is awarded. After that, the supply available from the current contract is only good for up to 42% of our needs. The current biomethane contract expires in 2022.

Since 2017, there has been an increase in the number of biomethane sources. There were also changes in the Low Carbon Fuel Standard rules. With the current biomethane contract expiring in two years, and the new logistical and LCFS credit landscape, staff developed a new procurement. This new contract seeks to optimize supplier diversity and number of carbon credits we get while keeping the price of natural gas expenses at par or lower than what we currently pay.

The biomethane from the new contract will continue to be delivered in the same quality and grade for immediate use by our fleet at all our bus divisions. The biomethane suppliers will deliver the fuel to Metro bus divisions using existing natural gas pipelines.

The transition to 100% biomethane provides enormous GHG emissions reduction benefits for Metro’s bus emissions and overall carbon footprint. A 100% biomethane short-term strategy is an excellent example of exercising fiscal discipline in the area of energy supply until a 100% ZEB fleet is fully implemented.

According to Metro’s 2019 Energy and Resource Report, the agency spends over \$22M each year on natural gas for its current CNG bus fleet. While this expense is susceptible to price volatility outside of the agency’s control, there are also measures Metro can take in order to reduce risk and

manage future costs. One of these is to tie the supply of renewable natural gas rate to a natural gas index. Tying natural gas prices to the natural gas index also provides rate transparency for Metro's natural gas procurement planning.

Finally, Metro's use of biomethane makes our agency eligible for accumulating additional carbon credits under state and federal programs. These credits are currently sold in open credit markets. Revenues from these sales are continually reinvested on LA Metro projects that are cost-saving and value creating projects.

DETERMINATION OF SAFETY IMPACT

This Board action will not have an adverse impact on safety standards for Metro.

FINANCIAL IMPACT

Metro will realize two distinct financial benefits from this Board action; natural gas savings and optimized generation of environmental commodities.

Current fossil natural gas price paid for by Metro is based on the average cost of gas. Contract OP59812000 requires that biomethane prices are tied to a natural gas index. This requirement provides for additional savings and transparency for Metro's natural gas program.

Under the California Air Resources Board's (CARB) LCFS and the US EPA's Renewable Index Numbers (RINs) programs, Metro is currently generating credits through the dispensing of natural gas for bus fueling and use of electricity for light and heavy rail propulsion. Specific to natural gas, the lower carbon index value of biomethane allows us to get a greater number of carbon credits compared to those generated when we use fossil natural gas.

Based on index projections and current value of additional environmental commodities, execution of this Contract will add over \$40M in cost-savings and carbon credits revenue for our agency.

Impact to Budget

Budget for these contracts are in the FY21 budget in project number 306002 - Operations Maintenance. This project is currently funded by sources such as Prop C40%, Measure R 20%, TDA 4, STA and other local sources. Allocation of these funds to this effort maximizes the intended use of these sources based on approved funding guidelines and provisions.

ALTERNATIVES CONSIDERED

If this contract is not awarded, Metro will continue to utilize its existing biomethane contract until termination date in 2022. Until then, we will not be able to continually achieve 100% of our biomethane needs. Our receipt of related LCFS and RINs credits will not be optimized.

For any reason the current and future vendors cannot supply the volume of biomethane we need to run our CNG bus fleet; we will revert back to receive fossil natural gas from The Gas Company. We do not anticipate The Gas Company to offer a biomethane service any time soon. In any case, there will be no impact to bus operations.

NEXT STEPS

Upon Board approval, staff will execute the contract and commence biomethane delivery. Staff will evaluate the performance of the contract at the end of the five-year base contract year and determine whether to exercise the three-year option.

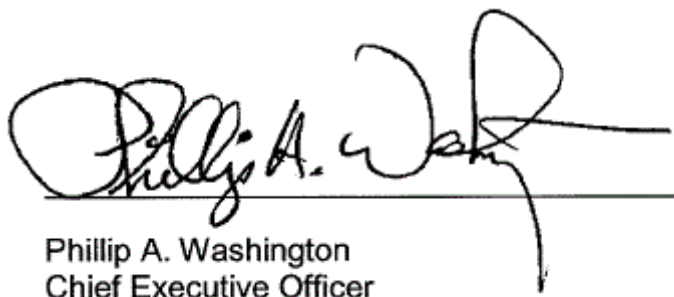
ATTACHMENTS

Attachment A - Procurement Summary

Attachment B - DEOD Summary

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