



Board Report

File #: 2024-0026, **File Type:** Contract

Agenda Number: 37.

**OPERATIONS, SAFETY, AND CUSTOMER EXPERIENCE COMMITTEE
MARCH 21, 2024**

**SUBJECT: CONTRACT MODIFICATIONS FOR RENEWABLE NATURAL GAS (RNG)
CONTRACTS**

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

AUTHORIZE the Chief Executive Officer (CEO) to:

- A. EXECUTE Modification No. 6 to Contract No. OP73960000 with Clean Energy Renewable Fuels, LLC. to increase the contract value by \$20,204,040 from \$56,048,630 to \$76,252,670 and extend the contract performance end date by seventeen months from July 31, 2024, to December 31, 2025, to provide renewable natural gas to five bus operating divisions;
- B. EXECUTE Modification No. 4 to Contract No. OP59812000A with Clean Energy Renewable Fuels to increase the 5-year base contract value by \$22,023,615 from \$43,626,286 to \$65,649,901;
- C. EXECUTE Modification No. 3 to Contract No. OP59812000B with Shell Energy North America (US) to increase the 5-year base contract value by \$4,224,175 from \$10,888,120 to \$15,112,295; and
- D. EXECUTE Modification No. 2 to Contract No. OP59812000C with Trillium USA Company, LLC. to increase the 5-year base contract value by \$7,112,949 from \$12,379,477 to \$19,492,426.

ISSUE

Metro uses Renewable Natural Gas (RNG) fuel to power the engines on the majority of the bus fleet. RNG fuel is currently being procured under four contracts due to limited RNG availability from one single supplier, with one contract scheduled to conclude on July 31, 2024, and the remaining three contracts set to expire on December 31, 2025.

This Board action is intended to add contract value to all the current RNG contracts and extend one current RNG contract term. The intent is to align the four existing contracts to expire on December 31, 2025. Since the volume of RNG has become more readily available regardless of the source or supplier, staff will initiate the procurement of one consolidated contract for RNG in late 2024 and

return to the Board for approval of the new consolidated contract prior to the expiration of the existing contracts in December 2025.

BACKGROUND

Metro's bus fleet operates using RNG, which is procured under four contracts. The first contract number OP7396000 with Clean Energy was approved by the Board in July 2017. The contract consisted of a one-year base and one four-year option. It was subsequently extended by an additional two years, which brought the expiration date to July 31, 2024. The contract serves five Metro bus divisions. Metro was unable to procure RNG for all facilities utilizing the 2017 contract due to the limited availability of RNG. In October 2020, Metro awarded three additional contracts that expanded the delivery of RNG fuel to the remaining bus divisions. At that time, RNG sources had become more available. These five-year contracts with Clean Energy, Shell, and Trillium will expire on December 31, 2025.

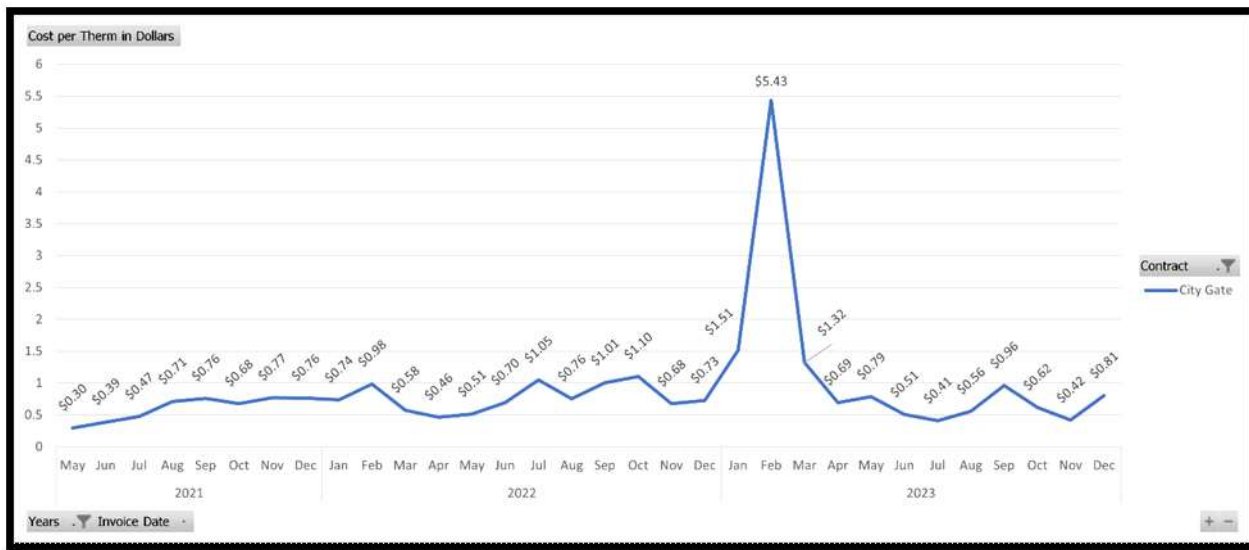
DISCUSSION

Metro continues the development and installation of the electric bus charging infrastructure and procurement of new electric buses. Metro will continue to achieve greenhouse gas emissions and criteria air pollutant reduction goals during this transition by using Compressed Natural Gas (CNG) buses using RNG fuel during this transition.

Renewable natural gas can be difficult to differentiate from fossil fuel based natural gas, since both gases can be used interchangeably in the same applications. The main difference between natural gas and RNG lies in each gases' production methods, and consequently their environmental impacts. RNG is a carbon-neutral fuel that captures human-generated biogas already present in the environment in landfills, wastewater treatment plants and livestock operations. Raw biogas or methane from these sources is then converted into RNG at a treatment plant. Methane capturing helps mitigate climate change by capturing harmful gases that would otherwise be released into the atmosphere and pollute the communities where landfills and livestock operations exist. RNG is considered renewable as it comes from naturally occurring sources.

As Metro phases in Zero-Emission Buses (ZEBs), beginning at the G and J-Lines, staff will be able to collect data that will inform the pace of RNG reduction over the next few years. The phasing of new ZEB deliveries and completion of ZEB infrastructure will further refine the information.

The contracts' end date synchronization will provide staff with time to accurately assess future gas consumption needs, although RNG consumption is anticipated to decline with the expanded delivery and use of ZEBs.. The procurement of electric buses is currently underway, and construction of the charging infrastructure is in process. As additional electric buses are placed into service, staff will be able to more accurately assess the declining demand for RNG as CNG buses are systematically retired from service. Additional funding is required to fuel the existing fleet of Metro buses operating on RNG to prepare Metro for any future significant cost fluctuations. This provides reliable and essential transit service to our customers through the smooth and uninterrupted operation of the bus fleet.



Action is required to increase the contract values for all contracts at this time due to limited contract authority. The contracts are now approaching their maximum value due to the unprecedented price spike in the gas industry from late 2022 to early 2023. The graph above illustrates that the price per therm increased to \$5.43 compared to \$0.98 in the same period in 2022, which resulted in increased expenditures of about \$17.5 million over a four-month period. Prices have since stabilized.

DETERMINATION OF SAFETY IMPACT

The award of this contract will ensure that all operating divisions have an adequate supply of renewable natural gas for the Metro bus fleet that provides safe, clean, and reliable transportation service for Metro customers. The use of RNG improves safety since RNG is a carbon-neutral fuel that is produced through the capture of human-generated biogas that is already present in the environment in landfills, wastewater treatment plants, and livestock operations. The capturing of these gases improves the safety of our communities by capturing the harmful gases that would otherwise be released to the atmosphere and pollute our environment.

FINANCIAL IMPACT

The contract modifications will increase \$53,564,779 in contract authority to provide funding for renewable natural gas at existing market rates and provide contingency in the event of future spikes in the market rate for natural gas. Funding for RNG will be included in FY25 and FY26 operating budgets in various bus divisions cost centers, under project 306002 - Operations Maintenance, under line item 50402 FUEL CNG - REVENUE EQUIPMENT. Cost center managers and the Chief Operations Officer will be responsible for budgeting the cost of RNG in the future fiscal years.

Under the California Air Resources Board’s (CARB) Low Carbon Fuel Standard (LCFS) and the US Environmental Protection Agency’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 renewable natural gas, the lower carbon index value of the fuel allows us to generate carbon credits. These carbon credits are managed through the Metro Office of Sustainability and sold by Metro's Vendor/Contract Management, with proceeds reinvested towards Metro sustainability and resiliency initiatives, consistent with the 2020 10-year Sustainability Strategic Plan.

Impact to Budget

The current sources of funds for this action are Federal 5307, Proposition A, Proposition C, Measure R, Measure M, and Transportation Development Act. This funding is eligible for bus and rail operations.

EQUITY PLATFORM

This action ensures the uninterrupted operation of Metro's bus fleet that serves Los Angeles County and disproportionately serves marginalized and vulnerable transit riders. RNG is needed to be able to provide reliable and safe bus service until ZEBs can be phased in and ensure that the bus fleet that serves most regions in Los Angeles County, including many underserved communities, can provide safe, clean, and reliable services to neighborhoods where disparities within the region can exist between residents' access to jobs, housing, education, health, and safety. Bus Fleet Management works to maintain equity in bus assignments in accordance with Title VI of the Federal regulations. Fleet Management will continue to focus on maintaining equity in EFC/low-income communities as newer buses arrive in the coming years.

The Diversity & Economic Opportunity Department did not establish a Disadvantaged Business Enterprise (DBE) goal for this project due to the lack of subcontracting opportunities. The Prime Contractor, Clean Energy Renewable Fuels, LLC, is performing the work with its own workforce.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The RNG contracts support Strategic Goal 2: Deliver outstanding trip experiences for all users of the transportation system. Renewable natural gas is required for the bus fleet, providing clean, safe, and reliable transportation services for Metro customers.

ALTERNATIVES CONSIDERED

The alternative is to continue procurement of RNG utilizing the four contracts with various contract end dates. In this scenario, Metro would still need to increase the contract authority for three contracts, Contract No. OP59812000A with Clean Energy, Contract No. OP59812000B with Shell, and Contract No. OP59812000C with Trillium as a separate board item. This approach is not recommended since conversion to a single contract for RNG is anticipated to provide better pricing and services for the delivery of natural gas. There is currently enough renewable natural gas supply accessible to any single supplier in the market.

Procurement of renewable natural gas from retail stations outside of the contract is not feasible due to the large size of our bus fleet. The procurement of non-renewable natural gas is not recommended as it would result in the loss of environmental benefits, carbon credits, and

revenues.

Another alternative considered to address price volatility is hedging. Commodity Swap/Cash Settlement Agreements ("Commodity Hedges") can be entered into to mitigate the volatility in index pricing. Staff monitors the market pricing of Commodity Hedges regularly. Historically, on average the price of entering Commodity Hedges has either exceeded the price of purchasing RNG at market rates or RNG market rates have fallen within a reasonable range of annual budgetary tolerance. At this time, staff does not recommend entering into Commodity Hedges but will continue to monitor market pricing of these instruments.

NEXT STEPS

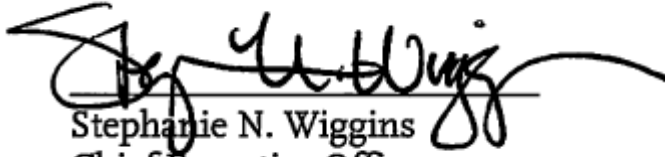
Upon approval, staff will execute Modification No. 6 to Contract No. OP73960000 with Clean Energy, Modification No. 4 to Contract No. OP59812000A with Clean Energy, Modification No. 3 to Contract No. OP59812000B with Shell, and Modification No. 2 to Contract No. OP59812000C with Trillium, to continue supplying renewable natural gas for Metro's bus fleet to December 31, 2025.

ATTACHMENTS

Attachment A - Procurement Summary OP7396000 Clean Energy
Attachment B - Contract Modification Change Order Log OP7396000 Clean Energy
Attachment C - DEOD Summary OP7396000 Clean Energy
Attachment D - Procurement Summary OP59812000A Clean Energy
Attachment E - Contract Modification Change Order Log OP59812000A Clean Energy
Attachment F - DEOD Summary OP59812000A Clean Energy
Attachment G - Procurement Summary OP59812000B Shell Energy
Attachment H - Contract Modification Change Order Log OP59812000B Shell Energy
Attachment I - DEOD Summary OP59812000B Shell Energy
Attachment J - Procurement Summary OP59812000C Trillium USA
Attachment K - Contract Modification Change Order Log OP59812000C Trillium USA
Attachment L - DEOD Summary OP59812000C Trillium USA

Prepared by: Irina Conway, Chief Administrative Analyst, (213) 922-5934
James Pachan, Sr. Executive Officer, (213) 922-5804
Cris Liban, Deputy Chief Sustainability Officer, (213) 922-2471
Matthew Dake, Deputy Chief Operations Officer, (213) 922-4061
Debra Avila, Deputy Chief, Vendor/Contract Management Officer, (213) 418-3051

Reviewed by: Conan Cheung, Chief Operations Officer (213) 418-3034



Stephanie N. Wiggins
Chief Executive Officer