



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MARCH 19, 2024

FROM: GENERAL SERVICES DEPARTMENT WARDS: ALL

SUBJECT: TRANSACTION CONFIRMATION WITH GHI ENERGY, LLC FOR THE MANAGEMENT OF CALIFORNIA'S LOW CARBON FUEL STANDARDS AND THE FEDERAL GOVERNMENT'S RENEWABLE IDENTIFICATION NUMBERS PROGRAMS FOR AN INITIAL THREE-YEAR TERM WITH TWO ONE-YEAR OPTIONS TO EXTEND.

ISSUE:

Approve Transaction Confirmation with GHI Energy, LLC for the management of California's Low Carbon Fuel Standards and the Federal Government's Renewable Identification Numbers Programs for an initial three-year term with two one-year options to extend.

RECOMMENDATIONS:

That the City Council:

1. Approve the Transaction Confirmation with GHI Energy, LLC for the management of California's Low Carbon Fuel Standards and the Federal Government's Renewable Identification Numbers Programs for an initial three-year term with two one-year options to extend.
2. Authorize the City Manager, or his designee, to execute the Services Agreement with GHI Energy, LLC including making minor and non-substantive changes and to execute the two optional one-year extensions.
3. Authorize the City Manager, or his designee, to execute the termination of GHI Energy, LLC as the natural gas fuel provider and to execute any documents necessary to transition fuel delivery services to Southern California Gas Company, including but not limited to the Customer Termination of CAT Program Contract form.

BACKGROUND:

The General Services Department, Fleet Management Division owns and operates two publicly accessible alternative fueling stations that provide Compressed Natural Gas (CNG) fuel to city owned fleet vehicles as well as to the public. Unlike diesel and unleaded fuels which are delivered by tanker truck and stored in underground storage tanks, natural gas is delivered through the local public utility's pipeline, the Southern California Gas Company (SoCal Gas).

There are two credit programs, California Low Carbon Fuel Standards (LCFS) and the Federal Renewable Identification Number (RINs), that are designed to reduce greenhouse gas emissions by encouraging the use of alternative, low carbon fuels.

- Low Carbon Fuel Standards (LCFS)

The Low Carbon Fuel Standards (LCFS) is a specific regulatory program under the purview of the California Air Resources Board (CARB), established to reduce the carbon intensity of transportation fuels. As the owner and operator of two compressed natural gas (CNG) fueling stations, the City of Riverside became eligible to participate in the state's cap and trade program which places limits on various pollution generators and rewards CNG station owners with LCFS credits. These credits have a marketable value because they can be sold to fuel producers and importers that may need the credits to offset carbon deficits that prevent them from meeting compliance requirements.

- Federal Renewable Identification Number (RINs)

The Federal Renewable Identification Number (RINs) program is a national policy that requires a certain volume of renewable fuel be introduced into the nation's transportation fuel supply. For a fuel to qualify as a renewable fuel under this program, it must be approved by the Environmental Protection Agency (EPA) to support the goal of reducing greenhouse gas emissions. Under this program, natural gas supplied from renewable sources (RNG) qualifies for the RINs program.

In 2012, the General Services Department, Fleet Management Division began to research how the City of Riverside (City) could earn low carbon credits as an owner/operator of two CNG fueling stations and bank those credits for sale to fuel producers and importers that may need the credits to offset carbon deficits preventing them from meeting compliance requirements.

To participate in the LCFS program, it is required that the fuel provider opt-in as a Regulated Party or alternatively, delegate its Regulated Party status to a third-party Energy Services Provider (ESP). Because of the complexities associated with LCFS program management, as well as the program's regulatory and compliance requirements, staff determined that the best course of action would be for the City to contract with a third-party ESP for the management services of the LCFS and RINs programs.

In January of 2013, the Riverside Transit Agency (RTA) went through the Request for Proposal process for ESP to provide natural gas to the RTA fuel stations as well as manage the participation in the LCFS program. On May 23, 2013, the RTA Board of Directors (Board) authorized the award of a five-year agreement with GHI Energy Services, LLC (GHI) for the purchase of natural gas and management of the LCFS and RINs programs.

GHI offered these same terms and conditions to the City and on January 7, 2014, the City Council approved the agreement with GHI for purchase of natural gas and the management of the LCFS and RINs programs.

On October 6, 2017, RTA issued Request for Proposal No. 17-057 for the supply of natural gas fuel and management services of the LCFS and RINs programs. On February 22, 2018, the RTA Board authorized the award of a three-year agreement, plus an option to extend two additional years with GHI for purchase of natural gas and management of LCFS and RINs programs.

GHI offered these same terms and conditions to the City and on April 16, 2019, the City Council approved the agreement with GHI for purchase of natural gas and the management of the LCFS

and RINs programs.

DISCUSSION:

On July 18, 2023, the RTA issued Request for Proposals (RFP) No. S23103F. The RFP requested that vendors propose a natural gas price that was pegged to the SoCal Gas monthly floating index price. The natural gas commodity itself could be provided either directly by SoCal Gas or by the vendor. Either way, vendors were encouraged to provide their best overall price package, including compensating RTA for LCFS and RINs credits.

On August 22, 2023, RTA received proposals from seven vendors and after technical review, all proposals were found to be technically acceptable in accordance with the criteria listed in the RFP. RTA staff then conducted an analysis of each vendor's pricing model to determine which vendor offered the most competitive overall pricing. Each vendor's proposed pricing model was based on the same structure and assumptions to ensure a fair evaluation. GHI was the only vendor whose combined price proposal resulted in an estimated net savings, meaning the revenue from LCFS and RINs exceeded the cost of the natural gas. GHI's price included a \$0.008 rebate per therm for natural gas purchased from Southern California Gas Company (SoCal Gas) along with a 17% share for both LCFS and RINs credits. Under GHI's proposal, RTA would receive and purchase natural gas directly from SoCal Gas.

On November 16, 2023, the RTA Board authorized staff to enter into Agreement No. S23103F with GHI for the management of LCFS and RINs programs for a period of three years, plus an option to extend two additional years.

GHI has offered these same terms and conditions to the City of Riverside. Staff has reviewed the terms and conditions of the new contract and determined that it is in the best interest of the City to continue the partnership with GHI for the management services of the LCFS and RINs programs. As stated in the new contract, it is recommended that the natural gas be purchased directly from SoCal Gas as they are able to provide the best rates at this time.

The tables below demonstrate the new contract based on the average annual usage of 1,100,000 therms for both City owned alternative fuel stations and the full price of natural gas per therm based on the average rolling 12-month SoCal Gas index of \$0.95.

Natural Gas Cost				
Year	Estimated Annual Therm Use	Full Price of Gas Per Therm	Fuel Discount	Cost to City of Riverside
1	1,100,000	\$ 0.95	\$ 0.008	\$ 1,036,200
2	1,100,000	\$ 0.95	\$ 0.008	\$ 1,036,200
3	1,100,000	\$ 0.95	\$ 0.008	\$ 1,036,200
4	1,100,000	\$ 0.95	\$ 0.008	\$ 1,036,200
5	1,100,000	\$ 0.95	\$ 0.008	\$ 1,036,200
			Total Cost	\$ 5,181,000

RIN Revenue				
Year	INs Credits Generated per Therm	Price Per RIN Credit	City of Riverside Share of RINs	RIN Revenue to City of Riverside
1	1.172	\$ 3.04	17%	\$ 666,259
2	1.172	\$ 3.04	17%	\$ 666,259

3	1.172	\$ 3.04	17%	\$ 666,259
4	1.172	\$ 3.04	17%	\$ 666,259
5	1.172	\$ 3.04	17%	\$ 666,259
Total RIN Revenue				\$ 3,331,293

LCFS Revenue				
Year	LCFS Credits Generated per Therm	Price Per LCFS Credit	City of Riverside Share of LCFS	LCFS Revenue to City of Riverside
1	0.0313523	\$ 73.60	17%	\$ 431,508
2	0.0312451	\$ 73.60	17%	\$ 430,033
3	0.0311371	\$ 73.60	17%	\$ 428,546
4	0.0310299	\$ 73.60	17%	\$ 427,071
5	0.0309219	\$ 73.60	17%	\$ 425,584
Total LCFS Revenue				\$ 2,142,742

Over a 5-year contract term, it is estimated that the city will pay approximately \$5,181,000 in fuel costs and receive approximately \$3,331,293 in RINs revenue and approximately \$2,142,742 in LCFS revenue. This results in estimated net City savings of \$293,034 over the 5-year contract term.

The General Services Department is requesting approval of the Transaction Confirmation for the management of the LCFS and RINs program based on RTA's Agreement No. S23103F with GHI in accordance with Purchasing Resolution 23914, Section 702(h) which states, "When Services, except for Professional Services, can be Procured from a Contractor who offers the same or better price, terms and conditions as the Contractor previously offered as the Lowest responsive Bidder under Competitive Procurement or negotiations conducted by the City or another public agency, provided that, in the opinion of the Manager, it is in the best interests of the City to do so."

The Purchasing Manager concurs that the recommended action is in compliance with Purchasing Resolution 23914, Section 702(h).

STRATEGIC PLAN ALIGNMENT:

This item contributes to the City's Strategic Priority No. 4 *Environmental Stewardship* and Goal No. 4.6 – Implement the requisite measures to achieve citywide carbon neutrality no later than 2040.

This item aligns with *EACH of the five Cross-Cutting Threads* as follows:

1. **Community Trust** – Obtaining this contract with GHI Energy, LLC is in the community's best interest by ensuring that the city is continuously working towards the goal of reducing carbon emissions.
2. **Equity** – This item will benefit the entire community because it generates revenue while continuing to provide low-carbon alternative fuel to the public as well as for City owned fleet vehicles.
3. **Fiscal Responsibility** – The General Services Department is proposing this new contract in accordance with Purchasing Resolution 23914, Formal Procurement process to determine the best terms and conditions that will generate the greatest revenue from the

LCFS and RINs programs.

4. **Innovation** – The LCFS and RINs programs are an innovative way to encourage the use of alternative fuels.
5. **Sustainability & Resiliency** – Participating in both the LCFS and the RINs programs promotes sustainability by reducing greenhouse gas emissions and encouraging the use of alternative, low carbon fuels.

FISCAL IMPACT:

The total estimated fiscal impact over the five-year term of this agreement is a net credit of \$293,035. The revenue collected will offset the overall cost of natural gas. The LCFS revenue will be split between the General Fund (25%) and the Central Garage Fund (75%). Table 1 below shows the breakdown of revenue and expenditures for all funds. Table 2 shows the annual estimated costs of fuel and the respective credits that the City will be receiving.

Table 1.

Fund	Program	Account	Amount
<i>Revenue</i>			
Central Garage	Auto Stores O/H Revenue - RINs Revenue	0000650-349005	\$3,331,293
	Auto Stores O/H Revenue - LCFS Revenue (75%)	0000650-349005	\$1,607,057
General Fund	G/F Miscellaneous Receipts - LCFS Revenue (25%)	0000101-374200	\$535,685
Total Revenue			\$5,474,035
<i>Expenditures</i>			
Central Garage	Central Garage - Inventory Motor Fuel & Lube	0000650-141100	\$5,181,000
Total Expenditures			\$5,181,000
Overall Net Impact			\$293,035

Table 2.

Net Impact to the City				
Year	Estimated Fuel Cost	Estimated RINs Revenue	Estimated LCFS Revenue	Estimated Net Cost of Fuel
1	\$ 1,036,200	\$ 666,259	\$ 431,508	(\$61,567)
2	\$ 1,036,200	\$ 666,259	\$ 430,033	(\$60,091)
3	\$ 1,036,200	\$ 666,259	\$ 428,546	(\$58,605)
4	\$ 1,036,200	\$ 666,259	\$ 427,071	(\$57,129)
5	\$ 1,036,200	\$ 666,259	\$ 425,584	(\$55,643)
Five Year Total	\$ 5,181,000	\$ 3,331,293	\$ 2,142,742	(\$293,035)

Prepared by:	Jessica Spiking, Administrative Analyst
Approved by:	Carl Carey, General Services Director
Certified as to availability of funds:	Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by:	Edward Enriquez, Assistant City Manager/Chief Financial Officer/ Treasurer
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

1. GHI Energy LLC/City of Riverside – Transaction Confirmation
2. GHI Energy LLC/City of Riverside – Base Contract
3. RTA Solicitation – RFP No. S23103F
4. RTA Board Memo – November 16, 2023
5. RTA Agreement No. S23103F