



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 12, 2016**

FROM: GENERAL SERVICES DEPARTMENT **WARDS: ALL**

SUBJECT: AMENDMENT TO TRADE CONFIRMATION AGREEMENT WITH GHI ENERGY LLC TO MODIFY THE CREDIT REBATE CALCULATION METHOD – ESTIMATED ADDITIONAL ANNUAL REVENUE OF \$72,000

ISSUE:

The issue for City Council consideration is approval of an Amendment to Trade Confirmation Agreement with GHI Energy, LLC of Houston, Texas, to modify the formula for the credit rebate calculation which is estimated to increase annual revenue by \$72,000.

RECOMMENDATION:

That the City Council:

1. Approve the Amendment to the Trade Confirmation Agreement with GHI Energy, LLC. to modify the formula used for the credit rebate calculation method; and
2. Authorize the City Manager, or his designee, to execute the Amendment to Trade Confirmation with GHI Energy, LLC. including making minor and non-substantive changes.

BACKGROUND:

In 2006, the State of California passed Assembly Bill (AB) 32 which requires reductions in carbon emissions to 1990 levels by 2020. Petroleum based fuels sold in California result in carbon credit deficits, while alternative fuels such as compressed natural gas (CNG) create carbon credits. Because the City produces, consumes and sells CNG, the City is able to sell carbon credits to customers such as oil companies who need carbon credits to meet the requirements of AB32.

On January 7, 2014, the City Council approved an agreement with GHI Energy, LLC.(GHI) for the purchase of natural gas, management of the City's California Low Carbon Fuel Standards (LCFS) and the Federal Renewable Identification Number (RINs) credit programs. These programs are designed to reduce greenhouse gas emissions by encouraging the use of alternative, low carbon fuels which generate credits and are then sold on the open market.

On June 17, 2014, the City Council approved an Amendment to the Agreement with GHI to revise certain terms of the original agreement to better conform to subsequent rule changes made by the California Air Resources Board which occurred after the City Council's approval of the original agreement.

GHI Agreement Benefits

To date, under the GHI Agreement, the City has saved over \$44,000 on the cost of natural gas used for CNG fueling when compared to the price charged by Southern California Gas. Additionally, the City has received approximately \$315,000 in revenue for state LCFS carbon credits and approximately \$122,000 in revenue for federal RIN's credits for total revenue of approximately \$437,000.

Under the existing Agreement, GHI pays the City for RIN's based on an old pricing formula. Market changes in the latter half of 2015 resulted in the Oil Price Information Service (OPIS), a commonly relied upon data provider for fuels markets, publishing a daily market price for a new category of RINs that can be easily referenced in a contract. In 2016, GHI approached the City and offered to amend the existing contract and begin using the new price in its calculations.

The proposed amendment will revise the calculation method applied in the Trade (Transaction) Confirmation Agreement to reference the monthly average of the greater value from either the old or new index retroactively to April 1, 2016. Staff projects this revision will increase the City's revenue received for federal carbon credits by approximately 100%, or \$72,000 per year.

FISCAL IMPACT:

The City is currently receiving about \$6,000 per month for RIN's credits. Under the proposed Amendment, the City will receive nearly double the amount for RINs credits, approximately \$12,000 per month (this figure is based on today's price). The revenue generated under this program is split - 75% to the Central Garage Fund (0000650-349005) to pay down debt service on the CNG facility at the corner of Jurupa Avenue/Acorn Street and 25% to the General Fund (0000101-374200).

Prepared by:	Carl Carey, General Services Director
Certified as to availability of funds:	Scott G. Miller, Interim Finance Director/Treasurer
Approved by:	Marianna Marysheva-Martinez, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachment:	Amendment to Trade Confirmation Agreement with GHI Energy, LLC
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