RIVERSIDE TRANSIT AGENCY
1825 Third Street
Riverside, CA 92507

February 22, 2018

TO: BOARD OF DIRECTORS

THRU: Larry Rubio, Chief Executive Officer

FROM: Vince Rouzaud, Chief Procurement and Logistics Officer

SUBJECT: Authorization to Award Agreement No. 17-057 to GHI Energy, LLC for Purchase of Natural Gas and Management of California's Low Carbon Fuel Standards (LCFS) and the Federal Government's Renewable Identification Number (RINs) Programs

Background: Staff is requesting authorization to award Agreement No. 17-057 to GHI Energy, LLC to supply the Agency's natural gas (NG) fuel requirements and provide management services for participation in California's Low Carbon Fuel Standards (LCFS) and the Federal Renewable Identification Number (RINs) credit programs. The proposed agreement is for a three-year base period with two, one-year options.

The Agency began transitioning its fleet of 40-foot buses from diesel to clean-burning Compressed Natural Gas (CNG) in the early 1990's. Unlike diesel fuel which is 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). The NG is converted (compressed) into CNG fuel at the Agency's CNG fueling stations. Since the early 1990's through July 2013, the Agency purchased its natural gas requirements directly from SoCal Gas.

With the passage of California's Assembly Bill (AB32), the Agency, as owner of three compressed natural gas fueling stations, 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. Credits that can then be purchased by other entities to offset their carbon deficits. This program is known as California's LCFS program.

The Federal RINs program is a national policy that requires a certain volume of renewable fuel be introduced into the national infrastructure to replace or reduce the quantity of petroleum-based transportation fuel, heating oil or jet fuel. For a fuel to qualify as a renewable fuel under this program, it must be approved by the Environmental Protection Agency to support the goal of reducing greenhouse gas emissions. Under this program, NG supplied from renewable sources (RNG) qualifies for the RINs program. Examples of renewable energy sources include gas generated from landfills, dairies, wastewater treatment plants, etc.

In April 2012, then Board Chairman Doug McAllister formed a Fuel Task Force Committee (Committee) and assigned Director Andrew Kotyuk as Chairman to study alternative strategies to purchase natural gas as well as investigate the Agency's participation in the LCFS program.

Research over the next nine months determined that in order to participate in the LCFS program, the Agency would be required to 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 program management as well as the program's regulatory and compliance requirements, the Committee concluded the best course of action would be for the Agency to contract with an ESP for these services.

In January 2013, at the direction of Committee Chairman Andrew Kotyuk, staff issued a Request for Proposal (RFP) for an ESP to provide NG and manage the Agency's participation in the LCFS program.

On May 23, 2013, the Board authorized the award of a five-year agreement to GHI Energy, LLC for the purchase of NG and management of the LCFS and RINs programs. While not included in the original RFP, GHI offered the Agency a percentage of RINs credits generated from renewable energy sources. This agreement is due to expire on June 30, 2018.

Summary: On October 6, 2017, the Agency issued RFP No. 17-057. The RFP was publicly advertised in a newspaper of general circulation and a notice was posted on the Agency's website along with a copy of the RFP document. In addition, the Agency sent notices to the local Chambers' of Commerce of those cities that are members of the Joint Powers Agreement (JPA). On November 10, 2017, the Agency received proposals from the following four vendors:

- Clean Energy Renewables
- Element Markets Renewable Energy, LLC
- GHI Energy, LLC
- Trillum CNG

An evaluation committee representing staff from both purchasing and finance evaluated the proposals in accordance with the criteria listed in the RFP. All four proposals were determined technically responsive and capable of meeting the Agency's fuel and program needs.

Staff then conducted an analysis of each vendor's pricing model to determine which vendor was offering the most competitive (favorable) pricing on NG and the maximum compensation amount for both RINs and LCFS credits. Each vendor's proposed pricing model was structured differently so in order to ensure a fair evaluation, several assumptions were used to perform this analysis. The following is a list of those assumptions:

- *NG Commodity Price = $.33/therm (RTA's 3-year trailing average)*
- *Annual Usage = 3,000,000 Therms*
- *Current Price per Credit for Both LCFS and RINs (November 2017)*
- *All vendors considered the recent California Air Resources Board (CARB) statement that LCFS targets from 2021 through 2023 would be 'little changed' from 2020.*
- *Five-Year Purchase Agreement*

Based on the above assumptions and applying each vendor's discount off of the monthly SoCalGas published index price, Table 1 below illustrates the net savings to the Agency over the full five-year period for the purchase of NG. As can be seen in the table, the five-year savings ranges from $0 to $514,800 with GHI providing the greatest net savings to the Agency.

Table 1

Fuel Discount	GHI	Element Markets	Clean Energy	Trillium
Discount per therm	Yr 1-3: 10% disc Yr 4-5: 11% disc	$.007/therm Yrs 1-5: fixed	$.002/therm Yrs 1-5: fixed	$.00/therm (no discount)
Base Term	297,000.00	63,000.00	18,000.00	0.00
Option Year 1	108,900.00	21,000.00	6,000.00	0.00
Option Year 2	108,900.00	21,000.00	6,000.00	0.00
Estimated 5-Year Fuel Savings	**$514,800.00**	**$105,000.00**	**$30,000.00**	**$0.00**

In addition to the commodity savings, two additional factors were considered in the price analysis; the dollar value of the LCFS credits and the dollar value of the RINs credits the Agency would receive. The revenues generated from these two programs are essentially a function of NG usage, type of NG (fossil, renewable), carbon intensity and the percentage of the credits the Agency would receive from each vendor.

For the RINs program, the percentages ranged from a low of six percent to a high of 12 percent. For the LCFS program, all four vendors stated the Agency would receive 100 percent of the fossil fuel LCFS credits while the renewable fuel credits ranged from a low of ten percent to a high of 27 percent. The corresponding revenue by vendor for each of these two programs is depicted in Table 2. In both instances, GHI was offering the Agency the greatest value.

Table 2

RINS Revenue	GHI	Element Markets	Clean Energy	Trillium
Base Term	4,163,464.80	3,134,627.10	3,134,627.10	1,880,776.26
Option Year 1	1,387,821.60	1,044,875.70	1,044,875.70	626,925.42
Option Year 2	1,387,821.60	1,044,875.70	1,044,875.70	626,925.42
Estimated 5-Year RINs Revenue	**$6,939,108.00**	**$5,224,378.50**	**$5,224,378.50**	**$3,134,627.10**
LCFS Revenue	**GHI**	**Element Markets**	**Clean Energy**	**Trillium**
Base Term	1,239,416.11	1,214,805.00	801,017.33	929,855.73
Option Year 1	373,054.68	353,160.00	211,710.72	257,166.41
Option Year 2	373,054.68	338,445.00	211,710.72	257,166.41
Estimated 5 -Year LCFS Revenue	**$1,985,525.47**	**$1,906,410.00**	**$1,224,438.77**	**$1,444,188.55**
	GHI	**Element Markets**	**Clean Energy**	**Trillium**
Total RINs/LCFS Revenue:	**$8,924,633.47**	**$7,130,788.50**	**$6,448,817.27**	**$4,578,815.65**

Overall, GHI submitted the lowest net cost pricing model for NG and is also offering the Agency the greatest value for its LCFS and RINs credit programs. Because they are the incumbent vendor and as an added incentive, GHI is offering to apply the new base-period terms to the last six months of our existing contract which would make their offer even more attractive and favorable. However, in order to maintain an equitable comparison between all four proposers, these additional savings/revenues were purposely not included in the above calculations. It should be understood that this price analysis was based on the assumptions listed on the preceding page. As such, the actual savings and revenues will vary based on marketplace fluctuations and actual NG consumption.

As before, the proposed agreement will include provisions that enables the Agency to lock-in pricing at a fixed amount based on the parameters established within the investment policy adopted by the Board.

Fiscal Impact:

GHI is offering to provide NG at a ten-percent discount under the monthly SoCal Gas published index price for contract years one through three, with the discount increasing to 11-percent in option-years four and five. In addition, GHI will pay the Agency 100-percent of the LCFS credits generated from fossil fuels and 27-percent of the LCFS credits generated from renewable sources. GHI will also pay the Agency twelve-percent of the monthly market value of RINs credits generated for NG purchased regardless of whether or not renewable energy is actually delivered.

Committee Recommendation:

This item was discussed at the Board Budget and Finance Committee meeting on February 7, 2018. The Committee members unanimously approved and recommended this item to the full Board of Directors for their consideration.

Recommendation:

A) Authorize staff to enter into Agreement No. 17-057 with GHI Energy, LLC for the purchase of natural gas and management of California's Low Carbon Fuel Standards and the Federal Government's Renewable Fuel Identification Number programs for a period of three-years, plus two-option year periods.

B) Authorize staff to enter into all related agreements which include but may not be limited to the following:

   1. The gas industry's North American Energy Standards Board (NAESB) 'Retail Sale and Purchase of Natural Gas'; and
   2. Related 'Transaction Confirmation' agreement for the delivery/transmission of natural gas; and
   3. Any required additional agreements with SoCal Gas for the continued delivery/transmission of NG through its pipelines.