



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: FEBRUARY 19, 2019**

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

**SUBJECT: TRANSACTION CONFIRMATION FOR IMMEDIATE DELIVERY WITH GHI ENERGY, LLC FOR PARTICIPATION IN THE STATE'S LOW CARBON FUEL STANDARD PROGRAM TO EARN STATE RENEWABLE FUEL CREDITS FROM COMPRESSED NATURAL GAS USAGE IN ACCORDANCE WITH PURCHASING RESOLUTION 23256, SECTION 602 (G) TO ACT AS THE CITY'S RETAILER FOR THE SALE AND PURCHASE OF NATURAL GAS**

## **ISSUE:**

Approval of a Transaction Confirmation for Immediate Delivery with GHI Energy, LLC for participation in the State's Low Carbon Fuel Standard program to earn renewable fuel credits from compressed natural gas usage in accordance with Purchasing Resolution 23256, Section 602(g) to act as the City's retailer for the sale and purchase of natural gas.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the Transaction Confirmation for Immediate Delivery with GHI Energy, LLC for participation in the State's Low Carbon Fuel Standard program to earn renewable fuel credits from compressed natural gas usage in accordance with Purchasing Resolution 23256, Section 602 (g); and
2. Authorize the City Manager, or his designee, to execute the Transaction Confirmation for Immediate Delivery Agreement with GHI Energy, LLC, including making minor and non-substantive changes.

## **LEGISLATIVE HISTORY:**

The Federal Renewable Identification Number (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 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, natural gas supplied from renewable sources (RNG) qualifies for the RINs program.

The California Air Resources Board (CARB) calls for the reduction of greenhouse gasses (GHG) by lowering the carbon content of transportation fuels used in California. The regulation is referred to as the California Low Carbon Fuel Standard (LCFS). The LCFS will reduce GHG emissions from the transportation sector in California by approximately 10% of the total GHG emissions to 1990 levels by 2020. In addition, the LCFS is designed to reduce California's dependence on petroleum, create a lasting market for clean transportation technology, and stimulate the production and use of alternative, low-carbon fuels in California.

The LCFS has incentives in the form of credits that can be generated and traded when the carbon intensity of a fuel is less than the applicable standard. However, LCFS credits can only be generated and traded by persons that are formally subject to the LCFS requirements as "regulated parties". In order to further encourage fuel providers to make their fuels available for transportation uses, the LCFS allows such fuel providers to "opt" into the program, become regulated parties and generate LCFS credits that they can then sell and trade in the LCFS market.

### **BACKGROUND:**

In 2012, GHI Energy, LLC (GHI) contacted the City to discuss how Riverside could earn low carbon credits as an owner/operator of CNG stations and bank those credits for sale to companies who need credits. Participation in the LCFS program would generate revenue from the sale of carbon credits currently being produced that would otherwise not be available except for the fact that the City owns/operates two (2) CNG stations. While the City was still considering its options, the Riverside Transit Agency (RTA) went through the Request for Proposal process and, in the spring of 2013, entered into a five (5) year agreement with GHI to manage their LCFS program. GFI offered the same deal points to the City as provided to the RTA.

On January 7, 2014, the City Council approved agreements with GHI for participation in the State's LCFS program to earn State renewable fuel credits from CNG usage in accordance with Purchasing Resolution 22576 Section 201 (g), which stated that "...competitive procurement shall not be required when goods or 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 responsible bidder under competitive procurement or negotiations conducted by the City or another public agency, provided that it is in the best interests of the City to do so."

On October 6, 2017, RTA issued another Request for Proposal (RFP) No. 17-057 for their LCFS program. The RFP was publicly advertised and on November 10, 2017, four (4) responses were received. Overall, GHI submitted the lowest net cost pricing model and offered the greatest value for its LCFS and RINs credit programs.

The General Services Department has an opportunity to improve the value of its LCFS and RIN credits in the current agreement with GHI by "piggy backing" on the terms of RTA's new agreement for participation in the LCFS program. This will require approval of the attached Transaction Confirmation for Immediate Delivery, which will update the terms of the existing agreement with GHI. The base contract approved by the City Council on January 7, 2014 has no termination date and will remain in effect as our primary agreement with GHI for the LCFS program.

The Purchasing Manager concurs that the recommended action is in compliance with Purchasing Resolution 23256, Section 602(g).

## **FISCAL IMPACT:**

Total revenue to the City of Riverside to date from LCFS credits is approximately \$1,071,591.59 as noted below:

<b>Revenue from LCFS Credits</b>			
<b>Calendar Year</b>	<b>Amount Received</b>	<b>Less 25% To General Fund</b>	<b>Actual Credit to Fleet</b>
2014	\$ 67,235.90	\$ 16,808.98	\$ 50,426.92
2015	\$ 158,533.31	\$ 39,633.33	\$118,899.98
2016	\$ 277,234.15	\$ 69,308.54	\$207,925.61
2017	\$ 215,376.44	\$ 53,844.11	\$161,532.33
2018	\$ 353,211.79*	\$ 88,302.95	\$264,908.84
<b>Totals</b>	<b>\$1,071,591.59</b>	<b>\$267,897.91</b>	<b>\$803,693.68</b>

\* Estimate (Pending receipt of 4<sup>th</sup> quarter)

The revenue generated will be split with 75% going to the Central Garage Fund (650) for ongoing infrastructure improvements and 25% to the General Fund. GHI has also offered improved annual savings for using GHI as the City's core natural gas provider as noted below:

<b>Comparison of City of Riverside GHI Energy Terms (Savings from using GHI in lieu of SoCal Gas) July 2018 Data</b>		
	<b>Current Terms</b>	<b>New Terms (Begins Jan 1, 2019)</b>
Gas Discount	2,086.47	3,477.45
RIN Revenue	14,491.66	34,779.98
LCFS Revenue	25,661.47	24,651.09
<b>Total Benefit</b>	<b>42,239.60</b>	<b>62,908.52</b>

The annual total fiscal impact of the proposed action is expected to increase approximately \$20,000 based on the improved terms received under the current agreement with GHI. Revenue will be deposited into the Auto Stores Overhead Revenue account 650-349005 and the General Fund Use of Money account 101-374200.

Prepared by: Carl Carey, General Services Director  
 Certified as to  
 availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer  
 Approved by: Moises Lopez, Deputy City Manager  
 Approved as to form: Gary G. Geuss, City Attorney

### **Attachments:**

1. Transaction Confirmation for Immediate Delivery Agreement with GHI Energy, LLC for participation in the State's Low Carbon Fuel Standard Program, dated December 17, 2018

2. Base Contract with GHI Energy, LLC for Retail Sale and Purchase of Natural Gas dated December 11, 2013
3. RTA Board of Directors GHI Energy LLC Award Authorization, dated February 22, 2018
4. Agreement No. 17-057 between RTA and GHI Energy LLC, dated April 19, 2018
5. GHI Energy LLC / RTA Base Contract for Retail Sale and Purchase of Natural Gas
6. Transaction Confirmation for Immediate Delivery Agreement with GHI Energy LLC for participation in the State's Low Carbon Fuel Standard Program, dated April 19, 2018
7. Base Contract with GHI Energy LLC for Retail Sale and Purchase of Natural Gas, dated August 1, 2018