

## Association of Bay Area Governments Publicly Owned Energy Resources

### ABAG POWER

#### Board of Directors

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October 26, 2023

Agenda Item 6.b.2

#### Natural Gas Aggregation Program

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#### **Subject:**

Staff Report on Fiscal Year (FY) 2022-23 Natural Gas and Renewable Natural Gas Programs

#### **Background:**

Since 2002, ABAG POWER has operated with the dual – and often competing – goals of cost savings and price stability. In practice, this means providing natural gas at a rate competitive with, or less than, the default provider (Pacific Gas and Electric Company; PG&E), while at the same time providing a rate that is stable and predictable. ABAG POWER is also committed to supporting the climate goals of the customers and communities we serve.

#### **Strategic Implementation Roadmap**

As part of this commitment, in 2021, staff hosted a significant series of outreach events to discuss the State's climate action goals driving an anticipated decline of natural gas use, and to frame products and programs offered by ABAG POWER to better support a transition to renewable energy resources and reduce greenhouse gas emissions. This process resulted in the adoption of ABAG POWER's Strategic Implementation Road, approved on December 16, 2021 by the ABAG POWER Executive Committee.

The Strategic Implementation Roadmap (Roadmap) focuses on the development and implementation of near-term priorities that allow the program to be a partner to local governments seeking to achieve climate-related goals. Specifically:

1. Considering transitioning POWER's default product to fossil-based natural gas bundled with certified carbon offsets.
2. Participating in State and Federal vehicle fuel programs that incentivize the use of compressed natural gas as a low-carbon transportation fuel. Credits from these programs can be used to effectively offset cost premiums for other programs.
3. Pursuing Senate Bill (SB) 1383-Compliant Renewable Natural Gas (RNG) supply
4. We will offer a financial incentive to transitional electrification incentives.

During FY 2022-23, significant progress was made in implementing these initiatives:

- In April 2023, the ABAG POWER received a presentation describing a proposed framework for quantifying lifecycle carbon dioxide-equivalent emissions associated with

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the fossil-based natural gas produced, transported, and consumed in the natural gas program. The framework is pending approval.

- In May 2023, a special meeting of the Board of Directors was called to consider establishing a RNG program to provide supply for SB 1383 compliance and other purposes, including Climate Action Plan greenhouse gas emissions reductions and participation in the Low Carbon Fuel Standard and other vehicle fuel programs. The Board voted to approve the establishment of the RNG program, resulting in ABAG POWER's first new program since the joint powers authority's (JPA) formation in 1998.

**Other Notable Achievements**

In June 2023, the School Project for Utility Rate Reduction (SPURR), a JPA formed to seek reduction and control of utility costs on behalf of its 300 member organizations, released a Request for Qualifications and Proposals (RFQP) seeking vendors to serve as a successor agency to SPURR by providing retail natural gas commodity services to its core (small usage) and noncore (large usage) accounts. In July 2023, ABAG POWER submitted a timely response to the RFQP, and thereafter, SPURR evaluated responses and recommended ABAG POWER for award for the core accounts only, subject to the execution of a SPURR Master Contract between ABAG POWER and SPURR. While the award does not represent a guarantee regarding any particular level of service, SPURR has over 220 participants in its core natural gas program, and an annual usage of approximately 3.8 million MMBtu – about five times greater than the current annual gas usage of ABAG POWER's portfolio.

**Market Price Comparison**

Gas purchases were made in California (19%), Canada (42%), and Oregon (39%) using a combination of index-based and fixed-price transactions. This blend of short-term gas purchases resulted in a weighted average cost of gas (WACOG) of \$10.06 per dekatherm (Dth), an increase of 71% from the prior year, due to a multitude of external factors that caused extreme volatility in the overall natural gas markets nationally, including:

- Record-level liquefied natural gas (LNG) exports
- Low national storage inventories
- Exceptionally cold weather and severe weather-related events
- Modest production gains
- Unanticipated infrastructure (gas pipeline and storage) maintenance

These factors are exacerbated by geopolitical tensions caused by the war in Ukraine and subsequent commitments made by the U.S. to increase exports of LNG to Europe as to supplant Russian gas supply. In addition to regional impacts, these external factors resulted in extreme market volatility worldwide.

This year, the program's total rate was 17% higher than PG&E's small commercial procurement rate – the rate under which most ABAG POWER accounts would be categorized. Due to the leveled billing structure, the program's monthly rates were more stable than those of PG&E. A

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leading contributor to this differential is the quantity of natural gas purchased during elevated winter pricing.

**Historical and Anticipated Supply**

Since July 1, 2018, the general gas purchasing strategy has been exclusively in the short-term, index-based market.

Gas purchases are currently made on monthly and daily indices at three market locations. Fixed-price purchases are made only by exception and with Executive Committee approval. In December 2022, acknowledging extraordinary volatility, the Executive Committee provided staff authority until June 30, 2023, to enter fixed-price purchase contracts valued at less than \$1 million for a term not to exceed four months. In February 2023, staff entered a four-month fixed-price contract for supply at Malin, Oregon.

**Issues:**

None.

**Recommended Action:**

None.

**Attachments:**

- Staff Report on FY 2022-23 Natural Gas Program (Presentation)

**Reviewed:**

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