

**ABAG Publicly Owned Energy Resources (ABAG POWER)****Board of Directors**

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**October 29, 2020****Agenda Item 7.a.**

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**Natural Gas Aggregation Program**

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**Subject:** Staff Report on Fiscal Year (FY) 2019-20 Natural Gas Program

**Background:** Since 2002, the gas program has operated with the dual – and often competing goals – of cost savings and price stability. This year, ABAG POWER's total rate was 5.1% higher than Pacific Gas and Electric Company's (PG&E) similar rate for small commercial accounts (G-NR1). Due to the levelized billing structure, the program's monthly rates were, however, more stable than PG&E's rates.

This year, ABAG POWER purchased all of its gas on daily and monthly markets in California, Canada, and Oregon. This strategy of a blend of short-term gas purchases proved to be successful and resulted in a weighted average cost of gas of \$2.73 per dekatherm (Dth), a decrease of 14% from the prior year. Lower market prices, less market volatility, and purchases made in Canada for lower prices than were available domestically all contributed to the decrease in cost.

Natural gas prices were stable and relatively low throughout FY 2019-20. Of note:

- Supply and demand market forces were balanced throughout the year. The largest price drivers were:
  - Sustained warm weather during the winter months leading to an overall decrease in local demand. There also were no extreme winter events (polar vortices, unplanned pipeline maintenance, etc.) which typically create price volatility.
  - Deterioration of demand and production caused by the COVID-19 pandemic. Historically, decreases in production trigger price increases; however, this effect was counteracted by warm winter weather and storage inventories that were consistently approximately 20% higher than the prior year.
- Locally, daily prices at PG&E's 'Citygate' doubled from a low of \$1.95/Dth in July 2019, to a high of \$3.94/Dth

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in November 2019, averaging \$2.79/Dth on an unweighted basis over the course of the year.

- The five-year daily average commodity market price at PG&E's Citygate is \$3.11/Dth. PG&E's average rate, including commodity and all operating costs, was \$3.17/Dth during this period.

**Impacts of COVID-19:**

For many people, the pandemic created profound impacts to nearly every aspect of life and work. The staff of MTC began working remotely on March 16, and the vast majority of roles will continue to do so for at least the next few months. As a result, the program's invoicing processes were adapted to enable remote compilation and distribution of monthly invoices. In coordination with MTC's Technology Services team, legacy applications were rebuilt, which improved efficiency through removing manual processes and enabling a web-based application.

Similarly, many other public agencies directed staff to work remotely. Lower building occupancy among member agencies caused building closures and/or reduced energy use among certain facilities. Ultimately, the combination of warmer winter weather and decreases in building utilization resulted in gas usage five percent lower than budgeted.

From an industry perspective, the aggregate declines in energy use were unprecedented; while residential usage climbed, it did not offset massive decreases in the commercial, industrial, and aviation sectors. The short-term effects were dramatic for oil prices, but insignificant for natural gas markets; however, the mid-term effects of stalled oil and gas production, combined with persistent heat waves, saw local prices climb from approximately \$3/Dth to \$4/Dth during July and August. Prices continue to hover near the \$4/Dth range. Recognizing the increase in prices and decreased usage among the portfolio, staff promptly enacted a strategy for revenue generation by locally selling gas purchased in Canada. This strategy resulted in \$25,000 of revenue attributable to FY 2020-21.

**Discussion Items:**

The goals of ABAG POWER's Natural Gas Program are to provide natural gas at a rate competitive with, or less than, the

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default provider (PG&E), while at the same time providing a rate that is stable and predictable.

Staff and the Executive Committee understand that not achieving cost savings presents a long-term challenge for the program. However, modifications to the gas purchasing strategy over the past two years together with the implementation of operational cost-savings measures have increased program competitiveness. There have been other program improvements including the recent transition to a web-based utility database, and an open Request for Qualifications for Strategic Program Design.


In recent years, member surveys have indicated that cost savings is 'very' important to member agencies; however, the surveys also revealed that there is not a clear preference towards the goal of price stability over cost savings. Lastly, members have indicated significant interest in sustainability-related initiatives, such as renewable natural gas. The Executive Committee and staff have continued to evaluate the Program's purchasing strategy and program offerings to best maximize the goals of the program and its members.

**Recommended Action:** The ABAG POWER Board of Directors is requested to review and comment on the discussion items

**Issues:** None

**Attachments:** Staff Report on FY 2019-20 Natural Gas Program (Presentation)

**Reviewed:**

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