

ABAG Publicly Owned Energy Resources (ABAG POWER)**Board of Directors****October 21, 2021****Agenda Item 7.a.****Natural Gas Aggregation Program****Subject:** Staff Report on Fiscal Year (FY) 2020-21 Natural Gas Program

Background: Since 2002, ABAG POWER has operated with the dual – and often competing goals – of cost savings and price stability. This year, the program's total rate was 9% 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 those of PG&E.

This year, all gas purchased by ABAG POWER was on the daily and monthly markets in California (32%), Canada (39%), and Oregon (29%). This blend of short-term gas purchases resulted in a weighted average cost of gas of \$3.55 per dekatherm (Dth), an increase of 30% from the prior year, due to a multitude of factors that caused extreme volatility in the overall natural gas markets throughout FY 2020-21; a stark reversal from the prior year's relatively low and stable prices. Significantly:

- Gas production lagged due to COVID-19 and various weather-related incidents. In addition to a supply shortfall, national gas storage inventories were (and continue to be) below the five-year average, and liquified natural gas (LNG) exports were at all-time highs. These market drivers converged at the same time gas demand was rebounding to pre-COVID levels.
- Locally, daily prices at PG&E's 'Citygate' *quadrupled* from a low of \$2.05/Dth in July 2020, to a high of \$8.85/Dth in February 2021, averaging \$3.67/Dth on an unweighted basis over the course of the year.
 - In August 2020, there were persistent heatwaves and wildfires on the US and Canadian west coasts resulting in an increased demand for electricity and natural gas (for electricity generation) due to a higher use of air conditioning. To date, local prices have not returned below \$3.50/Dth.
 - In February 2021, a severe winter storm struck vast swaths of the U.S., with the most severe

ABAG Publicly Owned Energy Resources (ABAG POWER)**Board of Directors****October 21, 2021****Agenda Item 7.a.****Natural Gas Aggregation Program**

impacts felt in Texas. The storm caused a surge in energy demand, and when combined with the freezing temperatures, overwhelmed the state's energy infrastructure. Millions were forced to endure frigid temperatures without electricity or heat, and energy prices skyrocketed nation-wide as demand grew for natural gas and electricity.

- In June 2021, prices rose sharply from approximately \$3.75/Dth to near \$5/Dth; the rise had continued unabated. Many national price benchmarks have recorded the highest prices since 2008. The sustained increase is primarily driven by a recovery in demand attributed to:
 - the loosening of coronavirus-related restrictions
 - low hydroelectric generation potential caused by a dry winter
 - warmer-than-average weather forecasts, and
 - low national gas storage inventories

COVID-19 impacts also contribute to the program performance. Commencing March 2020, public agency staff were directed to work remotely. Initially, lower building occupancy among member agencies caused building closures and/or reduced energy use among certain facilities, but most of these impacts normalized after a year. Last year's temporary usage reduction resulted in lower gas commodity and associated expenses, but usage returned to seasonal norms during FY 2020-21. During this period, ABAG POWER's gas commodity and transportation expenses were \$2.5 million, an increase due to these volatile market conditions.

Discussion Items:

ABAG POWER's goals are to provide natural gas at a rate competitive with, or less than, the default provider (PG&E), while at the same time providing a rate that is stable and predictable. For the past five years, the program has been unable to

ABAG Publicly Owned Energy Resources (ABAG POWER)**Board of Directors****October 21, 2021****Agenda Item 7.a.****Natural Gas Aggregation Program**

consistently provide a lower rate than PG&E but a significantly modified purchasing strategy has resulted in increased competitiveness. Staff and the Executive Committee will continue to look for additional cost-saving opportunities, while simultaneously exploring initiatives that offer beneficial differentiation from PG&E's service.

A significant undertaking during the year was strategic planning with a focus on program redesign that includes a diversification of program offerings and fuel supplies. Following significant stakeholder engagement, a program strategy roadmap will be developed. This roadmap will identify program opportunities that will assist members achieve environmental and social goals, in alignment with State and local climate goals that increasingly focus on electrification. Among the items currently being considered are incorporation of carbon offsets, renewable natural gas, and transitional electrification and decarbonization programs. The program strategy roadmap will be presented in December 2021.

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 2020-21 Natural Gas Program (Presentation)

Reviewed:

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