

Association of Bay Area Governments Publicly Owned Energy Resources

ABAG POWER

Board of Directors

May 25, 2023

Agenda Item 5.d.

Establishment of Renewable Natural Gas Program

Subject:

Adoption of Resolution No. 23-04, which 1) amends Sections 7.A.1 Programs and 7.A.3 Program Committees of the Bylaws to create a Renewable Natural Gas Program and to have the Executive Committee serve as the Program Committee to the Renewable Natural Gas Program; 2) authorizes the Executive Director (or designee) of the Metropolitan Transportation Commission a) to negotiate and execute agreements with current ABAG POWER members to allow them to participate in the Renewable Natural Gas Program, and suppliers to provide renewable natural gas as part of the Renewable Natural Gas Program and b) to take actions incidental or necessary to establish and implement the Renewable Natural Gas Program, and 3) finds that the actions taken are exempt from environmental review pursuant to California Environmental Quality Act Guideline 15308, Actions by Regulatory Agencies for Protection of the Environment.

Background:

Since 1998, ABAG POWER has administered a natural gas program that serves cities, counties, and special districts who voluntarily join the program. Staff aggregate the gas needs of member agencies, conduct bulk purchases, and arrange for transportation to local distribution infrastructure where the gas is delivered to member facilities. These facilities include police and fire stations, hospitals, zoos, community centers, and other government buildings that use natural gas primarily for space and water heating and/or cooking; the portfolio also includes a small number of residential accounts, and several large accounts that use natural gas as a vehicle fuel, or as fuel for electricity generation.

The program currently serves 37 cities, counties, and special districts within the Pacific Gas and Electric Company (PG&E) service territory. Member agencies span 12 counties and are mostly located within the San Francisco Bay Area. The goals and benefits of ABAG POWER are:

Goals	Membership Benefits
<ul style="list-style-type: none"> • Price stability • Cost savings 	<ul style="list-style-type: none"> • Experience and participation in monitoring regulatory and legislative proceedings. • Members own and operate the pool and have input into purchasing decisions, administrative costs, and program design. • Responsive, in-house customer service for account management and rate analysis.

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Historically, the program has purchased fossil-based gas (fossil gas) supply, which is widely available at many purchase locations and through various contract structures (fixed-price, index-based, etc.) and term lengths (daily, monthly, multi-year, etc.). However, within the past decade, many jurisdictions have adopted climate strategies and/or goals that increasingly rely upon reducing consumption of fossil gas. Simultaneously, biomethane or “renewable natural gas” (RNG) – an upgraded, pipeline quality biogas produced by the breakdown of raw materials such as agricultural waste, manure, municipal waste, sewage, food waste, etc. – has become more widely available, in part due to legislation and incentives encouraging the use of RNG. Unlike fossil gas, RNG offers various benefits, including:

- Greenhouse gas (GHG) emissions reductions benefits through releasing biogenic carbon dioxide when combusted, and capturing methane that might otherwise escape into the atmosphere.
- Avoiding the disruptive and polluting processes for extracting fossil gas.
- Producing nutrient-rich byproducts and associated revenue streams.

With increased compliance with local and state greenhouse gas mandates, the demand for natural gas, particularly fossil gas, will likely decline over the next 25 years. While there is a continued near-term need for fossil gas, there are several significant decarbonization planning efforts underway to manage the State’s transition away from natural gas-fueled technologies. Several of these efforts are anticipated to or already do directly impact members of ABAG POWER, including:

- California Public Utilities Commission (CPUC) proceeding R.20-01-007 addresses phasing-out gas utility assets and identifying regulatory accounting mechanisms that will mitigate stranded costs for utilities while maintaining affordable gas rates for customers.
- California Senate Bill (SB) 1440 (Hueso, 2018) authorized the CPUC to adopt specific biomethane procurement goals for gas utilities. Each gas utility is currently responsible for meeting 2025 and 2030 biomethane procurement targets.
- California SB 1383 (Lara, 2014) requires local governments to procure products from the recycling of organic waste in accordance with jurisdictional targets established by the California Department of Resources Recycling and Recovery (CalRecycle).

Strategic Implementation Roadmap

ABAG POWER is committed to supporting the goals of the customers and communities we serve.

As part of this commitment, in 2021, staff hosted a series of outreach events to discuss the State’s climate action goals and the impacts on gas use, and to develop products and programs to offer ABAG POWER members options to better support a transition to renewable energy resources and reduce greenhouse gas emissions.

Most members participated in this process, providing input at both the stakeholder events and during ABAG POWER’s Board of Directors meeting on October 21, 2021. Feedback received

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was incorporated into a [Stakeholder Engagement Report](#)¹ and [Strategic Implementation Roadmap](#)². Both the Report and Roadmap were, following public comment, 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. The default product may transition from fossil-based natural gas to fossil-based natural gas bundled with certified carbon offsets.
2. The program should enable participation in State and Federal vehicle fuel programs that incentivize the use of compressed natural gas or RNG as a low-carbon transportation fuel. Credits from these programs can be used to effectively offset cost premiums for other programs.
3. Creating a product offering for SB 1383-compliant RNG supply.
4. Developing a program pathway and financial incentive to enable “transitional electrification”.

Collectively, these activities differentiate ABAG POWER’s offerings from those of PG&E and create additional value beyond the traditional goals of cost savings and price stability. Pursuing these initiatives recognizes that increasingly, attempting to achieve cost savings through securing the lowest-cost commodity often sacrifices other social and environmental considerations. As an alternative to the “race to the bottom” pricing approach, the Roadmap outlines opportunities that will assist members in achieving environmental and social goals. Staff believes these initiatives will prove valuable for the existing membership and prove compelling for attracting new members, thus decreasing rates for all participants.

Establishment of a voluntary RNG Program

While RNG provides significant opportunity to reduce short-lived climate pollutant (SLCP) emissions, there remains a significant price premium associated with producing RNG, particularly for products produced in California. The value of RNG is largely driven by programs that incentivize the use of low carbon transportation fuels, including the federal Renewable Fuel Standard (RFS) program and California’s Low Carbon Fuel Standard (LCFS). Demand for RNG for uses outside of vehicle fuel markets has been traditionally driven by voluntary sustainability goals of corporations, institutions, and government entities, but SB 1383 and SB 1440 are now resulting in an increased demand for RNG and contributing to an increasing number of in-state RNG production facilities.

Members have consistently expressed interest throughout the stakeholder engagement process and subsequent member surveys, requesting that ABAG POWER assist with procuring SB 1383-eligible resources. On October 4, 2022, staff issued a Request for Offers (RFO) seeking

¹ <https://abag.ca.gov/tools-resources/digital-library/abagpowerstakeholderengagementreportfinalr4pdf>

² <https://abag.ca.gov/tools-resources/digital-library/abag-power-strategic-implementation-roadmappdf>

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supplies of SB 1383-compliant biomethane/RNG. Staff received at least one proposal offering RNG and/or compliance credits that meet the requirements of SB 1383.³

In addition to procuring RNG for 1383 compliance, several ABAG POWER members in the gas aggregation program are using CNG fueling stations. These accounts are likely eligible but are not currently participating in the RFS and LCFS programs. Through a voluntary RNG program, these accounts could choose to begin procuring RNG and participating in these incentive programs, thereby generating a new revenue stream.

Taken in aggregate, the procurement process and recordkeeping requirements of SB 1383, as well as the RFS and LCFS programs, are outside of the scope of the natural gas aggregation agreement that governs members' participation. However, the joint powers agreement (JPA) creating ABAG POWER allows for this expanded scope.⁴ Staff recommends the establishment of a voluntary RNG program for the primary purposes of procuring RNG and/or compliance credits eligible under SB 1383, and for participating in the RFS and LCFS programs.

Similar to the natural gas aggregation program, a RNG program agreement will govern the relationship between ABAG POWER and members. Staff currently envision at least two roles for ABAG POWER to provide services as:

- a broker – wherein staff identify supply for one or more members, but ABAG POWER is not a party to the transaction (e.g., a purchase and sale contract is bilateral involving a third-party supplier and a member agency).
- a supplier – wherein ABAG POWER purchases RNG and/or compliance credits from a supplier, and re-sells the product(s) to a member agency:
 - (e.g., a purchase contract is either bilateral involving ABAG POWER and a member agency, or trilateral, involving ABAG POWER, a third-party supplier, and a member agency).

In the event ABAG POWER serves as a supplier for member agencies, and payment is to be made from ABAG POWER to a third-party supplier, a working capital deposit is likely to be necessary. In this situation, the proposed resolution delegates certain authority to Executive Director (or designee) of the Metropolitan Transportation Commission so the Executive Director can act quickly to respond to market demands to procure the renewable natural gas. The delegated authority is modeled after the authority delegated to purchase natural gas, which provides that the ABAG POWER Program Manager has the authority to enter into natural gas purchases in amounts that are not bounded and for durations up to three (3) years. The Executive Committee has established these parameters as part of the general natural gas purchasing strategy; however, because RNG supply markets may require contract durations

³ SB 1383 defines eligible renewable natural gas as gas derived from organic waste that has been diverted from a landfill and processed at an in-vessel digestion facility that is permitted or otherwise authorized by Title 14 to recover organic waste, as defined in 14 CCR Section 18982(a)(62).

⁴ Section 3 of the JPA defines the purpose of ABAG POWER as acquiring energy including, but not limited to, natural gas and electricity, [...], and such other services and goods as may be necessary to optimize costs savings and to manage the use or the supply of energy or telecommunications services.

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greater than three years, the Executive Committee retains authority to establish a separate duration threshold for the RNG program, as deemed appropriate.

Required Actions and Proposed Next Steps

The Bylaws provide that the Board has the power, upon majority vote, to establish programs within the purpose and power of ABAG POWER and to adopt general policy guidelines for their implementation. The Board can establish a voluntary RNG program through the adoption of an accompanying resolution and an amendment to the Bylaws listing the program. The proposed resolution has the Board taking the following actions:

- Amending the Bylaws to create the Renewable Natural Gas Program and to provide for the Executive Committee to be the committee that oversees the new program
- Authorizes the Executive Director or designee (“ED”) to negotiate and execute agreements with ABAG POWER members who want to voluntarily participate in the program*
- Authorizes the ED to negotiate and execute purchase and sale agreements with suppliers for renewable natural gas*
- Authorizes the ED to take other actions necessary or incidental to establishing and implementing the Renewable Natural Gas Program
- Finds that the establishment of the program is exempt from review under the California Environmental Quality Act (Cal. Public Resources Code § 21000, et seq.) pursuant to CEQA Guideline 15308 because the program is to assist its members with compliance with the mandate of SB 1383.

*The authority delegated to the ED will allow the ED to negotiate and execute agreements that exceed the current contract amount for delegated authority, which is \$200,000.

Issues:

None.

Recommended Action:

The Board of Directors for ABAG POWER is requested to adopt Resolution No. 23-04, which 1) amends Sections 7.A.1 Programs and 7.A.3 Program Committees of the Bylaws to create a Renewable Natural Gas Program and to have the Executive Committee serve as the Program Committee to the Renewable Natural Gas Program; 2) authorizes the Executive Director (or designee) of the Metropolitan Transportation Commission a) to negotiate and execute agreements with current ABAG POWER members to allow them to participate in the Renewable Natural Gas Program, and suppliers to provide renewable natural gas as part of the Renewable Natural Gas Program and b) to take actions incidental or necessary to establish and implement the Renewable Natural Gas Program, and 3) finds that the actions taken are exempt from environmental review pursuant to California Environmental Quality Act Guideline 15308, Actions by Regulatory Agencies for Protection of the Environment

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Attachments:

- Proposed Renewable Natural Gas Program (Presentation)
- ABAG POWER Resolution 23-04

Reviewed:

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