City of Culver City, California

Agenda Item Report

Meeting Date: July 13, 2015	Item Number: C-14
CITY COUNCIL AGENDA ITEM: Authorization to Release a Request for Proposals for Professional Services for Opting-In to the Low Carbon Fuel Standard Credit Program and Purchase of Renewable Natural Gas	
Contact Person/Dept.: Paul Condran	Phone Number: 310-253-6520
Fiscal Impact: Yes [] No [X]	General Fund: Yes [] No [X]
Public Hearing: [] Action Item: []	Attachments: []
Commission Action Required: Yes [] No [X]	Dates:
Public Notification: Agenda and Meetings – City Council (07/08/15)	
Department Approval: Art Ida (07/01/15)	City Attorney Approval: Carol Schwab (by H. Baker) (07/06/15)
Chief Financial Officer Approval: Jeff Muir (07/07/15)	City Manager Approval: John M. Nachbar (07/07/15)

RECOMMENDATION:

Staff recommends the City Council authorize the release of a Request for Proposals (RFP) for professional services for a Low Carbon Fuel Standard (LCFS) Credit Program and purchase of renewable natural gas.

BACKGROUND:

California's LCFS mandates were enacted in January 2007 by executive order pursuant to AB 32 to reduce the carbon intensity in transportation fuels by ten percent by 2020. The LCFS program is one of the measures adopted by the California Air Resources Board (CARB) pursuant to Health and Safety Code Sections 38500-38599 to reduce greenhouse gases in California.

The carbon intensity of a fuel is the measure of its greenhouse gas emissions on a lifecycle basis and includes all emissions during extraction and refining, production and processing, and use in the vehicle. Under AB 32, refiners of petroleum that produce gasoline or diesel can comply with the LCFS via many different strategies, including by purchasing credits on the LCFS market that were generated via alternative fuel use. As Culver City dispenses and consumes compressed natural gas (CNG), a transportation fuel that is more than 85% cleaner than diesel or gasoline, the City is able to generate LCFS credits that can be sold to generate revenue.

Additionally, staff has identified biomethane, or renewable natural gas (RNG), as a potentially viable alternative to traditional natural gas. RNG has the same chemical make-up and can be made to have the same fuel specifications as traditional natural gas, but has the lowest carbon intensity among identified alternative fuels. RNG can be supplied to the Transportation Facility through existing utility pipelines, pending approval by Southern California Gas Company and compliance with natural gas pipeline supply balancing requirements and gas quality specifications. RNG has a lower carbon intensity than CNG and additional LCFS credits are generated with its use.

DISCUSSION:

Culver City is eligible to opt in to the CARB's LCFS program as a regulated entity. As a regulated entity, the City will earn credits by dispensing and consuming CNG for its fleet. Staff estimates that the City would generate approximately 1,500 credits annually.

The LCFS credit market operates using a system of deficits and credits. Any fuel that has a carbon intensity higher than the standard generates deficits (i.e., gasoline and diesel). Any fuel that has a carbon intensity lower than the standard generates credits (e.g., natural gas, electricity, some biofuels, hydrogen, etc.). At the end of each year, all deficits must be offset with credits. Credits can be banked without penalty over the course of the program. Credits do not have a vintage (i.e., there is no distinction between a credit generated in 2015 vs one generated in 2018). Credits generated in years before participating in the LCFS Program are not retroactively credited.

The LCFS credit market is emerging and is currently difficult to forecast. The price and quantity of credits that may be generated by Culver City will rely greatly on the type and quantity of natural gas used, as well as on outside market forces. CARB is considering multiple amendments to the LCFS program that have had some downward effect on credit prices, but most analysts suggest that the compliance stringency in the 2017-2020 timeframe will drive credit prices higher in the near future. Prices have ranged from $21 to $30 per credit since February 2015.

Culver City has been contacted by several energy companies engaged in the LCFS credit market. Staff has determined the most cost-effective strategy for monetizing its LCFS credits is to contract with a third-party with appropriate expertise. Additionally, staff has received numerous inquiries from third-parties interested in providing RNG to Culver City at the same rate it currently pays for natural gas. Staff has determined that contracting with a third-party energy provider to supply Culver City with RNG may significantly reduce further the City's carbon footprint at little or no additional cost depending on the percentage of RNG introduced into the City's fueling station.

The RFPs requested in this report would solicit firms with appropriate expertise to provide proposals for their services related to the City's contemplated entry into the LCFS market and the purchase of renewable natural gas.

The proposals received as a result of the issuance of the RFP would be analyzed by staff and, if warranted, presented to the City Council for award of a professional services agreement(s).

FISCAL ANALYSIS:

There is no fiscal impact associated with the authorization to solicit proposals for the City. However, the ultimate award of a contract to a successful bidder will create a fiscal impact.

MOTION:

That the City Council:

Authorize the release a Request for Proposals for Professional Services for participation in the CARB Low Carbon Fuel Standard Credit Program and purchase of renewable natural gas.