

Agenda Report

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SUBJECT:

MASTER RETAIL NATURAL GAS SUPPLY AGREEMENTS, SPECIFICATION NO. C-2023-1400BD

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

- A. Approve and authorize the General Manager and Purchasing Manager to enter into Master Retail Natural Gas Supply Agreements, in a form approved by General Counsel, for the purchase of Natural Gas, per Specification No. C-2023-1400BD, with:
- Constellation NewEnergy - Gas Division, LLC, and
 - Direct Energy Business; and
- B. Delegate and authorize the General Manager and Purchasing Manager to enter into a long-term Transaction Agreement, in a form approved by General Counsel, with one of the following natural gas providers:
- Constellation NewEnergy - Gas Division, LLC, or
 - Direct Energy Business

BACKGROUND

Orange County Sanitation District (OC San) Central Generation (CenGen) facilities at Plant Nos. 1 and 2 are vital to OC San's resource recovery and reliable operation. CenGen engines utilize process digester gas to generate electricity and heat which is used in the treatment plants and support buildings.

Natural gas is used as a supplemental fuel in the CenGen engines during routine operations and peak power months to reduce electrical demand. Natural gas is purchased as a bulk commodity from a third-party energy marketing firm and is delivered through regional pipelines owned by Southern California Gas Company. OC San has budgeted \$1,436,000 for fiscal year 2023-2024 for the purchase of natural gas for the treatment plants.

RELEVANT STANDARDS

- Use all practical and effective means for resource recovery
- Ensure the public's money is wisely spent
- Maintain a culture of improving efficiency to reduce the cost to provide the current service level or standard

PROBLEM

OC San currently buys natural gas on the open market with pricing set relative to a published index price, the Natural Gas Intelligence Weekly Gas Price Index Monthly Bid for the SoCal Citygate region. OC San has utilized gas marketing firms for over 21 years to manage the cost of natural gas required for CenGen operation. However, due to recent market fluctuations, this strategy no longer guarantees the lowest cost over the long term.

PROPOSED SOLUTION

Enter into Master Service Agreements with qualified proposers to allow for flexibility for natural gas supply management. Authorize the General Manager and Purchasing Manager to execute individual Transaction Agreements with any of the two proposers, as needed, for effective management of OC San natural gas supply and usage. This will allow staff to adapt to market conditions and more creatively utilize its natural gas assets to minimize cost and resilience.

Staff is requesting delegation of authority for these natural gas Transaction Agreements because they are highly volatile. The quotes provided are based on real-time market quotes and are generally valid for a four to eight hour period. These short acceptance windows are not compatible with normal Board approval cycles.

TIMING CONCERNS

The current Master Retail Natural Gas Supply agreement for the purchase of Natural Gas over the Natural Gas Intelligence Weekly Gas Price Index Monthly Bid for the SoCal Citygate expires on July 31, 2023. Historically, gas prices in Southern California have significantly increased when the temperature in the Los Angeles basin rises. The market is anticipated to continue to increase until beyond the expiration date of the current contract.

RAMIFICATIONS OF NOT TAKING ACTION

OC San may need to renew the current agreement tied to a market index or enter a short-term emergency supply arrangement with Southern California Gas which could result in increased gas costs.

PRIOR COMMITTEE/BOARD ACTIONS

June 2021 - Approved the Master Retail Natural Gas Supply agreement with Constellation NewEnergy - Gas Division, LLC for the purchase of Natural Gas, Specification No. C-2021-1227BD, for the period August 1, 2021 through July 31, 2022 for \$0.035 per Million British Thermal Units

(MMBtu) over the Natural Gas Intelligence Weekly Gas Price Index Monthly Bid for the SoCal Citygate for a total estimated annual cost of \$715,000 with four one-year renewal options.

ADDITIONAL INFORMATION

OC San requested and advertised for requests for proposals for long term natural gas supply on April 5, 2023. Statements of Qualifications were received from two providers on May 2, 2023. The submittals were reviewed for completeness. Both proposers were found responsive and qualified to supply natural gas and management.

The two qualified proposers were requested to submit weekly indicative pricing for natural gas supply. Proposers will continue to submit pricing weekly until June 30, 2023. OC San will review the weekly pricing to determine the appropriate supplier, timing, and pricing to execute a long-term Transaction Agreement.

Approval to enter into Master Retail Natural Gas Supply Agreements with both retailers and a corresponding Transaction Agreement with one retailer ahead of the current contract expiration will allow OC San to seize an opportunity to secure the lowest long-term rate available before the summer temperatures impact the market.

CEQA

N/A

FINANCIAL CONSIDERATIONS

This request complies with authority levels of the OC San Purchasing Ordinance. This item has been budgeted in the Fiscal Year 2023-2024 Operating Budget, Division 830 Utilities (Section 6, p. 84) and Division 840, Utilities (Section 6, Page 88). In the longer term, staff anticipates lower costs with long-term agreement.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

- Draft Master Retail Natural Gas Supply Agreement - Constellation
- Draft Master Retail Natural Gas Supply Agreement - Direct Energy