

Agenda Report

File #: 2021-1625, **Version:** 1

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SUBJECT:

AGREEMENT FOR NATURAL GAS, SPECIFICATION NO. C-2021-1227BD

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Approve 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.

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 resilient operation. CenGen engines utilize all process digester gas to generate electricity and heat which are utilized 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 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 effectively manage the cost of natural gas required for CenGen operation. This strategy results in the lowest cost over the long term.

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

Present purchase order for procurement and management of natural gas is due to expire on July 31, 2021.

PROPOSED SOLUTION

Award a new agreement with Constellation NewEnergy - Gas Division, LLC for the purchase of natural gas tied to a market index rate.

TIMING CONCERNS

The current purchase order is due to expire July 31, 2021.

RAMIFICATIONS OF NOT TAKING ACTION

If a new agreement is not awarded before the existing contract expires, a short-term emergency supply arrangement would have to be made with Southern California Gas which could result in increased gas costs.

ADDITIONAL INFORMATION

A competitive bid was advertised on April 1, 2021. Two bids were received on April 27, 2021; one from Direct Energy Services and the other from Constellation NewEnergy - Gas Division, LLC. Direct Energy Service offered a unit price of \$0.149/MMBtu over the index price and Constellation NewEnergy - Gas Division, LLC offered a unit price of \$0.035/MMBtu over the index price.

The bids were evaluated in accordance with OC San policies and procedures. Staff recommends awarding a new purchase order contract to Constellation NewEnergy - Gas Division, LLC for supply of natural gas. The premium unit price charge of \$0.035/MMBtu is a decrease from the current premium rate of \$0.039/MMBtu.

FINANCIAL CONSIDERATIONS

This request complies with authority levels of OC San Purchasing Ordinance. This item has been included in the Fiscal Years 2020-2021 and 2021-2022 Budget, Division 830 Utilities (Section 6, p. 84) and Division 840, Utilities (Section 6, Page 88).

ATTACHMENT

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

- Master Retail Natural Gas Supply Agreement

MPV:JS:cf