COMMISSION
AGENDA MEMORANDUM

ACTION ITEM

Item No. 8c

Date of Meeting September 24, 2019

**DATE:** September 17, 2019

**TO:** Stephen P. Metruck, Executive Director

**FROM:** Keith Warner, Aviation Utility Business Manager
Keithly Espiritu, Utility Analyst
Mike Tasker, Senior Manager – Aviation Facility & Infrastructure
Jeffrey Brown, Director of Aviation Facilities and Capital Program

**SUBJECT:** Natural Gas Supply for Airport and CNG Fleet

**Amount of this request:** $5,000,000
**Total estimated contract cost:** $5,000,000

## ACTION REQUESTED

Request Commission authorization for the Executive Director to approve the action to execute a contract for Natural Gas (NG) supply to the Seattle-Tacoma International Airport (Airport) for facility heating and for Compressed Natural Gas (CNG) fleet fuel.

## EXECUTIVE SUMMARY

The Port intends to have two separate agreements related to NG and Renewable Natural Gas (RNG) delivery to the Airport. While the procurement for RNG is currently in the selection process, staff have already determined that a NG delivery contract is also necessary because the RNG supply will only meet about 65% of the Airport demand, including 100% of the CNG station demand. To supplement the full required load and to take advantage of low prices, the Port will need a new NG contract. The current NG supply contract, S-00317449, is due to expire October 31, 2019 and a new contract must be issued to maintain continuous (uninterrupted) NG supply to the Airport and CNG fueling station.

## JUSTIFICATION

It has been identified, that the anticipated RNG contract may not be executed until Q4 2019 - Q1 2020, and the contract will not be able to supplement the full load for heating the Airport, thus the Port must procure additional NG supply from non-renewable sources to accommodate the full required load. The Port has also exhausted all options of extension for the existing NG contract and must engage in a competitive bidding process for a replacement contract. A contract with a private supplier has been identified to be more cost effective than obtaining gas from the local public utility, Puget Sound Energy (PSE).

### *Diversity in Contracting*

No goal has been established to prioritize engagement of this contract with women and minority-owned business enterprise due to the limited number of gas suppliers to our location.

## DETAILS

The Airport facility and CNG fueling station consumes an average of 3.4M therms of gas annually. This contract will replace the existing contract, S-00317449, and grant a sole supplier the exclusive right to provide NG to the Airport facility and CNG fleet. The initial term of the contract will be two (2) years, with two (2) optional one (1) year extensions.

The related RNG procurement is currently still undergoing the selection process. Initially, one of the options detailed in the solicitation was for the supplier to provide RNG to accommodate for the full required load of transportation fuel as well as facility heating. However, the Port can meet its Century Agenda carbon goals and maintain cost-effectiveness with a two-thirds supply of RNG. Once the NG supply contract is established, the Port will use an established contractual mechanism to require the NG supplier to swap a specified volume of RNG for NG.

### *Scope of Work*

The supplier will be required to provide full requirements NG supplies to be delivered at the City Gate delivery point.

### *Schedule*

*Activity*

| | |
|---|---|
| Commission Consent Approval | September 24, 2019 |
| Bids/Proposal Due | October 8, 2019 |
| Notice of Intent to Award | October 14, 2019 |
| Agreement Execution | October 31, 2019 |

## ALTERNATIVES AND IMPLICATIONS CONSIDERED

**Alternative 1** – Do not execute a new contract for exclusive supply of NG to the Airport. Obtain gas from the public utility, PSE, under a gas sales tariff.

Cost Implications:

Pros:

(1) Execution of a contract is not required

Cons:

(1) Subject to PSE's published tariff rate which may change as required by PSE.
(2) Requires 30 days written notice to revert back to PSE as supplier.
(3) This strategy is not the most cost-effective option as the current rate schedule is higher than competitive market pricing.

(4) Not aligned with RNG contract approach.

This is not the recommended alternative.

**Alternative 2** – Execute a new contract for an exclusive NG supplier.

Cost Implications:

Pros:

(1) Provides the Port with the ability to obtain gas at a more competitive firm fixed price rate for the majority of the gas required.

(2) Consistent with RNG in support of the Century Agenda.

Cons:

(1) 30% of the gas procured is exposed to monthly market index pricing, which varies monthly.

(2) Administrative effort will be required to renew the contract annually.

***This is the recommended alternative.***

**FINANCIAL IMPLICATIONS**

| ***Cost Estimate/Authorization Summary*** | Capital | Expense | Total |
|---|---|---|---|
| **COST ESTIMATE** | | | |
| Original Estimate | $0 | $5,000,000 | $5,000,000 |
| **AUTHORIZATION** | | | |
| Previous Authorizations | 0 | 0 | 0 |
| Current Request for Authorization | 0 | $5,000,000 | $5,000,000 |
| Total Authorizations, including this Request | 0 | $5,000,000 | $5,000,000 |
| Remaining Amount to be Authorized | $0 | $5,000,000 | $5,000,000 |

***Annual Budget Status and Source of Funds***

Budget for 2020 has been approved for NG supply ($1.2M). This budget item is ongoing baseline and a justified amount is approved every year.

***Future Revenues and Expenses (Total cost of ownership)***

Anticipated annual expense for NG supply from this contract is estimated at $1.2M annually. The term of this contract will be two (2) years, with two (2) additional options to renew for one (1) year. The total cost of this contract for two years will be approximately $2.4M, and up to $4.8M including the option to renew for two (2) more years. These estimates do not include sales tax.

**ATTACHMENTS TO THIS REQUEST**

(1) Natural Gas Supply Presentation