



8j. Memo from Regular Meeting held Sep 27, 2022 12:00pm at SEA
2022_09_27_RM_8j_Memo_Natural-Gas-Supply-for-Airport-and-CNG-Fleet.pdf

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COMMISSION

AGENDA MEMORANDUM Item No. 8j

ACTION ITEM Date of Meeting September 27, 2022

DATE : September 19, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Keithly Espiritu, Aviation Facilities and Infrastructure Utility Analyst

Keith Warner, Aviation Facilities and Infrastructure Utility Business Manager

Keri Stephens, Director – Aviation Facilities and Capital Programs

SUBJECT: Natural Gas Supply for Airport and CNG Fleet

Amount of this request: \$12,000,000

Total estimated project cost: \$12,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director execute a contract for natural gas supply to the Seattle-Tacoma International Airport (SEA).

EXECUTIVE SUMMARY

SEA has two contracts for natural gas supply. One contract supplies local natural gas supply.

This action will reauthorize this contract before it expires on March 31, 2023, to maintain an uninterrupted supply of fuel. The other contract supplies our renewable natural gas over ten years and not the subject of this authorization. This local supply of natural gas is consistent with the Port's greenhouse gas (GHG) strategy and is utilized in concert with the Port's use of renewable natural gas to meet the Century Agenda goals. The total amount of this request reflects an increase from the current supply contract due to significantly higher wholesale natural gas prices. Gas is used at SEA to provide heat for the terminal, as well as provide fuel for the Compressed Natural Gas (CNG) bus fleet.

JUSTIFICATION

SEA must maintain a supply of natural gas to the central mechanical plant to maintain consistent heating of the terminal and to the CNG fueling station to provide fuel for the bus fleet. This supply contract is renewed every three to four years to optimize pricing in a competitive market, while the Renewable Natural Gas (RNG) contract is a fixed price for ten years due to its more limited and less dynamic market.

Template revised January 10, 2019.

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The separate contract for RNG enables the Port to reduce the total GHG emissions from Port operations. This RNG contract accounts for 100% of the natural gas used at the CNG fueling station and approximately 50% of the natural gas associated with heating in the terminal. For this RNG contract to be effective, the Port must have a separate contract for a local natural gas supply which is the purpose of this Commission request.

Diversity in Contracting

Aviation Finance and Infrastructure will work closely with the Central Procurement Office and Diversity in Contracting to explore opportunities to incorporate Women Minority business component to the bid which aligns with the Port's goals

DETAILS

The Port will engage in a competitive procurement to establish a four-year natural gas supply contract spanning from April 2023 through March 2027.

Forecasted usage for central mechanical plant natural gas fuel during this contract period is projected to remain consistent with the current pattern and makes up the majority of SEA natural gas usage. Fuel demands for the CNG bus fleet is expected to increase slightly as passenger volumes continue to grow. In aggregate, the natural gas usage at SEA during this contract period will remain within +/- 5% of historical usage.

There are studies in-place which examine converting the source of central heating and bus fuel to an all-electric supply, however those substantial infrastructure improvements would not be in-place during this 2023-2027 contract period. Therefore, this natural gas supply is necessary for ongoing operations until those electrification options are fully evaluated.

A separate, but associated, contract for RNG is used to supply 50% of the terminal heating demand and 100% of the CNG station demand through 2030. Since the source of the Port's

RNG supply is in the Midwestern US, both the natural gas and RNG contracts are necessary and are used to swap supplies. These two contracts work in tandem to provide SEA with the GHG reductions and the local fuel supply for ongoing operations.

Natural gas prices have increased significantly in the past 18 months, nearly doubling. This is due to tight supplies in the United States and Russia's action to reduce the flow of fuel supply to Europe.

Scope of Work

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

Template revised June 27, 2019 (Diversity in Contracting).

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Schedule

Activity

Commission Approval September 27, 2022

Bids/Proposal Due November 18, 2022

Notice of Intent to Award December 2, 2022

Agreement Execution December 23, 2022

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not execute a new contract for exclusive supply of natural gas to the Airport.

Obtain gas from the public utility, PSE, under a retail gas 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 a cost-effective option as the PSE retail rate is significantly higher than wholesale market price.

(4) Not aligned with RNG contract approach.

This is not the recommended alternative.

Alternative 2 – Execute a new contract for an exclusive natural gas supplier.

Cost Implications:

Pros:

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

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

Cons:

(1) A portion of the gas procured is tied to a monthly market price index, which varies month to month

(2) Administrative effort will be required to renew the contract every four years.

This is the recommended alternative.

Template revised June 27, 2019 (Diversity in Contracting).

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FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate \$0 \$12,000,000 \$12,000,000

AUTHORIZATION

Previous authorizations 0 0 0

Current request for authorization 0 12,000,000 12,000,000

Total authorizations, including this request 0 12,000,000 12,000,000

Remaining amount to be authorized \$0 \$12,000,000 \$12,000,000

Annual Budget Status and Source of Funds

The cost is included in the Aviation Facilities and Infrastructure operating budget request.

Future Revenues and Expenses (Total cost of ownership)

Contracts will be budgeted within Aviation Facilities and Infrastructure through the annual Aviation Division budgeting process. The expected annual expense for natural gas supply from this contract is estimated at \$3.0M annually. The term of this contract will be two (2) years, with two (2) additional options to renew for one (1) year.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

September 24, 2019 – The Commission authorized for the Executive Director to approve the action to execute a contract for natural gas supply to SEA.

Template revised June 27, 2019 (Diversity in Contracting).