



Metro

Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

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OPERATIONS COMMITTEE
JULY 16, 2009

SUBJECT: COMPRESSED NATURAL GAS (CNG) FUEL

ACTION: AWARD CONTRACT FOR CNG FUEL FOR DIVISION 6

RECOMMENDATION

A. The Board finds that there is only a single source of procurement for compressed natural gas (CNG) fuel within a 2 mile radius of Division 6 and purchase is for the sole purpose of replacing the CNG fuel already in use. The Board hereby authorizes the purchase of CNG fuel pursuant to Public Utilities Code section 130237.

Requires Two-Thirds Vote

B. Authorize the Chief Executive Officer to:

1) Award a one-year, firm fixed price contract to Clean Energy Fuels Corp., for the procurement of CNG fuel for an amount not to exceed \$1,728,000, and exercise up to four one-year options for an amount not to exceed \$6,912,000; and

2) Execute contract modifications for this procurement only in the amount not to exceed \$1,360,000 to offset any unanticipated increases in natural gas prices for a total contract value of \$10,000,000.

ISSUE

Division 6 in Venice has begun operating CNG buses as of February 2009. However, there is currently no on-site infrastructure to fuel the buses due to the impracticality of installing a CNG compression on the Division 6 site. Staff has determined that construction and operation of an on-site CNG fueling system is impractical, and cost prohibitive, for the following business reasons:

- The natural gas service pressures along Main Street are insufficient for operation of a heavy duty CNG compression and fueling facility. As such, a new high pressure gas line would need to be installed from a source over two miles away from the site. Costs for this new gas line installation are estimated to be approximately \$6 million

- There is insufficient yard area available at the site for installation of an appropriately-sized CNG compression system. Installation of an on-site CNG installation system will result in either a substantial loss of bus and vehicle parking, or insufficient space for turning and operation of our 45-foot coaches.
- The Division 6 site is bounded on three sides with residential development, two sides of which are only separated by narrow alleys. In addition, due to neighborhood issues over the years, Metro has operated the facility for over a decade on a limited basis (no weekends or graveyard shifts). Based on our past experience with the local community and noise complaints, installation of an on-site CNG system would be extremely controversial due to noise issues, and as such is not recommended.
- The potential relocation of Division 6 to a new operating facility on the west side is still being discussed. Although there are no firm plans to relocate in the near future, staff believes it is imprudent to invest at the very least \$13 million in fueling infrastructure in a facility that could be abandoned prior to realizing the useful life of the equipment.
- Metro has identified and is utilizing two off-site CNG fueling opportunities within the 2 mile radius of the Division which utilizes the areas extra capacity.
- Staff will review annually before exercising each of the one-year options to promote competition in any way possible and engage in discussions with any potential supplier(s) willing to establish a fueling facility within a close distance of Division 6.

For the reasons listed above, staff recommends fueling our current fleet of CNG buses using a combination of the two off-site CNG fueling facilities located within the immediate area. The first facility, operated by Big Blue Bus, is already in operation under a Memorandum of Understanding between Metro and the City of Santa Monica, dated April 9, 2009. The second location is a public fueling facility operated by Clean Energy Fuels Corp., and is located at 1701 Stewart Street in Santa Monica. This facility is the only public CNG fueling facility located in the area, and is convenient to Metro due to it's location within two miles from Division 6. The next closest public fueling facility is also operated by Clean Energy Fuels Corp. and is four miles away and located at LAX. There are no other public fueling facilities in the area other than those operated by Clean Energy, thus being the only provider available to Division 6 we recommend approval of the sole source agreement. The proposed pricing with Clean Energy is very competitive and within a few cents of the agreed upon pricing structure in the current MOU with the City of Santa Monica.

Due to fluctuation of gas prices over a possible 5 year term staff is requesting a contingency in the amount not to exceed \$1,360,000 for this procurement bringing the total value of the contract to not exceed \$10,000,000 if all option years were to be exercised.

POLICY IMPLICATIONS

There are no policy implications. It is in our best interest to purchase the CNG fuel in order to prevent an interruption in service. This CNG fuel procurement does not represent 100% conversion of the fleet at Division 6 to CNG. Division 6 will continue to operate 14 Diesel and two Gasoline Hybrids for an indeterminate period of time.

OPTIONS

The alternative is not to award this fuel price agreement contract and procure the CNG fuel at the price the regular public customer pays. This strategy is not recommended since it will result in us paying more to fuel our buses. The current retail fuel rate is \$2.09 while the preferential price of CNG fuel to the MTA is \$1.79 per gasoline gallon equivalent.

FINANCIAL IMPACT

The funding of \$1,731,406 for this CNG fuel procurement is included in the FY10 budget in cost center 3706, Maintenance Division 6, under project 305008, Bus Maintenance – West Side/Central and line item 50402, Fuel CNG-Revenue Equipment. Since this is a multi-year contract, the cost center manager and Chief Operations Officer will be accountable for budgeting the cost in future fiscal years.

In FY08, there was no expenditure for CNG fuel at Division 6.

Impact to Enterprise Fund Bus and Rail Operating Budget

The entire 60-month fueling contract to provide CNG fuel for Division 6 will be charged to the Enterprise Fund. The CNG FY10 fueling budget has been approved for \$1,731,406 in cost center 3706. This is a direct cost to Division 6 FY10 approved operating budget since Bus Operation is a core business function of the Agency.

BACKGROUND

Effective June 28, 2009, Division 6 will operate a total of 66 buses. The make-up of the fleet will be 50 CNG, 14 Diesel and two Gasoline Hybrid buses. All of the Agency's Divisions that are operating a CNG fleet have fueling capabilities on site. Division 6 does not have this capability, and installation of an on-site CNG fueling system has been determined to be impractical and cost prohibitive. Therefore, it is necessary to procure fuel from outside sources. The cost for this fuel from Clean Energy Fuels Corp. has been determined to be competitively priced when compared to the capital investment and on-going maintenance if we were to construct our own fueling facility. The estimated capital investment to retrofit Division 6 with its own fueling facility would cost approximately \$13.0 to \$16.0 million. The estimate is inclusive of capital equipment and a natural gas line that would require several miles of installation. Also,

the annual operating cost is estimated at \$200,000 per year. These costs are exclusive of the annual procurement of natural gas. In addition, the installation of a fueling facility at Division 6 would negatively impact the number of buses that could operate from the division because of space limitations, and neighborhood complaints would most likely increase.

NEXT STEPS

Fueling of the Division 6 CNG bus fleet will continue at Clean Energy's 1701 Stewart Street, Santa Monica facility at the preferential fuel price, and also at the Big Blue Bus Facility in accordance with our April 9, 2009 MOU. Staff will also continue to seek alternatives to fueling our CNG buses, promote competition in any way possible, and engage in discussions with any potential supplier(s) willing to establish a fueling facility within a close distance of Division 6.

ATTACHMENTS

- A Procurement Summary
- A-1 Procurement History
- A-2 List of Subcontractors

Prepared by: John Roberts, Deputy Executive Officer, Operations
Richard Bachman, Contract Administration Manager

Carolyn Flowers

Carolyn Flowers
Chief Operations Officer

Arthur T. Leahy

Arthur T. Leahy
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

COMPRESSED NATURAL GAS (CNG) FUEL

1.	Contract Number: 09-0032		
2.	Recommended Vendor: Clean Energy Fuels Corp.		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: N/A	Recommended Price: N/A	
	B. Details of Significant Variances: N/A		
4.	Contract Type: Firm Fixed Price		
5.	Procurement Dates:		
	A. Issued: N/A		
	B. Advertised: N/A		
	C. Pre-bid Conference: N/A		
	D. Bids Due: N/A		
	E. Pre-Qualification Completed: N/A		
	F. Conflict of Interest Form Submitted to Ethics: Yes		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: No Goal Recommended	Date Small Business Evaluation Completed: N/A	
	B. Small Business Commitment: N/A – No goal recommended		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: N/A	Bids/Proposals Picked up: N/A	Bids/Proposals Received: N/A
8.	Evaluation Information:		
	A. <u>Bidders/Proposers Names:</u> Clean Energy Fuels Corp.	<u>Bid/Proposal Amount:</u>	<u>Best and Final Offer Amount:</u> N/A
	C. Evaluation Methodology: Sole Source Procurement. Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: N/A		
	B. Protest Receipt Date: N/A		
	C. Disposition of Protest Date: N/A		
10.	Contract Administrator: Otto Ojong	Telephone Number: 213-922-1454	
11.	Project Manager: Hector Rojas	Telephone Number: 323-255-4131	

BOARD REPORT ATTACHMENT A-1
PROCUREMENT HISTORY

COMPRESSED NATURAL GAS (CNG) FUEL

A. Background on Contractor

Clean Energy Fuels Corp. (CE) is based in Seal Beach, California, and has been in business since 2001. CE is the leading provider of natural gas (CNG and LNG) for transportation in North America. It has a broad customer base in the refuse, transit, ports, shuttle, taxi, trucking, airport and municipal fleet markets, fueling more than 14,000 vehicles daily at over 170 strategic locations across the United States and Canada. CE owns and operates two LNG production plants, one in Willis, TX and one in Boron, CA, with combined capacity of 260,000 LNG gallons per day. CE has provided natural gas (CNG and LNG) fuel to other local government agencies including Orange County Sanitation District, City of Los Angeles, Foothill Transit, County of Los Angeles and Santa Monica Big Blue Bus. In the past, CE has provided satisfactory service to us.

B. Procurement Background

Procurement staff performed an analysis in accordance with our Procurement Policy Manual covering a non-competitive procurement. Staff determined that pursuant to Section 11.5 B.2, Procurement Policy Manual, it is in our best interest to meet this requirement through procurement of the specific supplies, and that the proposed contractor is the only source for the specific supply.

The Diversity & Economic Opportunity Department (DEOD) did not recommend a DALP goal for this procurement. Based on industry practice, the Prime (Clean Energy Fuels Corp.) is expected to complete the entire scope with its own workforce. However, pursuant to the DBE Program, if Clean Energy Fuels Corp. utilizes the services of subcontractors, they are encouraged to afford maximum opportunities to DBE firms in available subcontracting and supply services areas throughout the life of the contract.

C. Evaluation of Proposals

The proposal submitted by Clean Energy Fuels Corp. was found to be responsive in accordance to our Procurement Policy Manual.

D. Cost/Price Analysis

The recommended price has been determined to be fair and reasonable based upon a price analysis conducted by staff. A price analysis rather than a cost analysis is acceptable since the natural gas purchased under this contract is a product commercially available to the general public. The price analysis

compared the preferential pricing offered by Clean Energy (CE) to Metro to other published prices at other public CNG fueling facilities including other CEs in the Southern California region.

CE will provide Metro with a preferential CNG price per gasoline gallon equivalent (GGE), equal to the sum of (a) the Southern California Gas Company (SoCalGas) G-NGU Uncompressed Tariff Price (the "Index Price") and (b) \$1.2014 per GGE (the "Compressed Fee), plus applicable taxes.

The compression fee will be adjusted annually beginning January 1st, 2010 by the change in the United States Bureau of Labor Statistics Consumer Price Index All Items, for All Urban Consumers, Los Angeles-Anaheim-Riverside, California (1982-84 = 100).

The Index Price is established on a monthly basis by SoCalGas.

BOARD REPORT ATTACHMENT A-2
LIST OF SUBCONTRACTORS

COMPRESSED NATURAL GAS (CNG) FUEL

PRIME CONTRACTOR

Clean Energy Fuels

Small Business Commitment

0%

Other Subcontractors

None

Total Commitment: 0%

