



TO: Elizabeth A. Pauli, City Manager
FROM: James G. Parvey, P.E., LEED AP, Environmental Services Division Manager
Michael P. Slevin III, P.E., Environmental Services Director
COPY: City Council and City Clerk
SUBJECT: Resolution – Base Agreement with IGI Resources Inc. – December 19, 2017
DATE: November 27, 2017

SUMMARY:

A resolution authorizing a base agreement to allow IGI Resources, Inc. to resell renewable natural gas and its environmental attributes on the City’s behalf for use as a vehicle fuel.

STRATEGIC POLICY PRIORITY:

- Assure outstanding stewardship of the natural and built environment.
- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

The agreement will allow IGI Resources, Inc. (IGI) to resell gas from the Central Treatment Plant’s (CTP) bio-gas treatment facility for use as a vehicle fuel. Sale of the gas for use as a transportation fuel is a necessary step in creating Renewable Identification Numbers (RINs). Doing so will create a public benefit by reducing greenhouse gas emissions by at least 60 percent, supporting the use of renewable fuels for transportation purposes, and increasing the revenue received by the Environmental Services Department (ESD).

BACKGROUND:

In accordance with the 2008 Climate Action Plan and the Environmental Action Plan, the City has committed to reducing its greenhouse gas emissions. Further, the ESD is challenged to provide its ratepayers vital utility services at an economical price. The opportunity to reduce our greenhouse gas emissions while generating revenue through sale of a valuable product is unique.

When the Bio-gas is processed it can be used interchangeably with natural gas. According to the Environmental Protection Agency, using methane from this source will reduce greenhouse gasses by at least 60 percent compared to diesel fuel or natural gas extracted from the earth. In addition, if bio-gas is used for vehicle fuel it is eligible for an environmental credit (RIN) that provides strong economic support to the project.

On October 11, 2017, staff from Environmental Services briefed the Infrastructure, Planning and Sustainability Committee on the Bio-gas Utilization Project.

ISSUE:

The Bio-gas Utilization Project requires agreements with Puget Sound Energy, Inc., IGI, and McKinstry Essention, Inc. in order to produce, transport and sell bio-gas produced at the CTP. The contract for purchase and sale of natural gas with IGI consists of four parts and defines the base terms and conditions governing the sale of renewable natural gas (RNG) to IGI for re-sale to RNG purchasers. The four parts are: the Base Agreement, the Bio-gas Supply Addendum, Contract Special Provisions and the Transaction Confirmation Agreement.

Specifically, the Base Agreement will accomplish the following:



- Allow ESD to tap into the lucrative economic value of renewable transportation fuels through the Federal Renewable Fuel Standard (RFS), known as RINs and any applicable state programs.
- Generate an estimated net revenue of \$5,000,000, after capital, operating, and interest costs over the life of the project by selling the RNG with the associated RINs.
- Enable ESD to reduce greenhouse gas emissions by providing an alternative to fossil fuels.
- Encourage the use of renewable transportation fuels.

ALTERNATIVES:

An alternative to the project is continued flaring of excess Bio-gas as is the current practice. This practice emits pollution and provides no valuable return for the practice. While this keeps us in compliance with our air quality requirements, it is not the best option available. The recommended alternative provides the following benefits that are not provided by the current practice: reduced dependence on fossil fuels, decreased greenhouse gas emissions, decreased particulate emissions, and a new revenue source.

RECOMMENDATION:

A resolution authorizing a base agreement to allow IGI Resources, Inc. to resell renewable natural gas and its environmental attributes on the City’s behalf for use as a vehicle fuel.

FISCAL IMPACT:

This project will require the City to finance construction of the needed facilities. Debt service for these facilities will be paid by revenues derived from sale of the processed bio-gas and environmental credits. It is expected that this project will provide positive cash flow for the life of the facility.

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
4300 Wastewater	ENV-04015-08	Various	\$8,984,000
4300 Wastewater	523800	6611000	\$3,154,000
TOTAL			\$12,138,000

Project costs include construction contracts, City labor, capitalized A&G, and capitalized interest.

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
4300 Wastewater	523900	6223000/TBD	\$12,138,000
TOTAL			\$12,138,000

Revenues from the sales of RINs and processed bio-gas.



FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: Capital expenditures of \$7,093,000 for 2017-2018 funded by issuing debt in 2018.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes

The Bio-gas Utilization Project requires agreements with IGI Resources, Inc., Puget Sound Energy, Inc. (PSE), and McKinstry Essention, Inc. The total capital project costs and debt service interest of the Bio-gas Utilization Project are included above. Funds for the PSE and McKinstry contracts are included in this amount along with city labor, interest payments, and administrative charges.