



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by:  Date: 4-2-22
General Manager

DATE: April 18, 2022
TO: General Manager
FROM: Director of Engineering and Compliance, District Engineer
SUBJECT: That the Board Authorize the General Manger to Approve the “Option B” Amendment to the Trillium Contract for CNG Fuel Supply contingent upon Agreement to Form by District Legal Counsel

RECOMMENDATION: That the Board authorize the General Manger to approve the “Option B” amendment to the Trillium Contract for CNG Fuel Supply contingent upon agreement to form by District Legal Counsel.

BACKGROUND

In 2016, Trillium completed construction of the onsite CNG Fueling Facility consisting of a renewable natural gas supply from the PG&E utility network, a compressor station, a ‘time-fill’ dispenser infrastructure in the franchise truck yard parking area for ‘overnight’ fueling of refuse collection tucks, and a separate ‘fast-fill’ fuel island. The District executed a Design, Build, Own, Operate, and Transfer (DBOOT) contract with Trillium to deliver the facility to the site and calls for Trillium to own and operate the CNG Fueling Facility for a period of time before transferring ownership to the District. Coincident with the ownership transfer to the District, it is anticipated that a short-term Operations and Maintenance (O&M) Agreement would be entered into with Trillium or similar CNG Fueling Facility O&M company.

The District has received quality services from Trillium since 2016 in their O&M of the onsite fueling facility. However, the volume of CNG delivered from the fueling facility has been significantly less than anticipated in the pricing model of the DBOOT agreement. Thus, Trillium has not accomplished the planned recapitalization of the infrastructure investment of building the CNG Fueling Facility.

DISCUSSION

As of the end of January 2022, approximately 1,420,300 GGE of CNG had been delivered; an average of less than 240,000 GGE annually and significantly lower than the ~412,500 GGE per year assumption of the contract. This average annual usage rate is only about 58% of the assumed annual delivery rate used in the DBOOT contract. As such, Trillium has not accomplished the planned recapitalization of the infrastructure investment of the CNG Fueling Facility. Trillium has requested a contract amendment from the District to address this discrepancy with the contract agreement basis. The District requested that Trillium propose two options for the District’s review. “Option A” is a five (5) year period for recapitalization recovery and “Option B” is a ten (10) year recapitalization recovery period. Please refer to the attached term sheet dated March 2, 2022 from Trillium that presents the two proposed options and the current CNG pricing information. Staff recommends the “Option B” terms given the lower unit rate pricing of CNG, the lower annual fuel cost increase, the longer recapitalization period, and the preference that the transfer of the ownership of the CNG Fueling Facility to the District occur after the planned award of a new franchise collection contract by the nine member agencies for Year 2030.

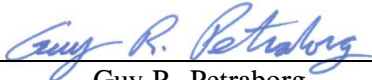
FINANCIAL IMPACT

To address the deficient progress of facility recapitalization, Trillium proposes to change the contract rate from \$1.80/GGE to \$3.10/GGE in “Option A” and to \$2.43/GGE in “Option B”. For comparison, published CNG pricing in the San Francisco Bay Area as of April 2021 was about \$2.35/GGE.

There will be little financial impact to the District for this amendment to the Trillium DBOOT contract as most of the CNG Fuel Costs are associated with the expenses incurred by the franchise collection contractor GreenWaste Recovery in their operations under contract with seven of the District’s nine member agencies. Those expenses are considered ‘direct costs’ and are reimbursable by the member agency through the franchise contract. For the first year (FY2022/23) and subsequent years, staff estimates that the total additional CNG fuel costs for “Option A’ would be on the order of \$312,000 per year and that the “Option B” added cost would be on the order of \$151,000 per year. These costs are anticipated to be accrued to the accounts in member agency area differently given that the amount of fuel usage is different from one member agency area to the next. It is anticipated that the fuel costs will be distributed across the number of accounts in the member agency area and that the additional cost would be an average of \$10 to \$15 per year per customer account.

CONCLUSION

Given that recapitalization recovery is not occurring as planned in the Trillium DBOOT contract, the Finance Committee and staff recommend that the Board authorize the General Manger to approve the “Option B” amendment to the Trillium Contract for CNG Fuel Supply contingent upon agreement to form by District Legal Counsel.



Guy R. Petraborg,
Director of Engineering and Compliance