Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	9/13/10	Open	Action	08/27/10

Subject: Approving the Absolving Service Agreement and the Gas Distribution Service and Extension Agreement for Bus Maintenance Facility No. 2 Utilizing the Refundable Option

ISSUE

Whether or not to approve the Absolving Service Agreement and the Gas Distribution Service and Extension Agreement for the Bus Maintenance Facility No. 2 (BMF2) with selection of the Refundable Option.

RECOMMENDED ACTION

Adopt Resolution No. 10-09-____, Approving the Absolving Service Agreement and the Gas Distribution Service and Extension Agreement for Bus Maintenance Facility No. 2 with Pacific Gas and Electric Company.

FISCAL IMPACT

Gas Distribution Service and Extension Agreement:

Refundable Option: $93,449 payment now plus possible refund over ten years of up to $222,854. Potential refund is reduced by cost of ownership charges imposed by PG&E when gas usage projections are not met.

50% Discount Option: $17,978 credit now; no additional refund later.

Both Options: Savings in electrical costs to run compressors.

Installation of Transmission Line:

If gas usage does not meet projections after the initial 3-year usage period, RT incurs a monthly cost of ownership charge based on the increased cost to PG&E of providing a transmission gas line versus a lower-cost distribution service connection. The cost is charged for any month gas usage that does not meet projections over the remaining 7-year period. Under the refundable option, the charge is offset by any remaining refundable amount until the refundable amount is used up. Under the 50% discount option, there is no offset.

Absolving Agreement:

Fiscal impact if service is discontinued before permanent easement conveyed to PG&E anticipated to be minimal since buses fueling at BMF2 would instead fuel at the existing Downtown facility as they did prior to BMF2.

Approved: Presented:

FINAL 8/30/10

General Manager/CEO

Chief of Facilities and Business Support Services

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DISCUSSION

RT's existing CNG fueling facility in midtown Sacramento currently accommodates a fleet of over 250 buses, nearly twice its originally intended capacity. As part of RT's master transit plan to meet projected growth by expanding service and bus fleet, additional nightly fueling and servicing operations are planned to be supported with RT's second bus maintenance facility (BMF2) that will be located in McClellan Park.

RT's Bus Maintenance Facility No. 1 (BMF1) is supplied by a 4" natural gas transmission line, with natural gas being supplied at 350 PSI (pounds per square inch).

PG&E currently has a distribution (not a transmission) supply line on the BMF2 site that supplies natural gas at less than 20 PSI. This natural gas distribution line will not provide sufficient pressure or volume to allow the compressed natural gas (CNG) system to function as designed. The three large compressors planned for BMF2 are twice as large (rated at 1500 SCFM (standard cubic feet per minute) as those now in use at BMF1, rated at 750 SCFM.

Purchasing natural gas supplied at 350 PSI from a 4" transmission line (as opposed to a distribution line) will decrease operating and system installation costs considerably.

Using a natural gas transmission line allows smaller compressors to be used to gain the 4500 PSI required to fill a bus in 5 to 7 minutes. This will result in huge savings in electrical costs to run the compressors, as well as savings in the purchase price of the compressors. Consequently, Staff requested that PG&E design and construct a 3,750-foot, 4-inch steel gas transmission pipeline from Roseville Road to the proposed CNG equipment yard at the BMF2 site. However, because PG&E does not believe a transmission line is necessary, the pipeline will be treated as a "special facility."

PG&E will pay the cost of installing the transmission pipeline in the amount of $893,627.00; however, if RT does not use the volume of gas specified in the Gas Distribution Service and Extension Agreement, PG&E will impose a monthly "Cost-of-Ownership Charge" (under Gas Rule No. 2) to allow PG&E to recoup its construction costs.

In addition to the $893,627.00 cost of the transmission facility, there are certain other costs involved in the construction of the gas pipeline that are allocated to RT under PG&E's PUC-approved Gas Rules. These include a charge for the service trench installed on RT's property, Engineering & Administrative Costs, Tie-in of distribution by PG&E and Gas Metering, plus a tax of 31%. Against these costs, RT receives an allowance of $33,572.52 based on its anticipated usage. The charge for the service trench ($25,295.00) and $300 in Line Extension Costs must be paid upfront and are non-refundable. As to the remaining cost ($222,853.89), RT has two options: (1) pay the entire $222,853.89 upfront, but be eligible for a refund if RT's gas use meets or exceeds the predicted amount ("Refundable Option"); or (2) pay a discount amount of $111,426.95, but forgo the opportunity for a refund if RT's gas use meets or exceeds the

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predicted amount ("50% Discount Option").

RT already paid PG&E $155,000.00 for design and engineering work under three separate "Agreements to Perform Tariff Schedule Related Work." That amount will be credited against both the Refundable Option and the 50% Discount Option. Below is a summary of the payments due under the two scenarios:

	Refundable Option	50% Discount Option
Non-refundable Payment	$25,595.00	$25,595.00
Gas Distribution and Service Extension	$222,853.89	$111,426.95
Less Credit (Engineering Advance, etc.)	$155,000.00	$155,000.00
Total Amount Due (or Payable)	$93,448.89	($17,978.05)

Under both the Refundable Option and the 50% Discount Option, RT will be subject to "deficiency billing", plus a monthly Cost-of-Ownership Charge (as described above), if its gas use does not meet projections. In addition, RT will pay PG&E a monthly transmission fee for transportation of gas. RT intends to continue purchasing natural gas through its existing contracts.

The principal difference between the two options is that if RT's use exceeds projections, RT will be entitled to a refund of up to $222,853.89 under the Refundable Option, depending on the extent of its use. RT will have a 10-year period to obtain the refund. If, by the end of the 10 years, the entire amount has not been refunded, RT will forfeit any remaining refundable amount. Staff anticipates a slow ramp-up of use at the BMF2 facility. However, over the 10-year period, staff believes that gas usage will increase as more improvements are completed. During the first two years, usage will be limited to a daily average of 25 buses. But usage will increase between the third and fifth years with 125 buses being fueled daily. After the fifth year, staff expects to see revenue credits with more than 125 buses fueled daily.

Based on Staff projections of gas use, Staff is recommending that RT select the Refundable Option, as Staff anticipates that the larger upfront cost will eventually be recouped through refunds.

The above terms and conditions are part of the Gas Distribution Service and Extension Agreement. The other agreement that PG&E requires to construct the gas line facility is an "Absolving Service Agreement." RT does not hold fee title to the property across which the transmission line will operate (either from the main transmission facility at Roseville Rd. or across the BMF2 property leased by RT); consequently, RT cannot convey a permanent or irrevocable

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interest to PG&E for the gas line. The Absolving Service Agreement requires RT to acknowledge PG&E's lack of permanent property rights and to absolve PG&E of any responsibility for discontinuing service if: (1) PG&E desires to remove or abandon its facilities of questionable permanency, (2) PG&E's or RT's right or permission to locate facilities on property owned by others is revoked, or (3) RT's facilities at any time become unsafe or unsuitable in PG&E's opinion for transmitting service. This Agreement presents some risk to RT; however, the alternative (waiting to commence the CNG project until RT and the County hold title to their respective properties and can convey a permanent easement to PG&E) has been deemed unacceptable by Staff.

Staff recommends that the Board approve the Gas Distribution Service and Extension Agreement with selection of the "Refundable Option" and that the Board also approve the Absolving Service Agreement.

RESOLUTION NO. 10-09-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

September 13, 2010

APPROVING THE ABSOLVING SERVICE AGREEMENT AND THE GAS DISTRIBUTION SERVICE AND EXTENSION AGREEMENT FOR THE BUS MAINTENANCE FACILITY NO. 2. WITH PACIFIC GAS AND ELECTRIC COMPANY

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Absolving Service Agreement between the Sacramento Regional Transit District (therein "Applicant") and Pacific Gas and Electric Company (therein "Pacific") whereby Applicant acknowledges Pacific's lack of permanent property rights and agrees to absolve PG&E of any responsibility for discontinuing service if: (1) Pacific desires to remove or abandon its facilities of questionable permanency, (2) Pacific or Applicant's right or permission to locate facilities on property owned by others is revoked, or (3) Applicant's facilities at any time become unsafe or unsuitable in Pacific's opinion for transmitting service, is hereby approved.

THAT, the Gas Distribution Service and Extension Agreement between the Sacramento Regional Transit District (therein "Applicant") and Pacific Gas and Electric, (therein "PG&E") whereby PG&E agrees to design install a compressed natural gas transmission line subject to payment by Applicant of certain amounts, is hereby approved with selection of the Refundable Option.

THAT, the General Manager/CEO is hereby authorized and directed to execute the Absolving Service Agreement and the Gas Distribution Service and Extension Agreement with selection of the Refundable Option.

____
STEVE MILLER, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: ______________________________
Cindy Brooks, Assistant Secretary