exploring premium products and innovative customer programs

ABAG POWER
Strategic Implementation Roadmap

PREPARED DECEMBER 7, 2021

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I. OVERVIEW
OF THE INITIATIVE AND STAKEHOLDER FINDINGS

In the first quarter of 2021, ABAG POWER commenced an initiative to evaluate the viability of premium gas products with demonstrable associated social, environmental, and/or economic benefits, and associated customer programs that would enhance the customer experience and provide various benefits for Members.

The Project Team—consisting of GPT (the Prime Contractor), EcoShift Consulting, North Star Consulting, and Thad Malit Consulting—collaborated with ABAG POWER staff to develop and implement a comprehensive Stakeholder Engagement Plan (SEP) to conduct direct market research, and to identify and understand the needs and perspectives of existing Members and a wide range of other stakeholders. A series of Roundtable and Focus Group events garnered input from a wide range of relevant stakeholders through structured polling questions[1] and facilitated group discussions. This feedback helped support the development of this Strategic Roadmap, which provides development pathways to offer premium gas products and related programs to the Membership.

The extensive stakeholder engagement process provided opportunities for ABAG POWER to assess interest and perceived value for a variety of premium gas products, including how they might contribute to achieving local sustainability and climate protection goals. For example, the engagement with stakeholders confirmed that reducing greenhouse gas (GHG) emissions was a very high priority for nearly all stakeholders. In addition, several organizations noted significant financial and logistical challenges associated with near-term reductions of natural gas consumption and/or electrification of space and water heating. Given these challenges, stakeholders attributed value in having access to premium natural gas products as an interim solution to support a transition to clean and reliable electricity. Stakeholders also repeatedly underscored the importance of transparency and third-party certification for claims of product content and sourcing. Stakeholders consistently reported price as a major factor in determining whether their organization would participate in any premium product offering.

> "...STAKEHOLDERS ATTRIBUTED VALUE IN HAVING ACCESS TO PREMIUM NATURAL GAS PRODUCTS AS AN INTERIM SOLUTION TO SUPPORT A TRANSITION TO CLEAN AND RELIABLE ELECTRICITY."

Throughout the stakeholder engagement process, there was robust discussion- and shared uncertainty- about compliance with Senate Bill 1383 (SB 1383)[2], which seeks to divert organic waste

[1] Figures 1 and 2 display a selection of key results of polling conducted during various stakeholder engagement events.

[2] SB 1383 requires jurisdictions and other government agencies to procure minimum quantities of specified products produced from diverted organic waste, including mulch, compost, electricity, and renewable natural gas. Complete information about SB 1383 can be accessed here: calrecycle.ca.gov/organics/slcp

streams from landfills. Generally, the legislative mandate is expected to increase the supply and demand for in-state supplies of Renewable Natural Gas (RNG) produced from diverted organic waste streams. The Project Team met multiple times with CalRecycle– the agency responsible for implementation of the mandated procurement requirements– to share insight regarding the implementation timeline and anticipated development of SB 3183 compliant products. While the regulations provide multiple options for meeting the procurement requirements (including mulch, compost, RNG from diverted organic waste, and electricity generated from diverted organic waste), the Project Team confirmed that only mulch and compost currently exist in sufficient supplies to support local compliance. However, most stakeholders were reluctant or unable to meet their procurement obligations strictly through compost and/or mulch, citing logistical challenges. The Project Team did, however find widespread interest in identifying other cost-effective options. An overwhelming majority– 80%- of respondents indicated that they did not yet have a viable plan in place for meeting the SB 1383 procurement requirements (expected to go into effect in January 2022), and a substantial number of participants indicated interest in any support that ABAG POWER could offer to Members in regards meeting their compliance obligations.

Stakeholders generally agreed that a Renewable Portfolio Standard (RPS)-style gas product could be a cost-effective method to increase both the supply and demand of RNG, and reduce GHG content, and ultimately cost, over time. This approach is based upon similar success for renewable electricity and transportation fuels. Stakeholders consistently indicated interest in an independently verified (i.e., Green-e certified) RPS-style gas product that contains a transparent minimum percentage of RNG that increases over time. This product could also be structured to include SB 1383 compliant RNG to assist participating Members in meeting their procurement obligations. Respondents also indicated significant interest in participating if ABAG POWER could offer a program to assist jurisdictions with SB 1383 compliance tracking and reporting requirements.

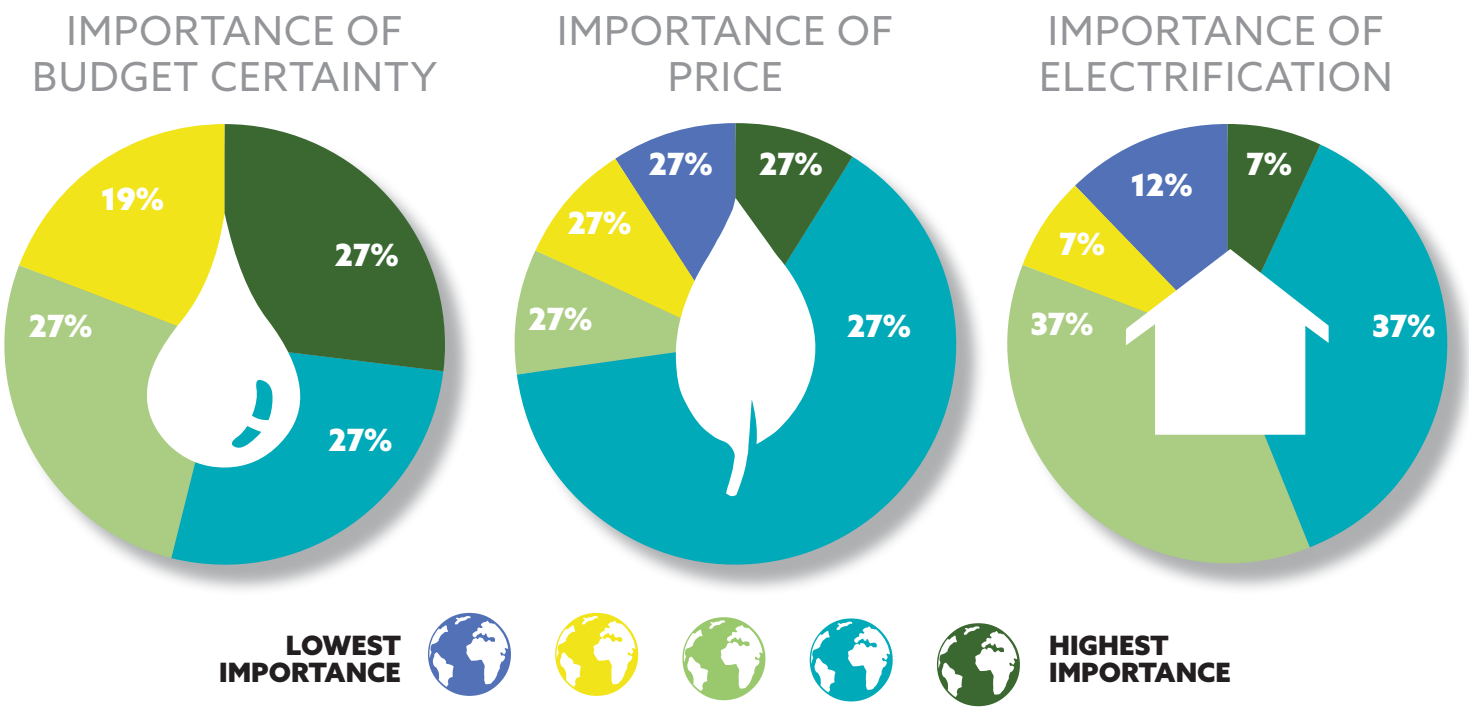


Figure 1 *Key Results of Member and Stakeholder Polling Questions*

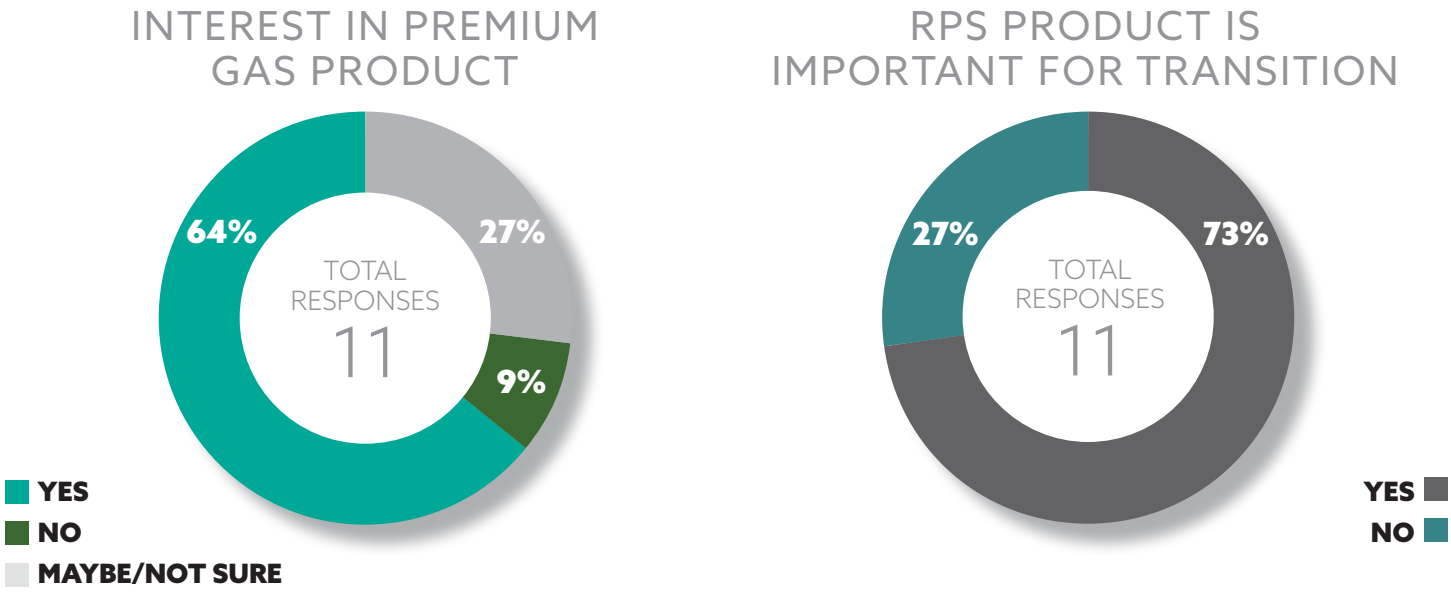


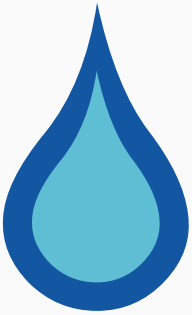
Figure 2 *Key Results of Member and Stakeholder Polling Questions*

The stakeholder engagement process also allowed for the Project Team an opportunity to conduct market research through direct exchanges with various project developers, a diverse set of vendors and suppliers, and established industry peers with first-hand experience transacting premium gas products. These interactions yielded relevant insights into the existing and projected market availability, particularly for in-state RNG.

II. DECISION MAKING FRAMEWORK AND SUPPORTING ANALYTICAL MODELS

The Project Team used the input collected throughout the Stakeholder Engagement process to develop a series of analytical models which provided a foundation for a decision-making framework to support the evaluation of implementation scenarios. Ultimately, this framework illuminated an optimal implementation path that strikes a balance between cost and value created for participating ABAG POWER Members, which formed the basis for the Strategic Roadmap outlined herein.

The following is an overview of the evaluation and findings from the probabilistic modeling of each premium product. The design parameters were carefully crafted to optimize logistical and financial performance and balance costs and benefits to participating Members, based upon the sensitivities indicated in polling results. The key variable in each of the models is related to the weighted average cost of gas (WACOG), which includes the product premium for each product type. The nominal case for the analysis was established using the pricing obtained during the Member and Stakeholder Roundtable polling questions.



BLUE NATURAL GAS
PRODUCT DESCRIPTION

Natural gas that is delivered to end-use customers with bundled certified carbon offsets. This product may provide a cost-effective point of entry for program participants seeking to indirectly reduce their carbon footprint and support local climate protection goals. Blue Natural Gas has been offered by a number of utilities for many years, including some of ABAG POWER's regional industry peers.

NATURAL GAS BUNDLED WITH CERTIFIED CARBON OFFSETS
"BLUE GAS"

A Blue Natural Gas product option is a viable, low-cost offering that was of interest to some Members and stakeholders. Under current market conditions, the Project Team has determined that ABAG POWER could offer a Blue Natural Gas product as the default option for all Members at a competitively priced rate. This would greatly enhance the value proposition for all Members purchasing gas from ABAG POWER, as the product could represent GHG emission reductions when compared to the default product currently provided by both ABAG POWER and investor-owned utilities (IOUs), commonly referred to "brown gas".

II. DECISION MAKING FRAMEWORK AND SUPPORTING ANALYTICAL MODELS
CONTINUED

The Project Team recommends following the innovative model established by the City of Palo Alto Utilities (CPAU), who offers a Blue Natural Gas product as a default gas offering to all customers. CPAU's offering minimizes cost and in-house administrative burden through the use of external brokers and suppliers to secure, manage, and retire carbon offsets which are independently certified and registered with a reputable carbon offset registry. CPAU currently sources the certified offsets from outside of the United States, which further reduces CPAU's cost of service. This structure has been well-established as a viable, cost-effective, and sustainable approach that is valued by the customers and community that CPAU was established to serve.

However, not all stakeholders view carbon offsets as a valuable GHG emissions reduction strategy and sourcing the lowest cost offsets from outside of the country can be contentious. This can be mitigated by sourcing offsets from within the U.S. and/or California, and/or by securing third-party validation from a trusted organization, such as the Center for Resource Solutions' Green-e® Certification, though this approach will increase the product's cost.

The Project Team developed a robust, interactive economic performance model to facilitate analysis of multiple implementation scenarios. The model was based on a five-year forward curve WACOG with a premium applied. The modeled price also represents a fixed-price program option. Target pricing obtained from Member and Stakeholder Roundtable and Focus Group discussions and polling responses were utilized as a key set of inputs to the model. The indicative (wholesale) supply costs were obtained through extensive discussions and correspondence with a wide range of gas suppliers and/or marketers.

The Blue Natural Gas analytical modeling results, under the market conditions at the time of the analysis, indicates a nominal forecast price of $0.576 per therm. The nominal forecasted price is higher than the Member and Stakeholder target price of $0.526 per therm.

MEMBER TARGET - ACCEPTABLE PRICE RANGE ($/THERM)			
PREMIUM PRODUCT	**HIGH**	**NOMINAL**	**LOW**
Blue Natural Gas	$0.761	$0.526	$0.511
MODELING RESULT - PROJECTED RETAIL PRICE RANGE ($/THERM)			
PREMIUM PRODUCT	**HIGH**	**NOMINAL**	**LOW**
Blue Natural Gas	$0.628	$0.576	$0.528

Table 1 *Modeling results indicate that the projected retail price range for a default Blue Natural Gas product offering is within the range of acceptable prices (based upon Member and stakeholder feedback received).*

RESPONSIBLY SOURCED GAS

A Responsibly Sourced Gas (RSG) product option is a relatively low-cost offering that was deemed somewhat valuable by respondents. The value of a responsibly sourced product is derived from the concept that identifiable and meaningful differences exist regarding natural gas suppliers' ownership structure, gas production, source of the gas, and operations. The Project Team proposes three primary criteria in evaluating how to determine the degree to which it can categorize a product as responsibly sourced:

- **BUSINESS OWNERSHIP:** the program should reasonably prioritize purchasing natural gas from individuals or organizations that are certifiably minority-owned, women-owned, disabled veteran-owned, and/or lesbian, gay, bisexual, transgender, and queer-owned (LGBTQ) business enterprises. This recommendation acknowledges historic and current disadvantages faced by these business enterprises and aligns ABAG POWER with the California Public Utilities Commission's General Order 156, which seeks to increase participation of these types of business enterprises in procurement of contracts from utilities.
- **DEVELOPMENT PROCESS:** the program should reasonably prioritize purchasing natural gas extracted without hydraulic fracturing ("fracking") processes.
- **OPERATIONS:** the program should reasonably prioritize purchasing natural gas from organizations that are actively demonstrating efforts to reduce GHG emissions, particularly methane, with regard to the development or transportation of natural gas.

The Project Team considered the RSG product option as the default product for all ABAG POWER Members; however, given that Members and stakeholders found greater value for a Blue Natural Gas product when compared to an RSG option, the Project Team is not currently recommending RSG as the default product option. Instead, an RSG option is recommended as a component of an RPS-style product (described in the following section).

The analytical model for RSG was based on a five year forward curve WACOG with a premium applied. The combined modeled price also represents a fixed-price program option. The

RESPONSIBLY SOURCED GAS
PRODUCT DESCRIPTION

Natural gas that is developed and procured using transparent standards for sustainability, including gas supplied by certified minority business entities. An independent third-party Trustwell™ certification exists for this category that provides an overall rating assessing a company's methane monitoring and reduction efforts.

Project Team utilized the target pricing obtained from the Member and Stakeholder Roundtable discussions. Indicative supply costs were obtained from discussions with various suppliers. The RSG analytical model results show, under the market conditions at the time of the analysis, support the Member and stakeholder target price of $0.506 per therm.

MODELING RESULT - PROJECTED RETAIL PRICE RANGE
($/THERM)

PREMIUM PRODUCT	HIGH	NOMINAL	LOW
RSG	$0.518	$0.506	$0.493

Table 2 *Analytical modeling results show an acceptable projected retail price range*

LOW CARBON TRANSPORTATION FUELS

California's Low Carbon Fuel Standard (LCFS) and the Department of Energy's Renewable Fuel Standard (RFS) low carbon transportation fuel programs are increasing the value of RNG as a vehicle fuel and largely driving current market prices, with higher 'credits' awarded to lower carbon intensity scores. Members and stakeholders both expressed interest in the development of a low-carbon transportation fuel program. Both the federal and state programs recognize a "book and claim" method that values RNG or a clean energy attribute – similar to renewable energy credits – equally, regardless of production origin (i.e. outside of California), so long as there is a traceable physical pathway to the point of use.

During Focus Group meetings with the School Project for Utility Rate Reduction (SPURR), a potential partnership opportunity was identified that may facilitate ABAG POWER's participation in the vehicle fuel markets. This would allow the organization to provide LCFS/RFS compliant CNG or RNG cost-effectively in the near-term. The LCFS and RFS credit ranges used in the model were obtained from SPURR.

LOW CARBON TRANSPORTATION FUELS
PRODUCT DESCRIPTION

The Low Carbon Transportation Fuels product category applies to Compressed Natural Gas (CNG) fleet vehicles. And fueling stations. Because CNG vehicles emit lower emissions profiles than gasoline or diesel-powered variants, financial credits are available from State and Federal programs. These credits can used to effectively offset associated cost premiums and/or support enhanced rebates to customers who replacing aging CNG vehicles with electric vehicles (EVs).

II. DECISION MAKING FRAMEWORK AND SUPPORTING ANALYTICAL MODELS
CONTINUED

The results of the analytical model, under the market conditions at the time of the analysis, support the proposed credit of $0.5 per therm. This credit value can be leveraged to provide a low and stable price to participating Members, while simultaneously supporting an Electrification Rebate Fund that can be withdrawn ("cashed out") by participating Members after one year in the program to support electrification of their CNG fleet.

MEMBER TARGET ($/THERM)			
	HIGH	**NOMINAL**	**LOW**
LCFS Credit	$(0.500)	$(0.400)	$(0.100)
RIN Credit	$(0.130)	$(0.100)	$(0.080)
MODEL RESULT (ANNUAL $)			
ANNUAL	**HIGH**	**NOMINAL**	**LOW**
LCFS Credit	$(41,685)	$(30,680)	$(10,697)
RIN Credit	$(10,421)	$(7,670)	$(2,674)

Table 3 *This table indicates the anticipated range of values for the LCFS and RIN credits*

RENEWABLES PORTFOLIO STANDARD COMPLIANT GAS PRODUCTS

The RPS approach was consistently ranked as a valued product because it attempts to balance cost sensitivity and potential for GHG reductions in a transparent, 3rd-party certified, blended gas product that has a minimum percentage of RNG that would be increased steadily over time, as supplies increase and costs decrease. Nearly 75% of respondents agreed that an RPS-style product would be a valuable option to support their efforts to reduce reliance upon fossil fuels.

The Project Team utilized the target pricing obtained from the Member and Stakeholder Roundtable discussions. The indicative supply costs were obtained from discussions with various suppliers.

RENEWABLES PORTFOLIO STANDARD (RPS) COMPLIANT GAS

PRODUCT DESCRIPTION

This product category involves applying the RPS framework that has been used effectively in the electricity and transportation fuel sectors to the gas sector. It includes third-party verification (i.e. Green-e certification) of a blended gas product that contains a minimum percentage of RNG. SB 1383 compliant RNG supplies and other RNG and RSG content can be included.

II. DECISION MAKING FRAMEWORK AND SUPPORTING ANALYTICAL MODELS
CONTINUED

SB 1383-COMPLIANT RNG

Jurisdictions subject to the procurement mandates of SB 1383 can procure various resources to meet their obligations, including mulch, compost, electricity generated from diverted organic waste, or RNG generated from diverted organic waste. There is growing awareness of SB 1383 and the various compliance pathways, but the majority of participating jurisdictions also reported that they do not yet have a strategy in place for meeting their procurement obligations. There was widespread support for ABAG POWER fulfilling a procurement and/or reporting role.

Participants consistently reported SB 1383 compliance as a high-priority and near-term concern. However, the Project Team has determined that the supply of SB 1383-compliant RNG and electricity products is severely limited. During Focus Groups, several gas suppliers and project developers affirmed that competing market demand for RNG (vehicle fuel, electric generation, building heat, etc.) makes the development of SB 1383-compliant gas an economic challenge. Developers suggested that until supply is more widely available, SB 1383-compliant RNG projects will require long-term purchase contracts at the time of project development, as compared with the short-term purchases on the "spot" markets, which exist for conventional, fossil-based natural gas. Poll respondents indicated that they saw value in the program operating within a central buyer role for purposes of SB 1383 compliance. Members and stakeholders also consistently confirmed that the pricing of this type of premium product is a significant factor in their evaluation of alternative compliance pathways.

The Project Team utilized the target pricing obtained from the Member and Stakeholder Roundtable discussions. The indicative supply costs were obtained from discussions with various suppliers

OTHER SOURCES OF RNG

Due to current market conditions and dynamics, suppliers consistently reported availability of high-quality, low carbon intensity RNG supplies from out-of-state sources (i.e., RNG sourced from dairy methane projects in the midwestern states). The Project Team recommends that ABAG POWER consider sourcing RNG from out-of-state sources in short-term supply deals as an interim measure to support development of an RPS-style premium gas product. This will provide the necessary supplies of RNG needed to make an RPS gas product offering available to Members within a reasonable amount of time, and these out-of-state RNG purchases can be phased out as SB 1383-compliant supplies of RNG become available.

CUSTOMER PROGRAM OFFERINGS

In addition to the five products described herein, this initiative also seeks to identify and evaluate customer-facing programs designed to increase uptake of the associated premium products and generally enhance the value proposition of ABAG POWER for participating Members. Four of the program concepts that were considered and discussed during the stakeholder events have been selected for inclusion in the Strategic Implementation Roadmap; each is outlined below.

TRANSITIONAL ELECTRIFICATION PROGRAM

This program would provide enhanced financial incentives for electrification of gas-powered equipment, appliances, and/or vehicles to Members who participate in one or more of the premium product procurement pools offered by ABAG POWER could provide a valuable, cost-effective option to local governments who wish to electrify the majority of use cases but who have existing gas-powered assets that cannot immediately be retired and replaced.

All Members will have the option of opting into the Transitional Electrification Program, regardless of what ABAG POWER product option they choose to procure (including the default product). Members who opt into the program will see a small volumetric surcharge on their monthly bills, which will accrue in an Incentive Fund on that Member's account. The amount that has accrued in each participating Member's account will be clearly indicated on each bill. After a minimum of one year of participation in the program, Members will have the option of "cashing out" (withdrawing) their Incentive Funds to support electrification of the gas appliances/ equipment on that account.

TRANSITIONAL ELECTRIFICATION PROGRAM

PROGRAM DESCRIPTION

Members who participate in any product procurement pool could be provided a financial incentive to electricity existing gas-powered (vehicle or building) assets.

MEMBER TARGET ($/THERM)	HIGH	NOMINAL	LOW
Adder Scenario 1	$0.006	$0.005	$0.004
Adder Scenario 2	$0.009	$0.008	$0.006
Adder Scenario 3	$0.012	$0.010	$0.008

Table 4 *Acceptable range of price for an "adder" to fund the enhanced financial incentives for electrification of participating Member gas appliances (based on Member and stakeholder feedback received)*

ANNUAL FUND CONTRIBUTION			
YEAR	SCENARIO 1	SCENARIO 2	SCENARIO 3
Year 1	$12,030	$18,045	$24,060
Year 2	$24,060	$36,091	$48,121
Year 3	$36,091	$54,136	$72,181
Year 4	$48,121	$72,181	$96,242
Year 5	$60,151	$90,227	$120,302
Year 6	$72,181	$108,272	$144,363

Table 5 *Projected Annual Fund Contributions under three modeled scenarios*

ANNUAL INCENTIVE DISTRIBUTION			
YEAR	SCENARIO 1	SCENARIO 2	SCENARIO 3
Year 1	NA	NA	NA
Year 2	$23,650	$35,476	$47,301
Year 3	$9,854	$14,782	$19,832
Year 4	$9,916	$14,874	$19,832
Year 5	$16,650	$24,975	$33,300
Year 6	$11,759	$17,638	$23,517

Table 6 *Projected annual disbursements of Electrification Incentives under three modeled scenarios*

VEHICLE FUEL CREDIT MANAGEMENT

This program provides direct, day-to-day management of all processes relating to managing the capture, accounting, reporting, and other necessary processes and procedures required for participating Members to receive the full LCFS and RIN credit value associated with their procurement of CNG/RNG.

ABAG POWER staff intend to coordinate with SPURR on the program implementation and data requirements. This relationship could be managed through a Memorandum of Understanding (MOU) that outlines specific responsibilities, terms, and fees associated with participating in SPURR's existing vehicle fuel program. Alternatively, a procurement could be issued seeking experienced parties to manage these processes on behalf of ABAG POWER.

GHG ACCOUNTING AND REPORTING SUPPORT PROGRAM

ABAG POWER could provide easily accessible standardized reports and executive dashboards for all Members participating in any program. The reports and/or dashboards would quantify and document GHG emissions associated with any purchase of premium gas products, in order to support local GHG Inventories and Climate Action Planning efforts and could additionally include geographic and other project information that links procurement to specific locations and impacts.

COMPLIANCE SUPPORT PROGRAM

For Members participating in one or more of the premium product procurement pools, ABAG POWER could provide programmatic support services designed to help Members manage compliance with reporting and documentation requirements involved with relevant policies and mandates (i.e., SB 1383, etc.).

VEHICLE FUEL CREDIT MANAGEMENT PROGRAM

PROGRAM DESCRIPTION

Day-to-day management ensuring compliance with operational and reporting requirements for both the State (LCFS) and Federal (RFS) programs.

III. STRATEGIC IMPLEMENTATION ROADMAP

Based upon findings of the stakeholder engagement process, and the subsequent economic modeling and analytics, the Project Team recommends that the ABAG POWER Executive Committee and/or Board of Directors consider approval of the Strategic Implementation Roadmap outlined below.

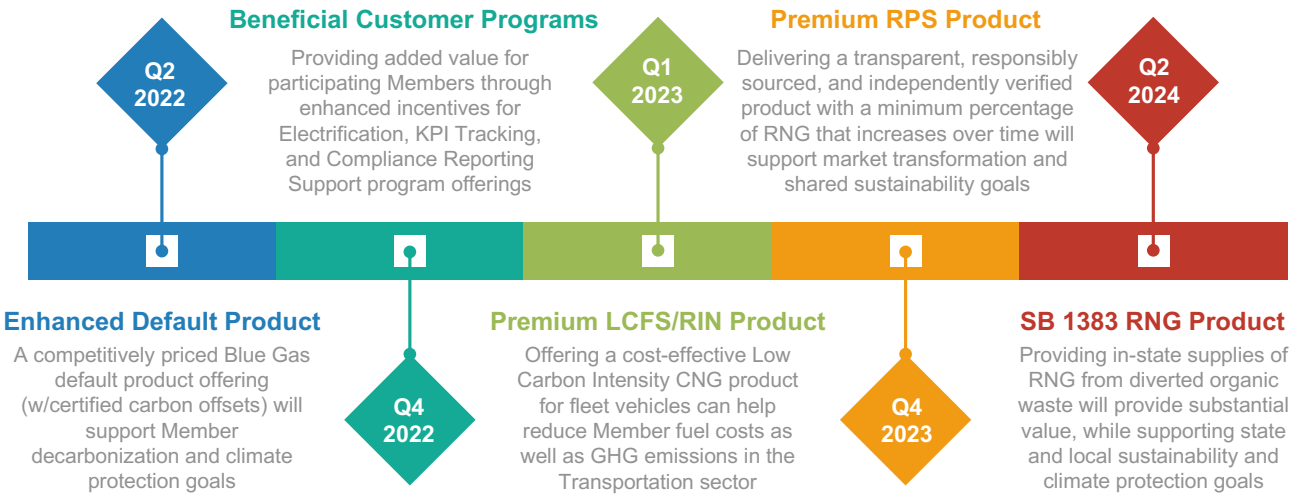


Figure 3 *Projected timeline of the Strategic Implementation Roadmap, including anticipated timing of key milestones*

III. STRATEGIC IMPLEMENTATION ROADMAP *CONTINUED*

The Roadmap has been structured into four distinct implementation phases so as to be manageable within the existing staffing levels and budget constraints. The phases are constructed with anticipated completion over a two-year time period and are sequenced to provide enhanced value to all Members in the first phase, while each subsequent phase brings new beneficial programs and opt-in premium products in a logical and cost-efficient sequence.

PHASE 01

ENHANCED DEFAULT PRODUCT

Providing a high-value, cost-competitive alternative (Blue Gas w/certified carbon offsets) that supports achievement of local climate protection goals

PHASE 02

VALUE-ADD CUSTOMER PROGRAMMING

Supporting achievement of Member Electrification goals and compliance reporting requirements with financial incentives and critical KPI tracking services

PHASE 03

PREMIUM OPT-UP PRODUCTS

Providing LCFS/RIN-compliant CNG and RPS-style gas with RNG content and transparent 3rd-party verification will offer additional value for some Members

PHASE 04

SB1383-COMPLIANT PRODUCT

Members and stakeholders have indicated strong interest in securing suitable in-state supplies of RNG, which will require development and long-term deals

Figure 4 *An overview of the four distinct phases of implementation recommended in the Strategic Implementation Roadmap*

PHASE 1: ENHANCED DEFAULT PRODUCT

The initial phase of implementation is designed to create a new and improved value proposition for all (existing and prospective) ABAG POWER Members by enhancing the default product offering. The Project Team recommends providing a Blue Natural Gas product with third-party certified carbon offsets bundled with traditional fossil-based natural gas supply. This approach would indirectly but cost-effectively offset all of the GHG emissions associated with purchasing an equivalent volume of gas. This approach could provide the benefit of GHG emission reductions from natural gas consumption at municipal facilities without significantly altering either current facilities' operations, or the current price of services provided by ABAG POWER. Members and stakeholders repeatedly indicated meeting local climate protection and sustainability goals are a significant priority when considering potential product offerings.

PHASE 2: VALUE-ADD CUSTOMER PROGRAMMING

The second implementation phase involves the development of several new customer program options, each designed to increase participation in the opt-up premium product procurement pools and enhance the value to participating Members. Four program designs have been selected, based on Member and stakeholder interest, feasibility, and anticipated cost-effectiveness, listed in the order of proposed development:

A VEHICLE FUEL CREDIT MANAGEMENT PROGRAM

- Participating in SPURR's vehicle fuel program enables ABAG POWER to realize cost savings, expand its presence in vehicle fuel markets, and potentially create a fleet electrification fund – all in a relatively unique and somewhat simple partnership with an organization similar to ABAG POWER. Because SPURR already operates its vehicle fuel program and has indicated an openness for an arrangement with ABAG POWER, this option is an attractive recommendation for both parties.

A TRANSITIONAL ELECTRIFICATION INCENTIVE PROGRAM

- Most respondents indicated electrification was a high or very high priority within their organization's climate-related goals. For interested Members, ABAG POWER could create an annual volumetric surcharge that accrues monthly and is displayed in a transparent manner. The accrual and withdrawal should be specific to each Member and is intended to address identified up-front cost barriers for replacing gas equipment. The value of this program could be supplemented by coordinating with the Bay Area Regional Energy Network (BayREN) or Pacific Gas and Electric Company (PG&E) to negotiate an incentive match.

GHG ACCOUNTING AND REPORTING SUPPORT PROGRAM AND COMPLIANCE SUPPORT PROGRAM(S)

- As an energy service provider, ABAG POWER has first-hand access to natural gas consumption information that could be used, in conjunction with relevant premium product details, to display GHG emissions, geographic or contextual product information, and other reporting aspects. Development of these tools would provide benefit to Members that are preparing or monitoring environmental initiatives. Additionally, ABAG POWER's established and extensive procurement processes position the organization to provide a compliance support program, in the event SB 1383-compliant natural gas supply becomes available earlier than anticipated (as described in Phase 4).

To pursue these initiatives, ABAG POWER initiate discussions with SPURR regarding participation in its program, and simultaneously consider establishing the internal data collection and reporting processes required to participate. Separately, ABAG POWER should consider establishing a set-aside target for electrification incentives for participants.

PHASE 3: PREMIUM OPT-UP PRODUCTS

Premium RPS-style RNG Product

Compared to the aforementioned products and programs, development of an RPS-style product will be a relatively involved process because it

requires gradually increasing volumes of various third-party certified products, presumably centered around availability of out-of-state, and eventually, in-state RNG. This product will provide an opportunity for Members interested in supporting the development of RNG through a controlled, potentially rapid transition away from fossil-based natural gas. The products that could make up an RPS product are generally available; however, developing a portfolio of supply options that meet both the pricing and desired timing is a challenge. The challenge is supplemented by the fact that ABAG POWER does not possess direct experience procuring the products that would likely comprise this ratcheting product category. To aid in determining an optimal percentage of each supply source, the Project Team developed a decision analysis model aiming to achieve the target price ($0.56 per therm) communicated by poll respondents.

While the Project Team was able to achieve a blended product meeting the target price, the Team found that ABAG POWER would benefit from first pursuing and implementing an expanded risk management approach that, in combination with findings from Phase 1 & 2, would contribute to a greater likelihood of success in offering an RPS-style product. A high-level analysis of ABAG POWER's risk management policies is being conducted as part of the program design initiative; the recommendations resulting from this process should be implemented prior to offering an RPS-style product. The Project Team believes the recommendations will reduce price, volume, and operational risks for each of the new supply sources associated with the recommended premium gas products.

PHASE 4: SB 1383-COMPLIANT RENEWABLE NATURAL GAS PRODUCT

The fourth implementation phase relies upon procurement of in-state RNG produced from diverted organic waste. This product would provide a crucial compliance pathway for jurisdictions subject to SB 1383 procurement mandates. The timeline included in this roadmap indicates a sustained effort over what is likely to be an 18-to-24-month period to identify and secure sufficient supplies of SB 1383-compliant RNG which are not currently available in the market. Significant effort is likely to be required to confirm Member and stakeholder interest, and subsequently issue Requests for Offers, then conduct the requisite negotiations with vendors and suppliers necessary to secure RNG supplies. It is important to note that this development work would need to be conducted in parallel with the previous phases in order for ABAG POWER to be able to complete Phase 4 within the suggested timeline presented.

There is a clear value proposition for ABAG POWER pursuing the investigation and development of an SB 1383 procurement and compliance program. The program could consist of RNG supply, data collection, data management, reporting, project development coordination. To pursue this initiative, ABAG POWER should consider obtaining letters of interest for in procuring compliant sources of RNG. Letters of interest will be a key element needed to initiate meaningful discussions with RNG developers and suppliers.

NEXT STEPS

Pending the completion of the requisite review and approval processes, implementation of the Strategic Roadmap would commence in the first half of 2022 with the issuance of Requests for Offers (RFOs) for certified carbon offsets matched with ABAG POWER's total current and projected load. In parallel with that procurement activity, staff would begin negotiations with SPURR regarding expansion of their exiting LCFS/RIN program to ABAG POWER Members. The staff would also work to refine standard operating procedures and risk oversight processes, identify suitable RSG and RNG suppliers, initiate the process of Green-e registration and product certification, and establish marketing processes.

During the second half of 2022 the staff would turn their attention to marketing the new default and premium product offerings and would begin enrollment of interested Members in the LCFS/RIN product pool. The staff will also finalize the new customer program designs, including the Electrification Incentives, and will continue exploration of SB 1383 compliant RNG supply development.