



Los Angeles World Airports

Item Number
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REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

RICHARD CONNOLLY

Approved by: Richard J. Connolly, Director
Facilities Management Division

Michael R. Christensen

Reviewed by: Michael R. Christensen, Deputy Executive Director

Brian C. Ostler

Brian Ostler (Dec 8, 2021 08:59 PST)

Brian C. Ostler, City Attorney

Justin Erbacci

Justin Erbacci (Dec 8, 2021 10:58 PST)

Justin Erbacci, Chief Executive Officer

Meeting Date:

12/16/2021

CAO Review:

☐ Completed
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☐ N/A

<u>Reviewed for</u>	<u>Date</u>	<u>Approval Status</u>	<u>By</u>
Finance	11/30/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	JS
CEQA	11/30/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	VW
Procurement	6/23/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> Cond	LK
Guest Experience	11/30/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	TB
Strategic Planning	7/12/2021	<input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> NA	KC

SUBJECT

Staff requests approval of the Second Amendment to Master Services Contract No. DA-4979, including the Master Services Contract Schedule A No. 399604, with Southern California Gas Company, for the intrastate transmission of noncore natural gas to be used at the Central Utility Plant at Los Angeles International Airport, extending the term by five years, and increasing the contract authority by \$5,676,000, for an amended amount not to exceed \$7,776,000.

RECOMMENDATIONS

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report.
2. DETERMINE that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.f. and Article II, Section 2.i of the Los Angeles City CEQA Guidelines.
3. FIND that this action is being taken pursuant to Charter Section 371(e)(10) because competitive bidding would be undesirable, impractical, or impossible.
4. APPROVE the termination of the First Amendment to Master Service Contract No. DA-4979, including the Master Services Contract Schedule A No 392482, with Southern California Gas Company, for the intrastate transmission of noncore natural gas to be used in the Central Utility Plant at the Los Angeles International Airport, as of February 1, 2022.

5. APPROVE the Second Amendment to Master Services Contract No. DA-4979, including the Master Services Contract Schedule A No. 399604, with Southern California Gas Company, for the intrastate transmission of noncore natural gas to be used at the Central Utility Plant at Los Angeles International Airport, extending the term by five years, for an amended expiration date of February 1, 2027, and increasing the contract authority by \$5,676,000, for an amended amount not to exceed \$7,776,000.
6. AUTHORIZE the Chief Executive Officer to execute the Second Amendment to Master Services Contract No. DA-4979, including the Master Services Contract Schedule A No. 399604, upon approval as to form by the City Attorney and upon approval by the Los Angeles City Council.

DISCUSSION

1. Purpose

This amendment will continue the contractual agreement for the intrastate transmission of noncore natural gas to be used at the Central Utility Plant (CUP) at Los Angeles International Airport (LAX).

2. Prior Related Actions

- **March 12, 2015 – Resolution No. 25644 (DA-4979)**
The Los Angeles World Airports (LAWA) Board of Airport Commissioners (Board) authorized the execution of a two-year Master Services Contract with Southern California Gas Company (SCG), for the intrastate transmission of noncore natural gas to be used at the CUP at LAX for a not-to-exceed amount of \$400,000. Contract No. DA-4979 would have expired on March 31, 2017.
- **January 10, 2017 – Resolution No. 26146 (DA-4979A)**
The Board authorized the LAWA Chief Executive Officer to execute the First Amendment to Master Services Contract No. DA-4979 with SCG, extending the contract term by five years and one day to April 1, 2022, and increasing the contract's not-to-exceed amount to \$2,100,000 for the intrastate transmission of noncore natural gas to be used at the CUP at LAX for a not-to-exceed amount of \$2,100,000. Contract No. DA-4979A expires on April 1, 2022.

3. Current Action

Over the past three decades, the California Public Utilities Commission has restructured the completely regulated natural gas market to a primarily competitive structure to provide additional supply and service options to customers and end-users. As a result, two categories of natural gas service, core and noncore, were established. Core service is provided to residential and commercial users with average monthly consumption of less than 20,800 therms. Noncore service is provided to large commercial, industrial, and electric generation customers with average monthly consumption of more than 20,800 therms. Los Angeles World Airports, falling predominantly into the noncore category, uses an average of 223,000 therms each month to power the co-generation equipment for heating and cooling LAX's Central Terminal Area, including the LAX terminals, Central Utility Plant, Theme Building, and LAWA Administration East Building.

As a regulated California utility, SCG does not own natural gas production facilities. Noncore customers must purchase natural gas from a noncore energy provider and pay SCG for its transportation (intrastate transmission service) through SCG's company-owned pipelines. Los Angeles World Airports purchases the noncore gas that is transported through SCG's pipelines from the Los Angeles Department of Water & Power (DWP), taking advantage of DWP's negotiated noncore gas purchase pricing. The requested amendment also incorporates the California Public Utilities Commission's approved curtailment procedures that enable LAWA to receive higher priority service during gas curtailments.

Procurement Process

As a noncore natural gas customer in SCG's service territory, SCG requires LAWA to enter into a Master Services Contract for intrastate transmission using SCG's local pipelines; therefore, no competitive bid is required.

Fiscal Impact

Costs incurred under this contract will be recovered through landing fees, terminal rates and charges, and non-aeronautical revenues.

Los Angeles World Airports expended 100 percent of the contract authority to-date. Staff has seen overall transmission costs increase since the original term. The increase is due to both rising transmission rates and the addition of new facilities. In FY2016-2017, LAWA paid an average of 9.18 cents per therm to transport gas. In FY2020-2021, LAWA paid an average 15.17 cents per therm to transport gas. So far in the first four months of FY2021-2022, LAWA paid an average of 18.26 cents per therm. LAWA also added new facilities which increased the overall terminal square footage from 3.8 million square feet in 2017 to 5.1 million square feet in 2021. LAWA transmission costs also will continue to increase due to fewer cap-and-trade exemptions available for LAWA to claim, increased state mandated charges, and projected usage increases due to the construction of new facilities (project increase of 700K square feet by 2023). Staff currently uses emergency purchase orders to cover gas utility bills until the Second Amendment's execution.

Los Angeles International Airport expects to use an average volume of approximately 526,000 Metric Million British Thermal Units (MMBTU) of natural gas per year over the next five years, taking into account the increased usage noted above. At the current cost of \$0.1861 per MMBTU and an estimated annual transmission rate escalation of five percent, staff projects the following transmission costs over the next five years:

	Volume (MMBTU)	Transmission Cost per MMBTU	Annual Transmission Cost
Year 1	525,600	\$ 0.1954	\$ 1,027,118.40
Year 2	525,600	\$ 0.2052	\$ 1,078,474.32
Year 3	525,600	\$ 0.2154	\$ 1,132,398.04
Year 4	525,600	\$ 0.2262	\$ 1,189,017.94
Year 5	525,600	\$ 0.2375	\$ 1,248,468.83
Grand Total			\$ 5,675,477.53

4. Alternatives Considered

- **Take No Action**

If staff took no action related to this item, LAWA would not have an instrument to complete transactions for the intrastate transmission of noncore natural gas used at the Central Utility Plant at Los Angeles International Airport.

APPROPRIATIONS

Funds for this contract currently are available in the Fiscal Year 2021-2022 Los Angeles World Airports Operating Budget in LAX Cost Center 2001598 – FTS Co-Generation System, Commitment Item 523 – Utilities. Funding for subsequent years will be requested as part of the annual budget process.

STANDARD PROVISIONS

1. This action, as a continuing administrative activity, is exempt from California Environmental Quality Act (CEQA) requirements pursuant to Article II, Section 2.f. of the Los Angeles City CEQA Guidelines. In addition, any activity (approval of bids, execution of contracts, allocation of funds, etc.) for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of the California Environmental Quality Act (CEQA) is exempt from further review pursuant to Article II, Section 2.i of the Los Angeles City CEQA Guidelines. An Environmental Impact Report (EIR) was prepared for the Central Utility Plant (CUP) Replacement Project and certified by the Board of Airport Commissioners for this project on November 16, 2009 (Resolution No. 23939).
2. The proposed document(s) is/are subject to approval as to form by the City Attorney.
3. Actions taken on this item by the Board of Airport Commissioners will become final pursuant to the provisions of Los Angeles City Charter Section 373.
4. This action is statutorily exempt from the provisions of the Service Contractor Worker Retention and Living Wage Ordinances.
5. This action is not subject to the Small Business Enterprise Program.
6. The SCG will comply with the provisions of the Affirmative Action Program.
7. The SCG has been assigned Business Tax Registration Certificate number 0000100071.
8. The SCG will comply with the provisions of the Child Support Obligations Ordinance.
9. The SCG has approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports.
10. This action is not subject to the provisions of Charter Section 1022 (Use of Independent Contractors).
11. This action is not subject to the provisions of the Contractor Responsibility Program.

12. This action is not subject to the provisions of the Equal Benefits Ordinance.
13. This action is not subject to the provisions of the First Source Hiring Program.
14. This action is not subject to the provisions of Bidder Contributions CEC Form 55.