



August 28, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Agreement with Element Markets Renewable Energy, LLC, for Purchase of Natural Gas and Monetization of Federal and State Credits, Internal Audit Report No. 19-511

Overview

The Internal Audit Department has completed an audit of the agreement with Element Markets Renewable Energy, LLC, for the purchase of renewable natural gas and monetization of credits under the state Low Carbon Fuel Standard Program and the federal Renewable Fuel Standard Program. Based on the audit, program oversight controls are adequate, contractor selection complied with procurement policy, credit revenues are properly monitored, reconciled, and recorded, and invoices are properly reviewed and authorized.

Recommendation

Receive and file Agreement with Element Markets Renewable Energy, LLC, for Purchase of Natural Gas and Monetization of Federal and State Credits, Internal Audit Report No. 19-511, as an information item.

Background

On March 14, 2016, the Orange County Transportation Authority (OCTA) Board of Directors selected Element Markets Renewable Energy, LLC (Element Markets), to provide renewable natural gas for OCTA operations, and to assist OCTA in managing two programs; the Low Carbon Fuel Standard (LCFS) Program, generating LCFS credits at the state level and the Renewable Fuel Standard (RFS) Program, generating Renewable Identification Number (RIN) credits at the federal level. As a consumer of natural gas for its bus operations, OCTA generates credits that are sold by Element Markets under these programs.

During the period July 1, 2016 through March 31, 2019, OCTA purchased approximately \$11 million in renewable natural gas and received credit revenues of approximately \$14 million. It is anticipated that revenues generated from these programs will continue to fully fund the cost of renewable natural gas required to fuel the OCTA fleet.

Both the state LCFS Program and the federal RFS Program dictate compliance guidelines for generating, selling, and reporting of credits. OCTA delegated its regulatory obligations to Element Markets to sell the credits and assume all responsibilities associated with program management, including regulatory and compliance issues. The California Air Resources Board regulates the LCFS program and the Environmental Protection Agency regulates the RFS program.

Discussion

Staff conducted a competitive procurement process for selection of a firm for the purchase of renewable natural gas and to provide consulting services for the management and monetization of credits generated under the state LCFS Program and RIN credits generated under a federal RFS program. Staff has developed a dashboard designed to monitor monthly usage of renewable natural gas, manage credits generated and sold, track credit values, and review natural gas index pricing. Published rates from the independent Platts Gas Market Report and from the Oil Price Information Service are obtained by staff and compared to index rates for gas purchases and credit values for credits sold to assess reasonableness. The audit found that management has implemented adequate oversight controls and complied with procurement and invoice review policies.

Summary

Internal Audit has completed an audit of the agreement with Element Markets for the purchase of renewable natural gas and monetization of credits under the state Low Carbon Fuel Standard Program and the federal Renewable Fuel Standard Program.

Attachment

- A. Agreement with Element Markets Renewable Energy, LLC, for Purchase of Natural Gas and Monetization of Federal and State Credits, Internal Audit Report No. 19-511

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Approved by:



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