



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: OCTOBER 27, 2011

DIVISION: ENVIRONMENTAL MANAGEMENT

SUBJECT: RESOLUTION NO. _____ - SECOND AMENDMENT TO CHINA SHIPPING AMENDED STIPULATED JUDGMENT AIR QUALITY MITIGATION INCENTIVE PROGRAM GRANT AGREEMENT NO. 09-2770 WITH VERSATILE ENERGY POWER SYSTEMS, INC.

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) awarded Versatile Energy Power Systems, Inc. (Versatile Energy), a Texas Corporation, a grant in the amount of \$531,378 to design and demonstrate an engine retrofit system to reduce nitrogen oxides (NOx) and particulate matter (PM) emissions from harbor craft, such as commercial fishing boats, excursion vessels and tugboats (Project). Agreement No. 09-2770 between the Harbor Department and Versatile Energy is currently a 30-month agreement (Agreement). Versatile Energy has requested that this Agreement be extended an additional six months. The proposed extension will cause the Agreement to expire on July 7, 2012 instead of January 7, 2012. This extension will require no adjustment to the total amount of the grant award.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Approve the Second Amendment to Agreement No. 09-2770 with Versatile Energy Power Systems, Inc. to extend the Agreement term from 30 months to 36 months;
2. Authorize the Executive Director to execute and the Board Secretary to attest to said Amendment for and on behalf of the Board; and
3. Adopt Resolution No. _____.

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SUBJECT: SECOND AMENDMENT TO AGREEMENT NO. 09-2770

DISCUSSION:

Background - The Air Quality Mitigation Incentive Program (AQMIP) and the process for evaluating projects was established in the China Shipping Amended Stipulated Judgment in 2004 in order to identify ongoing projects with the potential to reduce air impacts at the Port of Los Angeles, especially in the San Pedro and Wilmington areas.

On November 20, 2008, Versatile Energy was one of 48 projects awarded a grant under the Harbor Department's 2007-2008 AQMIP. Agreement No. 09-2770 was executed on July 7, 2009 for \$531,378 for a term of two years. The Agreement authorized Versatile Energy to develop and test an engine retrofit kit that is expected to achieve an 85% emission reduction of PM, and a 25% emission reduction in NOx on harbor craft. Versatile Energy was working with Lynntech, Inc. (Lynntech) located in College Station, Texas, who was to provide staff for equipment design, development, and testing. The project was underway when Lynntech had a change in management, one of the lead engineers on this project left the company, and Lynntech requested additional funding to continue work. Versatile Energy made a decision to sever their business relationship with Lynntech and continue to work with the lead engineer who is now working with the University of Texas. This resulted in project delays and changes in payment and project implementation schedules. To accommodate these changes, the First Amendment was prepared.

Second Amendment - The proposed Second Amendment to Agreement No. 09-2770 (Transmittal 1) authorizes the Agreement term to be extended from 30 months to 36 months. Laboratory staff responsible for testing the engine determined that the project test engine needed to be sent to a service shop to be tested out prior to installation in the laboratory's test cell to prevent any unforeseen issues that would damage the laboratory's in-cell equipment. Also, some of the necessary components of the retrofit assembly were sent to the laboratory later than expected. These delays were not accounted for in the original project schedule and have created an additional three to six month delay. Versatile Energy has requested an extension to accommodate this delay.

To date, design work is completed and equipment components have been purchased. The kit assembly, engine retrofit, data collection, and control and tuning of the kit are still in the process of completion. There is no change to the amount of the grant award.

The Project supports elements of the Board-adopted San Pedro Bay Ports Clean Air Action Plan by continuing to promote clean air initiatives. If successful, the technology can be installed on harbor craft operating within the San Pedro Bay Ports.

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SUBJECT: SECOND AMENDMENT TO AGREEMENT NO. 09-2770

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a Second Amendment to Agreement No. 09-2770 with Versatile Energy Power Systems, Inc. to extend the Agreement term from 30 months to 36 months. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

This Project is part of the AQMIP funded out of the China Shipping Settlement Agreement. The total grant award for this Project is \$531,378. As of September 2011, \$445,578 has been invoiced and the remaining balance of \$85,800 will be expended as follows:

| | |
|--------------|----------|
| FY 2011/2012 | \$85,800 |
|--------------|----------|

This Board action is for a time extension only. Funds in the amount of \$85,800 are available in Account No. 21951, Center No. 7000, Program 000.

ECONOMIC BENEFITS:

Approval of the proposed Second Amendment to extend the Agreement term with no additional cost will not have any employment impact in the five-county region.

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CITY ATTORNEY:

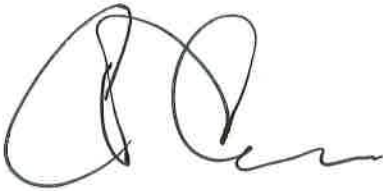
The Office of the City Attorney has reviewed and approved the Second Amendment as to form and legality.

TRANSMITTAL:

1. Second Amendment to Agreement No. 09-2770

FIS Approval: ef (initials)

CA Approval: M (initials)



CHRISTOPHER CANNON
Director of Environmental Management



MICHAEL R. CHRISTENSEN
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

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BOARD MEETING: November 3, 2011

FILE: G:_ADMIN_BOARD REPORTS_AIR QUALITY\CHINA SHIPPING ASJ COMPLIANCE\AQMIP\SECOND AMEND AGMT 09-2770 (VERSATILE)\ENV_VERSATILE - FINAL.docx

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