



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: SEPTEMBER 6, 2016

FROM: ENVIRONMENTAL MANAGEMENT

SUBJECT: RESOLUTION NO. _____ APPROVING TEMPORARY AND PERMANENT ORDERS AMENDING PORT OF LOS ANGELES TARIFF NO. 4, SECTION 20, ITEM NO. 2060 - CLEAN AIR ACTION PLAN GENERAL RULES AND REGULATIONS - ENVIRONMENTAL SHIP INDEX

SUMMARY:

Staff requests that the Board of Harbor Commissioners (Board) approve an amendment to the existing Port of Los Angeles (Port) Tariff No. 4, Section 20, Item No. 2060 to modify the Los Angeles Harbor Department's (Harbor Department) Voluntary Environmental Ship Index (ESI) Incentive Program rules to align with recently introduced international formula scoring changes and adjust payouts to focus on ships with the cleanest scores. The proposed modifications to the voluntary ESI Incentive Program will take effect on October 1, 2016.

The ESI Incentive Program is an ocean-going vessel (OGV) scoring system developed by the International Association of Ports and Harbors, World Ports Climate Initiative (WPCI) to reward ships that emit fewer air emissions than are required by regulation. The WPCI periodically modifies the ESI scoring system when new regulations take effect. In October 2015, the average ESI OGV scoring system changed, primarily due to the International Maritime Organization (IMO) adoption of a North America Emissions Control Area (ECA) requiring vessels to use fuel not exceeding 0.1 percent sulfur content. Modification of the Harbor Department's ESI structure will address this scoring so that the cleanest ships that call the Port receive the incentive.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f), of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;

DATE: SEPTEMBER 6, 2016

PAGE 2 OF 7

SUBJECT: AMENDMENT TO TARIFF NO. 4, SECTION 20, ITEM NO. 2060

2. Approve the Amendment to Port of Los Angeles Tariff No. 4 revising Section Twenty Clean Air Action Plan - General Rules and Regulations, Item 2060 - Voluntary Environmental Ship Index (ESI) Incentive Program, subject to the California Association of Port Authorities review and approval, and authorize the Executive Director to work with California Association of Port Authorities to secure this approval or proceed to take independent action in accordance with California Association of Port Authorities procedure;
3. Adopt Temporary Order No. _____ amending Section Twenty, Clean Air Action Plan - General Rules and Regulations, modifying the Voluntary Environmental Ship Index Incentive Program and sunset IMO - Tier II Standards from the Port of Los Angeles Tariff No. 4;
4. Adopt Permanent Order No. _____ amending Section Twenty, Clean Air Action Plan - General Rules and Regulations, modifying the Voluntary Environmental Ship Index Incentive Program and sunset IMO - Tier II Standards from the Port of Los Angeles Tariff No. 4;
5. Authorize the Board Secretary to certify to the adoption of the Temporary Order by the Board of Harbor Commissioners and cause the same to be published once in a newspaper printed and published in the City of Los Angeles, to take effect prior to adoption by Ordinance for a period not to exceed 90 days pursuant to Charter Section 653(b);
6. Direct the Board Secretary to transmit to the City Council for approval of the Permanent Order and the Ordinance approving and authorizing an amendment to Port of Los Angeles Tariff No. 4 pursuant to City Charter 653(a);
7. Authorize the Board Secretary to execute the Temporary Order, Permanent Order and Ordinance amending Tariff No. 4 as stated above, and upon its publication, transmit the Orders and Ordinance to the Chief Wharfinger for implementation and posting to the Port of Los Angeles website; and
8. Adopt Resolution No. _____.

DISCUSSION:

Background and Context - The ESI Incentive Program was developed in 2010 by the WPCI and was officially launched in January 2011. The ESI Incentive Program is an international clean ship indexing program that assigns clean ship ratings to vessels. Ports use the ratings to reward top performers with incentive funding. WPCI seeks

SUBJECT: AMENDMENT TO TARIFF NO. 4, SECTION 20, ITEM NO. 2060

international collaboration among ports and shipping lines throughout the world to reduce criteria pollutant (diesel particulate matter [DPM], nitrogen oxides [NOx], sulfur oxides [SOx]) and greenhouse gas (GHG) emissions. Shipping lines voluntarily register their vessels in the ESI database and provide quarterly data updates. Information reported currently includes:

- Engine specifications and emission certifications
- Type of fuel purchased
- Installation of plug-in ready on-board shore power equipment
- Fuel consumption and distance traveled

This information is used to calculate an ESI rating to identify OGVs that perform better in reducing air emissions than required by the current IMO regulations.

The Board approved the Harbor Department’s ESI Incentive Program on May 3, 2012, and on July 1, 2012, the Port became the first Pacific Rim port to implement an ESI Incentive Program. The program has been successful in rewarding Port vessel operators who accelerate implementation of OGV emission reduction measures under the San Pedro Bay Ports Clean Air Action Plan (CAAP).

ESI has seen rapid growth, with 47 incentive providers (ports, businesses, and certification entities) in Europe, North America, Australia, Central America, and Asia now administering ESI incentive programs, and two additional ports proposing incentive programs. As of July 1, 2016, the ESI registry contains 4,653 vessels.

Harbor Department Program Status - The Harbor Department’s ESI Incentive Program is focused on reducing emissions from OGVs that call at the Port. Since the inception of the program, 44 Port vessel operators have voluntarily enrolled. The number of OGVs visiting the Port that participate in the ESI Incentive Program has increased from 33 percent in 2012, to 49 percent by the end of 2015.

Figure 1 below shows the amount of incentives that has been paid out since the inception of the program, through the end of 2015.

Figure 1

Year	Total
2012 (7/1/12 -12/31/12)	\$ 150,500
2013	\$ 244,250

DATE: SEPTEMBER 6, 2016

PAGE 4 OF 7

SUBJECT: AMENDMENT TO TARIFF NO. 4, SECTION 20, ITEM NO. 2060

2014	\$ 305,500
2015	\$ 401,750
	\$1,102,000

The Harbor Department continues to participate in ESI development and program modifications through WPCI ESI working group meetings. The modifications made to ESI are action-forcing and contribute to achieving CAAP goals, including the San Pedro Bay Wide Standards. As of 2015, air emission reductions have exceeded the original ESI Incentive Program DPM reduction goal by 38 percent.

Participation in the ESI Incentive Program also provides the Port with access to ship-specific data that was previously unavailable. This information, including fuel purchase records (bunker notes) and Engine International Air Pollution Prevention certificates, is used to improve accuracy in the Port's Annual Emission Inventories.

The Harbor Department's ESI Incentive Program has a tiered scoring system that provides a mechanism to reward higher performing OGVs with higher incentive payments. The proposed ESI Incentive Program will adjust the incentive ESI Score to harmonize with the ESI formula changes primarily due to IMO formation of a North American ECA requiring OGVs to use 0.1 percent sulfur fuel in propulsion engines, auxiliary engines and auxiliary boilers and adjust payouts to focus on ships with the cleanest scores.

To qualify for an incentive payment, a vessel must be registered in the ESI system and have a valid ESI certificate and assigned score or rating. Vessel operators with ships registered in the ESI system have an extra opportunity to receive a payment from incentives designed to align with CAAP strategies Cleaner OGV Engine Measures (OGV5) and OGV Engine Emission Reduction Technology Improvements Measure (OGV6).

OGV5 - focuses on attracting the cleanest ships to the Port. Ships constructed on or after January 1, 2016 and entering the North American ECA are required to have Tier III propulsion engines. A ship having a Tier III propulsion engine has an 80 percent emission reduction in NOx as compared to a ship with a Tier I engine in use today. Meeting future NOx emission reduction goals will depend on these new vessels calling the Port. Therefore to encourage Tier III ships to call the Port, the Harbor Department proposes to increase the incentive for Tier III ships from \$3,250 to \$5,000 per call.

Since over 20 percent of the ships calling the Port have an IMO Tier II propulsion engine, the proposed program will remove the Tier II incentive currently provided. The benefit for having a Tier II engine will continue to be incentivized through the ESI Score of the vessel.

SUBJECT: AMENDMENT TO TARIFF NO. 4, SECTION 20, ITEM NO. 2060

OGV6 - measure emphasis is to reduce emissions from the main engines of in-use ships. Therefore, the \$750 bonus for any vessel participating in a main engine emission reduction technology demonstration through the Port's Technology Advancement Program (TAP) will remain unchanged.

Figure 2 below shows the current and proposed scoring structure:

Figure 2

Existing ESI Program July 1, 2012 – September 30, 2016		Proposed ESI Program Beginning October 1, 2016	
		Incentive Per Call	
ESI Vessel Score		ESI Vessel Score	
25-29	\$ 250	40-49	\$ 750
30-34	\$ 750	50+	\$ 2,500
35-39	\$ 1,000		
40+	\$ 1,250		
OGV5		OGV5	
IMO Tier II Main Engine	\$ 750	IMO Tier III Main Engine	\$ 5,000
IMO Tier III Main Engine	\$ 3,250		
OGV6		OGV6	
Emission Reduction Technology Demonstration for an Ocean-Going Vessel	\$ 750	Emission Reduction Technology Demonstration for an Ocean-Going Vessel	\$ 750

Tariff Amendment - The proposed modification of the ESI Incentive Program will be implemented through an amendment to the Port Tariff No. 4 (Transmittal 1), adoption of a Temporary Order (Transmittal 2), adoption of a Permanent Order (Transmittal 3), and final approval by City Council of the Ordinance (Transmittal 4).

ESI Incentive Program Implementation - The modified ESI Incentive Program will begin on October 1, 2016. Harbor Department staff will notify participating vessel operators of the modified program parameters immediately after Board approval. The program is subject to future modification to align with future WPCI scoring changes and/or budgetary requirements.

DATE: SEPTEMBER 6, 2016

PAGE 6 OF 7

SUBJECT: AMENDMENT TO TARIFF NO. 4, SECTION 20, ITEM NO. 2060

ENVIRONMENTAL ASSESSMENT:

The proposed action is an amendment of Port Tariff No. 4, Section 20, Item No. 2060 to modify the Harbor Department Voluntary ESI Incentive Program. 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) under Article II, Section 2(f), of the City of Los Angeles CEQA Guidelines.

FINANCIAL IMPACT:

This Board action approves an amendment to Port Tariff No. 4 setting forth the parameters upon which the Harbor Department will participate and provide incentives under the ESI Incentive Program. The changes to the program account for regulatory and ESI formula changes. The modifications to the voluntary ESI Incentive Program will take effect on October 1, 2016, and will align with current FY 2016/2017 budget of \$300,000 in Account 59965, Center 0330, Program 000. The Harbor Department will issue incentive payments to vessel operators on a quarterly basis in the following three categories:

1. ESI Score:

A vessel with an ESI Score of 40-49 points is eligible for an incentive grant of \$750 per call; or

A vessel with an ESI Score of 50 or more points is eligible for an incentive grant of \$2,500 per call.

2. Tier III Main Engine:

A vessel with an IMO Tier III propulsion engine is eligible for an incentive grant of \$5,000 per call.

3. TAP Demonstration Participation:

A vessel participating in a main engine emission reduction technology demonstration through the TAP qualifies for an incentive grant of \$750 per call during time of demonstration (no change to Tariff proposed).

The Harbor Department will pay incentives to vessel operators for ship calls only after the date they have both registered for the ESI Incentive Program with WPCI and enrolled with the Harbor Department.

DATE: SEPTEMBER 6, 2016

PAGE 7 OF 7

SUBJECT: AMENDMENT TO TARIFF NO. 4, SECTION 20, ITEM NO. 2060

In FY 2015/2016 \$150,000 was budgeted for the ESI Incentive Program, of which \$510,250 was actually expended.

CITY ATTORNEY:


The Office of the City Attorney has approved the proposed orders and ordinance as to form and legality.

TRANSMITTALS:

1. Port of Los Angeles Tariff No. 4, Section 20, Item No. 2060
2. Temporary Order
3. Permanent Order
4. Ordinance

FIS Approval:  (initials)
CA Approval:  (initials)


CHRISTOPHER CANNON
Director of Environmental Management


MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:


EUGENE D. SEROKA
Executive Director

AUTHOR: CARTER ATKINS
BOARD MEETING: 9/15/2016

FILE: Y:\ADMIN\BOARD REPORTS\AIR QUALITY\TARIFF NO. 4\ESI_2016\ENV_TARIFF 4 AMENDMENT - FINAL.docx
UPDATED: 9/06/2016 2:16 PM - MRX