

DATE: OCTOBER 26, 2022

FROM: ENVIRONMENTAL MANAGEMENT

**SUBJECT: RESOLUTION NO. _____ - AGREEMENT BETWEEN THE
CITY OF LOS ANGELES HARBOR DEPARTMENT AND ANEW RNG,
LLC FOR EMISSION CREDIT BROKERAGE SERVICES**

SUMMARY:

Staff requests approval of a proposed Agreement between the City of Los Angeles Harbor Department (Harbor Department) and ANEW RNG, LLC (ANEW), formerly Blue Source, LLC, for emissions credit brokerage service assistance with emission credit programs. ANEW will assist with selling the Harbor Department's California Air Resources Board (CARB) Low Carbon Fuel Standard (LCFS) credits as well as purchasing emission credits as needed to meet permitting requirements. The proposed Agreement is for a term of three years and a not-to-exceed amount of \$75,000 for permit required emission credit purchases. The Harbor Department is financially responsible for payment of expenses incurred under the proposed Agreement.

RECOMMENDATIONS:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Agreement between the City of Los Angeles Harbor Department and ANEW RNG, LLC for low carbon fuel standard and other emission credit brokerage services over a three-year term;
3. Authorize the Executive Director to execute and Board Secretary to attest to said Agreement for and on behalf of the Board of Harbor Commissioners; and
4. Adopt Resolution No. _____.

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DISCUSSION:

Background and Context – The Harbor Department at times will need to sell or purchase various emission credits. Below are two specific emissions credits programs that the Harbor Department requires and information on their specific background.

LCFS Credits – CARB’s LCFS credit program is an important component of California Assembly Bill 32 (AB32) aimed at reducing greenhouse gases (GHGs). The goal of the LCFS credit program is to reduce the carbon intensity of transportation fuels and provide more low carbon and renewable alternatives. Beginning in the first quarter of 2019, LCFS credits could be generated from the use of shore power which provides power to a vessel while at berth rather than burning fossil fuels in auxiliary engines. The Harbor Department, as owner of the shore power vaults, is entitled to the credits and has been registered and claiming credits in the LCFS program since the fourth quarter of 2019.

The credits generated by the Harbor Department are held in CARB’s database until they are monetized. LCFS credits do not expire, but the price of LCFS credits fluctuate based on their market value. Currently the market value is approximately \$65 per credit. As of the end of 2021, the Harbor Department has collected 16,565 LCFS credits, which if sold at \$65 per credit would be worth over \$1 million. The selling or monetizing of the credits can only be facilitated by an emission credit broker who will connect buyers to sellers in their network of companies. Emission credit brokers must be registered with CARB in order to facilitate LCFS credit transactions.

Money generated from the sale of LCFS credits at the Port of Los Angeles (Port) must be used for shore power infrastructure, electric vehicles/equipment and/or supporting electrical infrastructure per CARB LCFS credit program requirements. The money generated from the sale of LCFS credits can also be used to pay for the brokerage services.

Regional Clean Air Incentive Market (RECLAIM) Trading Credits – The Harbor Department is permitted as a RECLAIM facility with the South Coast Air Quality Management District (SCAQMD) for nitrogen oxides (NOx) emissions generated from Harbor Department owned equipment such as emergency generators used by its Construction and Maintenance (C&M) Division. SCAQMD assigns each RECLAIM facility a set number of NOx RECLAIM trading credits (RTCs) annually. If a facility generates more pounds of NOx than what they have been assigned, then a facility must purchase RTCs to cover the deficit. Only SCAQMD qualified brokerage companies can perform RTC transactions.

For the last several years, the Harbor Department has purchased RTCs annually from other City of Los Angeles departments like the Department of Water and Power, and Los Angeles World Airports. However, it has become more difficult to obtain RTCs from other City departments. A credit brokerage firm would facilitate finding available and cost

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competitive RTCs for the Harbor Department and complete all necessary paperwork for the transaction.

Request for Proposals – On April 28, 2021, a request for proposals (RFP) was released by the Harbor Department for a company to provide brokerage services for LCFS and other emissions credits. The RFP was posted on the Port’s website, and automatic email notifications were sent out to all firms registered on the Los Angeles Business Assistance Virtual Network.

A total of five proposals were received by the June 29, 2021 deadline. Each written proposal was evaluated, and two companies qualified for oral interviews. The evaluation panel consisted of a Marine Environmental Supervisor from the Harbor Department, an Environmental Specialist from the Harbor Department, and the Port of San Diego Energy Program Director.

Table 1 below shows the proposal evaluation scores for the five consultant firms in ranking order. The two firms that averaged scores over 70 were invited for an oral interview. Table 2 below shows the final evaluation scores for the two consultant firms in ranking order. The final scoring was based 100% on the oral interview.

Table 1 – Written Proposal Evaluation (Qualifying)

CONSULTANT FIRM	1	2	3	AVERAGE
1	74	84	90	82.7
2	76	85	87	82.7
3	67	67	72	68.7
4	63	62	78	67.7
5	68	65	68	67.0

Table 2 – Oral Evaluation (Final Scores)

CONSULTANT FIRM	1	2	3	AVERAGE
1	78	80	82	80.0
2	77	73	77	75.7

Proposals and oral interviews were reviewed using evaluation criteria published in the RFP. Interview questions were developed in consultation with the Contracts and Purchasing Division to explore and determine the breadth and depth of each of the emissions credit broker’s capabilities and expertise.

The evaluation panel found that Blue Source, LLC was the most qualified firm to perform the required work. During the course of finalizing the proposed Agreement, Blue Source, LLC. merged with Element Markets, LLC, another LCFS brokerage service company, to form ANEW RNG, LLC (Transmittal 1). All rates and scope of work proposed originally by

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Blue Source, LLC will remain the same for ANEW's rates and scope of work. No changes have been made to ANEW staff or subconsultant staff that will work with the Harbor Department. Therefore, it is staff's recommendation for the Harbor Department to enter into the proposed Agreement with ANEW for emissions brokerage services for three years (Transmittal 2).

Brokerage Service – ANEW shall broker all LCFS credit sales transactions on behalf of the Harbor Department and complete all required paperwork for transactions. ANEW will be compensated from the revenue generated from the sale of the Harbor Department's LCFS credits. ANEW will charge 3.5% of the gross value of any sale of Harbor Department LCFS credits. These consultant fees are capped at \$145,000 annually from the sale of LCFS credits. This cap does not include the cost of credits or required agency fees for credit purchase transactions.

ANEW's sub-consultant, AQC Environmental Brokerage Services, Inc. (AQC) will broker any necessary SCAQMD RTC and ERC credit purchase transactions on behalf of the Harbor Department for permitting purposes. AQC shall complete all required paperwork and pay agency fees up front, which will later be invoiced to the Harbor Department. AQC will charge either 3.5% of the gross value of any Harbor Department purchase or \$500, whichever is higher.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a proposed Agreement with the Harbor Department and ANEW for brokerage service assistance with emission credit programs such as LCFS and other brokerage services, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

LCFS Credits Sales – CARB allows for administrative fees from the sale of LCFS credits by the emissions credit broker (ANEW) as an eligible expense for the revenue generated from the sale of the LCFS credits. ANEW will charge 3.5% of the gross value of any sale of the Harbor Department's LCFS credits under the proposed Agreement. These consultant fees and expenses are capped at \$145,000 annually from the sale of LCFS credits (Exhibit B of Transmittal 2). Administrative fees will be directly subtracted from the revenue generated from the sale of LCFS credits prior to the Harbor Department receiving the funds. Therefore, no fiscal year budgeting is required for LCFS credit sales transactions.

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RTCs Purchases – In 2022, the C&M Division purchased 4,100 RTCs at the market price of \$5.50 per pound for a total of \$22,550. The price for RTCs have steadily increased every year. The estimated cost of annual purchasing of RTCs for the life of the proposed Agreement is \$25,000 based on past purchase pricing and estimated future increases to the cost of credits. For RTC trades, the Harbor Department will be charged either a) 3.5% of the gross value of any trade, or b) \$500, whichever is greater. Therefore, the Harbor Department should budget \$25,000 annually for covering RTC purchase transactions.

Approval of the proposed Agreement with ANEW will authorize spending of \$75,000 for RTC purchase transactions over a three-year period which is anticipated to occur as follows:

FY 2023	\$25,000
FY 2024	\$25,000
FY 2025	\$25,000
<u>Total</u>	<u>\$75,000</u>

Fiscal Year (FY) 2023 funds in the amount of \$25,000 are available within Account 59720 (Permits and Fees), Center 0510, Program 000. Future fiscal year funding will be requested through the annual budget process, subject to Board approval. It should be noted that the proposed Agreement does not set a limit on how much will be spent on purchasing credits or how much revenue will be generated from selling credits.

The Harbor Department’s financial obligations after the current fiscal year are contingent upon the Board’s appropriation of funds. If any subsequent fiscal year funds are not appropriated by the Board for the work required by the proposed Agreement, the Agreement shall be terminated. However, such termination shall not relieve the parties of liability for any obligations previously incurred.

CITY ATTORNEY

The Office of the City Attorney has reviewed and approved the proposed Agreement as to form and legality.

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TRANSMITTALS:

1. Merger Letter of Blue Source, LLC with Element Markets, LLC into ANEW RNG, LLC
2. Agreement between the City of Los Angeles Harbor Department and ANEW RNG, LLC

FIS Approval: MB
CA Approval: SO


CHRISTOPHER CANNON
Director of Environmental Management

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Deputy Executive Director

APPROVED:

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