

FILE NUMBER: 2025-057

DATE: Tuesday, February 11, 2025

SUBJECT: Adopt a Policy on Low Carbon Fuel Standard Program.

DESCRIPTION: A. INFORMATIONAL UPDATE ON SAN DIEGO UNIFIED PORT DISTRICT'S LOW CARBON FUEL STANDARD PROGRAM B. RESOLUTION ADOPTING BOARD OF PORT COMMISSIONERS POLICY NO. 784, LOW CARBON FUEL STANDARD PROGRAM

EXECUTIVE SUMMARY:

The California Air Resources Board created the Low Carbon Fuel Standard (LCFS) in 2012 as a means to reduce the carbon intensity of transportation fuels. It was focused on vehicles and later expanded to include ocean going vessels in 2019 at which time the District opted in to the program. The District benefits as a seller of LCFS credits when it uses electric shore power instead of diesel fuel to power ships at berth. The District also invited tenants to join the program and utilize the legal infrastructure it created. This Board of Port Commissioners (Board) Policy memorializes the program and explains the various processes that are followed.

RECOMMENDATION:

Adopt a resolution adopting Board of Port Commissioners Policy No. 784, Low Carbon Fuel Standard Program.

FISCAL IMPACT:

The District and its partners can earn about \$10 million per year in aggregate, after expenses, of which \$1.4 million goes to the District. This varies significantly depending on the price of credits in the market. The funds can be used to pay for all or part of various electrification projects.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goal(s).

- A Port that the public understands and trusts.
- A thriving and modern maritime seaport.
- A financially sustainable Port that drives job creation and regional economic vitality.
- Not applicable.

DISCUSSION:

California established the Low Carbon Fuel Standard (LCFS) in 2012 and placed it under the direction of the Air Resources Board (CARB).

The LCFS is a cap-and-trade-like program where the importers and producers of fossil fuels must meet the state's carbon intensity goals that ratchet down each year. To reduce the carbon intensity, fuel producers use plant-based feedstocks such as soybean oil. Alternatively, the fuel producers can purchase credits in the CARB LCFS market.

Credits are created when renewable fuels are produced and when vehicles and vessels use electricity instead of fossil fuels. The credit represents the difference between the carbon intensity of the electricity versus the carbon intensity of the fossil fuel. The owner of the credit is the entity that *owns the charging equipment*. CARB provides algorithms each year to calculate how many credits are created depending on use.

A producer of credits can increase the number of credits by using renewable energy with a zero-carbon intensity. The renewable energy can be procured through two different methods: direct purchase from electricity provider via their voluntary "green power" alternative that needs to be registered with CARB; or the purchase of renewable energy certificates (RECs) from projects sited in California (mostly, per CARB rules).

The market for RECs was developed in the late 1990's and became more structured with the formation of the Western Renewable Energy Generation Information System (WREGIS). The purpose of WREGIS is to prevent multiple parties from making environmental claims on the same renewable energy production. Registered renewable energy sites receive serial numbers for their production. The production has three primary characteristics: location, technology, and production date. The RECs are "retired" in the WREGIS system when they are purchased by a second party who can then claim the environmental attributes.

Background on District participation:

The State of California's Low Carbon Fuel Standard expanded its optional participant definition in 2019 to include some operations by the District and its tenants. Specifically, using shore power from the grid instead of the onboard diesel-fueled genset to energize an ocean-going vessel when berthed can create credits that can be sold in the LCFS market. Other ways to create credits include the use of electric vehicles and electric cargo handling equipment. The charging equipment must be metered and registered with CARB.

Work of the marketing consultant:

The District went through the RFP process guided by the Procurement department to select its current marketing consultant (the consultant). The contract expires one year after the program itself on December 31, 2031, as it takes additional time (six

months) to process and monetize the credits. The consultant provides many services to the Port and its partners:

- Identify and register with CARB all eligible electric vehicle servicing equipment (EVSE).
- Quarterly, generate credits through the CARB portal. This may also include the purchase of renewable energy certificates (RECs) if cost-effective.
- Maintain the account within the LCFS program for the District's benefit.
- Market and monetize the credits through its energy and environmental attribute trading operations.
- Provide District and partners with financial spreadsheets that correspond to the funds delivered to the district.
- Partake in regularly scheduled meetings with the District.
- Report all required information to CARB annually.

Background on tenant partnerships:

The district made a significant effort to initiate the LCFS program. Staff saw value in the program, however, did not want its tenants to have to go through the same lengthy process so they offered the use of the District's program at a fee which might vary by tenant. As in the section above, the consultant visited each site to secure the needed information about the EVSE. At tenant sites the consultant identified additional EVSE's for items such as light duty vehicles, heavy trucks, and cranes. In some cases, the tenant provides their energy use directly to the consultant while in other cases they send the data to the District, which forwards it to the consultant.

The process of credit creation and monetization:

The basic process is straightforward – the District and partners report their qualified energy (in kilowatt-hours) usage to the consultant who generates the credits using CARB's online portal. Some complicating factors are that each year the state ratchets down the allowable carbon intensity level and hence the algorithm for calculating credits from energy changes each year. Further, each technology (e.g., ocean going vessels vs cargo handling equipment) has a different algorithm based on different energy economy ratios. For all technologies there is also the question of using energy from the grid or to procure renewable energy (certificates) at an additional cost. The decision is a function of the additional cost of the RECs and the expected sales price of the credits. There is a gap of about three months between paying extra for RECs and realizing the benefit from the sale of the RECs. The consultant is responsible for making the decision to "go green" or not. The process works as follows:

- Port uses energy during the quarter (e.g., Jan, Feb, March).
- Port reports energy use (KWh) to consultant in April.
- Consultant makes decision to match energy with RECs, or not.
- Consultant inputs energy into CARB model to create LCFS Credits
- CARB reviews all claims to ensure market balance

- Credits can be sold starting next quarter (July). [Credits can be banked instead of sold.]
- Consultant provides District with direct deposit and accounting information so that the Port can allocate funds to its partners.

Spending the funds:

CARB has provided guidance on how the funds can be spent (LCFS Guidance 20-03; Updated January 2022) https://ww2.arb.ca.gov/sites/default/files/2022-03/lcfsguidance_20-03_2022-01-13_ADA.pdf The overall goal is to reduce the use of fossil fuels through electrification. The guidance encourages investments to go back to the technology where the funds came from, e.g., if the money came from shore power, then it should be used to build more shore power – but it is not mandated to do so. The guidance document provides a lot of latitude for spending if spending supports electrification, such as marketing EVs or subsidizing the electric fuel cost. Funds earned at one terminal can be used for projects at a different terminal.

A Port internal audit recommended the development of policies and procedures related to the program. District staff developed one proposed BPC Policy and three Administrative Procedures to cement internal practices as related to the program and revenue and expenditure processing.

Summary of Related Administrative Procedures

1. Revenue Processing for LCFS Program Funds - The objective of this procedure is to create a standardized process for documenting the terms and conditions of LCFS revenue sharing. Revenue from the sale of LCFS Credits generated from a tenant's leasehold may be shared with a tenant.
2. Expenditure Request of LCFS Program Funds - Port Projects - the process for consideration of projects that request the expenditure of LCFS funds to pay for all or part of the project.
3. Expenditure Request of LCFS Program Funds - Navy Projects - This procedure creates a standardized process for requesting the expenditure of LCFS Navy Project split funds to pay for qualified critical utility infrastructure projects on NBSD.

General Counsel's Comments:

The Office of the General Counsel has reviewed and approved this agenda, proposed policy and resolution, as presented, as to form and legality.

Environmental Review:

The proposed Board actions, including without limitation receiving a presentation regarding the District's LCFS Program and adopting a policy on the District's LCFS Program do not constitute a project under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Sections 15352 and 15378 because no direct or indirect changes to the physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of the actions requiring the District or the Board's discretionary approval resulting in a physical change to the environment would be analyzed in accordance with CEQA prior to such approval. CEQA review may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a "no project alternative" or adopting a Statement of Overriding Consideration, if required. The exercise of this discretion is in no way limited by this proposed Board actions. Therefore, no further CEQA review is required.

The proposed Board actions comply with Sections 21 and 35 of the Port Act, which allow for the Board to pass resolutions and to do all acts necessary and convenient for the exercise of its powers. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board actions are consistent with the Public Trust Doctrine.

The proposed Board actions do not allow for development, as defined in Section 30106 of the California Coastal Act, or new development, pursuant to Section 1.a. of the District's Coastal Development Permit (CDP) Regulations because there will not be, without limitation, a physical change, change in use or increase in intensity of uses. Therefore, issuance of a Coastal Development Permit or exclusion is not required. However, development within the District requires processing under the District's CDP Regulations. Future development would remain subject to its own independent review pursuant to the District's certified CDP Regulations, Port Master Plan (PMP), and the relevant chapter(s) of the Coastal Act. The exercise of the District's discretion under the District's CDP Regulations is in no way limited by the proposed Board actions.

Diversity, Equity, and Inclusion Program:

This agenda sheet has no direct DEI impact on District workforce or contract reporting at this time.

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Attachment(s):

Attachment A: Proposed Board Policy No. 784 - Low Carbon Fuel Standard

Attachment B: Administrative Procedure - Expenditure Request of Low Carbon Fuel Standard Program Funds – Navy Projects

Attachment C: Administrative Procedure - Expenditure Request of Low Carbon Fuel Standard Program Funds – Port Projects

Attachment D: Administrative Procedure - Revenue Processing for Low Carbon Fuel Standard Program Funds