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**Title:** RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A MEMORANDUM OF UNDERSTANDING WITH NATIONAL STEEL AND SHIPBUILDING COMPANY (NASSCO), REGARDING LOW CARBON FUEL STANDARD (LCFS) CREDITS GENERATED FROM ELIGIBLE ELECTRIFIED EQUIPMENT LOCATED AT NASSCO FOR USAGE COVERING THE PERIOD FROM JULY 1, 2022 THROUGH DECEMBER 31, 2027

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**Attachments:** 1. 8. 2022-0166 Attachment A, 2. 8. 2022-0166 Draft Resolution

Date	Ver.	Action By	Action	Result
6/14/2022	1	Board of Port Commissioners	adopted	

**DATE:** June 14, 2022

**SUBJECT:**

**RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A MEMORANDUM OF UNDERSTANDING WITH NATIONAL STEEL AND SHIPBUILDING COMPANY (NASSCO), REGARDING LOW CARBON FUEL STANDARD (LCFS) CREDITS GENERATED FROM ELIGIBLE ELECTRIFIED EQUIPMENT LOCATED AT NASSCO FOR USAGE COVERING THE PERIOD FROM JULY 1, 2022 THROUGH DECEMBER 31, 2027**

**EXECUTIVE SUMMARY:**

The State of California’s Low Carbon Fuel Standard (LCFS) program expanded its optional participant definition in 2019 to include some operations by the District and its tenants. National Steel and Shipbuilding Company (NASSCO) utilizes several pieces of electrified equipment that qualify under the LCFS program for credit. These credits can be sold on the LCFS Market for funds that can be invested into future electrification projects at the District or on tenant leaseholds.

This proposed Memorandum of Understanding (MOU) with NASSCO would allow the District and NASSCO to earn credits from NASSCO operations that utilizes electrified equipment. The MOU specifies a 95/5 split of net revenue from credits with NASSCO receiving 95% and the District 5%. Proposed MOU would cover credits generated from July 1, 2022 through December 31, 2027, when the MOU will be evaluated for renewal or modification.

**RECOMMENDATION:**

Adopt a resolution authorizing the Executive Director to execute a memorandum of understanding

with National Steel and Shipbuilding Company (NASSCO), regarding Low Carbon Fuel Standard (LCFS) credits generated from eligible electrified equipment located at NASSCO for usage covering the period from July 1, 2022, through December 31, 2027

### **FISCAL IMPACT:**

The sale of LCFS credits covered by the proposed Memorandum of Understanding is expected to result in revenue in the approximate amount of \$366,490 per quarter. Of that amount, \$18,090 would be revenue to the District per calendar year quarter. This would result in \$1,045,200 to NASSCO, and approximately \$72,360 in revenue to the District in Fiscal Year 2023.

### **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 Port with a healthy and sustainable bay and its environment.
- A financially sustainable Port that drives job creation and regional economic vitality.

### **DISCUSSION:**

The State of 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 producers of fossil fuels must either increase the use of plant-based carbon (e.g., ethanol and palm oil) or buy credits to meet the requirement.

LCFS credits are created when vehicles or equipment 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. Algorithms developed by CARB determine the number of credits created based on the alternative energy and equipment used. The program expires in 2030.

Proposed MOU with NASSCO will provide a means for the District and NASSCO to capitalize on this program, receiving LCFS credits for electrified equipment used on the NASSCO leasehold performed during regular operations. Under the terms of this MOU, NASSCO would receive 95-percent of the net revenue from the sale credits and the District would receive five percent for each remaining quarter of 2022 through 2027. The District will function as the intermediary with District's LCFS service provider, giving NASSCO access to the LCFS market. It is forecasted that the District will receive approximately eighteen thousand and ninety dollars (\$18,090) per quarter for calendar years 2022 and 2023.

### **General Counsel's Comments:**

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

## **Environmental Review:**

The proposed Board action, including without limitation, to authorize a MOU between the District and the National Steel and Shipbuilding Company (NASSCO), does not constitute a project under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because there is not a potential to result in a direct or indirect physical change in the environment. Therefore, the proposed Board action is not subject to CEQA, and no further action under CEQA is required.

The proposed Board action complies with Section 87 of the Port Act, which allows for the establishment, improvement, and conduct of a harbor, and for the construction, reconstruction, repair, maintenance, and operation of wharves, docks, piers, slips, quays, and all other works, buildings, facilities, utilities, structures, and appliances incidental, necessary, or convenient, for the promotion and accommodation of commerce and navigation. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

The proposed Board action does 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 Regulations. Therefore, issuance of a Coastal Development Permit or an exclusion finding is not required.

## **Diversity, Equity, and Inclusion Program:**

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

## **PREPARED BY:**

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## **Attachment(s):**

Attachment A: Memorandum of Understanding between National Steel and Shipbuilding Company and the San Diego Unified Port District for LCFS Credit Revenue Sharing