



ADMINISTRATION COMMITTEE

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Agenda Report

File #: 2022-2587

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Agenda Item No: 6.

FROM: James D. Herberg, General Manager
Originator: Lan C. Wiborg, Director of Environmental Services

SUBJECT:

EMISSION REDUCTION CREDITS BROKER SOLICITATION

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Approve the solicitation for an Emission Reduction Credits (ERCs) brokerage firm to identify and secure a buyer(s) for the sale of surplus Reactive Organic Gases (ROG) ERCs at the best available value and to handle all market evaluations of ERCs, negotiations, and financial transactions with all appropriate parties.

BACKGROUND

Orange County Sanitation District (OC San) holds a portfolio of Air Quality ERCs including, but not limited to, Reactive Organic Gases (ROGs). ERCs are treated as an interchangeable commodity. To acquire an air quality permit for new projects that result in an increase in emissions, the owner of the project is required to offset the difference in emissions with ERCs. Following a comprehensive review of future Capital Improvement Program (CIP) needs, it has been determined that OC San has a surplus of ROG credits. If OC San takes a conservative approach and retains twice the number of ROG credits that could be needed for future projects, the remaining amount of credits available for sale is 360 lbs./day (pollutant emissions are determined on a pound per day basis).

Based on preliminary market assessment and trends in air quality regulations, staff believes that the value of ROG credits will remain stable for the foreseeable future. In fact, the fair market value of ROG credits has not changed since 2020. For this reason, OC San requests to secure a brokerage firm to sell the surplus credits at fair market value.

RELEVANT STANDARDS

- Ensure that investment proposals and decisions are based on clearly defined standards
- Comply with environmental permit requirements
- 24/7/365 treatment plant reliability

PROBLEM

OC San has a surplus of ROG credits which is unlikely to increase or decrease in value for the foreseeable future. It is of no immediate or future benefit to OC San to continue holding these surplus credits.

PROPOSED SOLUTION

Solicit and secure an ERC brokerage firm to identify and secure buyer(s) for the sale of OC San's surplus ROG ERCs (up to 360 lbs. per day) at the current fair market value and handle all market evaluation of ERCs, negotiations, and financial transactions with all appropriate parties.

TIMING CONCERNS

The value of ROG credits has remained stable since 2020 at an average market value of \$4,750 lb./day. Additionally, the value does not appear to fluctuate with short- or long-term inflationary indices. Given the current economic climate, the proceeds from the sale of the surplus credits may enable OC San to reinvest the revenue and achieve greater gains from this asset.

RAMIFICATIONS OF NOT TAKING ACTION

The surplus credits will remain unused by OC San for the foreseeable future and the monetary value of the credits will remain inaccessible for reinvestment.

PRIOR COMMITTEE/BOARD ACTIONS

N/A

ADDITIONAL INFORMATION

Presently, OC San has a current ROG credit holding of 442 lbs./day. OC San recommends selling over 80% of its current holdings (360 lbs./day) leaving 82 lbs./day. Future CIP project needs are covered with the remaining ROG credits, which is sufficient to account for a full replacement of an entire treatment plant from scratch. The total value of the surplus ROG credits taking into account the transactional costs will vary at the time of sale.

CEQA

N/A

FINANCIAL CONSIDERATIONS

N/A

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

- Presentation