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BPC Policy No. 784

SUBJECT: LOW CARBON FUEL STANDARD PROGRAM

PURPOSE: To memorialize the history of California's Low Carbon Fuel Standard (LCFS) and the participation by the San Diego Unified Port District ("District") and its partners. Further, this document is supported by three Administrative Procedures that establish protocols for the collection, distribution, and spending of funds received by the District through the program.

POLICY STATEMENT:

1. BACKGROUND ON LCFS:

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

[Low Carbon Fuel Standard | California Air Resources Board](#)

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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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. “Ideally, electricity credit proceeds shall be used for new transportation electrification efforts,” the document states on page 3. 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.

RELATED ADMINISTRATIVE PROCEDURES:

- 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.
- 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.
- 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.

RESOLUTION NUMBER AND DATE: 2025-016, dated February 11, 2025