

February 6, 2024

Honorable Mayor and City Council
City of Long Beach
California

RECOMMENDATION:

Recommendation to receive and file an update regarding the operation of the Southeast Resource Recovery Facility (SERRF) and the election by Covanta Long Beach Renewable Energy Corporation (Covanta), of Long Beach, CA to exercise of its right of early termination and decommissioning under the Southeast Resource Recovery Facility (SERRF) Operations and Maintenance Agreement No. 23336 effective January 31, 2024; and,

Increase appropriations in the SERRF Fund Group in the Energy Resources Department by \$8,000,000 to fund the decommission cost of SERRF, offset by funds available. (Citywide)

DISCUSSION

The City of Long Beach (City) was notified by Covanta Long Beach Renewable Energy Corporation (Covanta) on November 3, 2023, that it was exercising its right to cease operating SERRF pursuant to existing Agreement No. 23336 (Agreement) by providing the required (90) days advance written notice. The Agreement with Covanta was due to terminate on June 30, 2024.

On January 1, 2023, State Assembly Bill 1857 (AB 1857) removed the AB 939 waste diversion credit for jurisdictions that delivered municipal solid waste to existing Waste-To-Energy (WTE) facilities in California. Approximately 148 different jurisdictions brought their municipal solid waste to SERRF for the diversion credit, which accounted for approximately fifty percent (50%) of the waste tonnage processed annually at SERRF and was a significant revenue source for its operations. This change to state law made it highly unlikely that those jurisdictions would continue to bring their municipal solid waste to SERRF as they would no longer receive any diversion credits and landfill disposal costs are significantly less than the disposal costs, they would pay at SERRF, thereby having the intended effect of curtailing such operations by making them no longer fiscally viable.

On January 17, 2023, City Council authorized the seventh amendment to the SERRF Operations and Maintenance Agreement No. 23336 with Covanta (Seventh Amendment) thereby amending the commercial structure under the Agreement such that Covanta would take responsibility for all SERRF revenues and expenses for a contract period beginning on February 1, 2023, and continuing until June 30, 2024. Due to ongoing agreements for special waste and refuse pricing flexibility, Covanta was better positioned than the City to profitably continue SERRF's operations.

The Seventh Amendment also amended the SERRF Operations and Management Agreement in relation to early termination of operations and decommissioning. The Seventh Amendment became effective on February 1, 2023.

Over the past couple of months, Covanta has encountered several failures of equipment near or at the end of its design life and unanticipated outages that have resulted in significant facility downtime, compromising the economic viability of SERRF. Covanta agreed to the revised commercial structure in the Seventh Amendment as a “pilot” to evaluate if the facility was sustainable on its own accord which has recently proven not to be the case. Covanta now finds itself in a similar situation as the City nearly a year ago with projected expenses exceeding revenues, resulting in its decision to exercise its right under the Seventh Amendment to cease operations and eventually terminate the Agreement for convenience.

As noted in the November 10, 2023, Memorandum to the Mayor and Members of the City Council, SERRF’s operations will continue to face significant financial hurdles that will be extremely difficult, if not impossible, to overcome. Staff has considered and evaluated multiple potential operating options for SERRF and has summarized its findings as follows:

- Covanta has identified \$8 million to \$17 million of additional capital investment required to extend the operating life of SERRF for an additional 5 years. Due to rising costs for maintenance of SERRF combined with lower projections of refuse deliveries and electrical generation, a subsidy of \$125 million or an increase in tip fees to \$157/ton (currently at \$61.50/ton) would be necessary to keep the SERRF fund whole. A higher tip fee would make disposal at SERRF less competitive.
- A conditional assessment performed in 2017 by HDR Engineering, Inc., consultant to City, identified an additional capital investment of up to \$66 million to extend the life of SERRF through 2039. A bond against the General Fund could be taken out to cover this capital requirement, however with no certainty of the necessary future revenues to make the bond payments, this becomes a financially unviable option.
- Staff have been unable to identify any other willing operators for SERRF with similar experience operating waste-to-energy facilities at this time.
- Pursuant to the terms of the Operations and Maintenance Agreement, City staff has been working with Covanta on a decommissioning plan for SERRF that includes the salvage of equipment and materials to offset a portion of the decommissioning costs.
- The evaluation of RFP (ER23-246) responses for the development of an organics processing facility on the existing SERRF site is complete and a Notice of Intent to enter into an exclusive negotiating agreement with the selected proposer has been published.
- The Public Works Department - Environmental Services Bureau has established plans for landfilling the City’s approximately 800 daily tons of residential waste that would otherwise have been processed at SERRF.

- Staff will continue to work on finding solutions to offset the approximate increase of 4% greenhouse gas emissions (GHG's) that would be generated from the closure of SERRF.
- Staff will work closely with Los Angeles County Public Works as it manages the solid waste disposal impacts to the region due to the closure of SERRF.
- Currently, Staff has not identified any immediate grants or funds available to cover the capital requirements for the continued near or long-term operating needs of SERRF.

This matter was reviewed by Principal Deputy City Attorney Richard Anthony, on January 18, 2024, Acting Labor Compliance Officer Tommy Ryan on December 22, 2023, and by Acting Revenue Management Officer Valerie Valentine on January 3, 2024.

TIMING CONSIDERATIONS

City Council action is requested on February 6, 2024, to provide an update to the City Council in advance of the upcoming closure of SERRF.

FISCAL IMPACT

Pursuant to the terms of the Operations and Maintenance agreement, effective February 1, 2024, City will be responsible for SERRF's decommissioning costs on a pass-through basis, subject to cost substantiation, plus 15 percent until the facility is fully decommissioned and made safe for demolition. The requested action will help prevent quick depletion of the SERRF Fund Group as the financial risks will shift back to the City. Prior to the amendment of the Operations and Maintenance Agreement effective February 1, 2023, staff had projected SERRF would be operating at an approximately \$2 million monthly loss.

With the immediate implementation of decommissioning activities by Covanta starting February 1, 2024, Staff anticipates SERRF's revenue to decrease by \$2.7 million from miscellaneous funds and reimbursements, in addition, subject to permit agency approvals, Staff estimates approximately \$8 million in expenditures to cover decommissioning costs and services, which appropriation is currently being requested in the recommendation, \$2 million for carbon allowance purchases under the AB32 Cap and Trade Program and regulatory fees, and \$2 million for continuing expenses for City staff, consultant, and internal costs for oversight of decommissioning and evaluation of future opportunities at the SERRF site, which are currently budgeted in the SERRF Fund Group in the Energy Resources Department, for a total of \$12 million. Staff projects that the SERRF Fund Group will have approximately \$8 million in remaining funds available for demolition and monitoring of the facility should it become necessary.

This recommendation has minimal staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. The decommissioning of SERRF will impact Covanta's employment of 60 full-time positions, 12 of which are vacant and 10 of whom reside in Long Beach.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "R. M. Dowell".

Robert M. Dowell
Director
Energy Resources

APPROVED:

A handwritten signature in blue ink, appearing to read "T. B. Modica".

Thomas B. Modica
City Manager