

January 23, 2024

Honorable Mayor and City Council
City of Long Beach
California

RECOMMENDATION:

Recommendation to authorize the City Manager, or designee, to execute all additional documents necessary with Covanta Long Beach Renewable Energy Corporation (Covanta), of Long Beach, CA, under the Southeast Resource Recovery Facility (SERRF) Operations and Maintenance Agreement No. 23336, for early termination of operations effective January 31, 2024, and to provide decommissioning services in accordance with approved Decommissioning Plan for SERRF on a pass through basis plus 15 percent of the decommissioning costs starting February 1, 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 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 is due to terminate on June 30, 2024.

On January 17, 2023, City Council approved 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.

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 January 17, 2023, 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 to cease operations and eventually terminate the Agreement for convenience.

City Council approval is requested to authorize the execution of additional documents necessary for acceptance of the early termination of operations under the Agreement effective January 31,

2024, and to implement and complete the Decommissioning Plan in accordance with its terms and conditions of the Agreement.

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 considered and evaluated multiple potential operating options for SERRF and summarized its findings as follows:

- Covanta identified \$8 million to \$17 million of additional capital investment required to extend the operating life of SERRF for an additional five years. Due to rising costs for maintenance of SERRF combined with lower projections of refuse deliveries and electrical generation, a subsidy of \$140 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.
- City staff has been working with Covanta to develop a City-approved 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 percent 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 and 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 to terminate operations and proceed with decommissioning work under Contract No. 23336 is requested on January 23, 2024, to ensure there is no interruption to services.

FISCAL IMPACT

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 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 reimbursement. Additionally, 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 AB 32 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 SERRF site, which are currently budgeted 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,



Robert M. Dowell
Director
Energy Resources

APPROVED:



Thomas B. Modica
City Manager