

Date: January 19, 2024

To: Thomas B. Modica, City Manager



From: Bob Dowell, Director, Energy Resources



For: Mayor and Members of the City Council

Subject: **SERRF Decommissioning Update**

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Since the November 2, 2023, notification by Covanta Long Beach Renewable Energy Corporation (Covanta) to the City of Long Beach (City) that it was exercising its right to terminate Agreement No. 23336 (Agreement) effective January 31, 2024, staff has been evaluating potential options for the continuation of the Southeast Resource Recovery Facility's (SERRF) operations. No viable operating options were identified that would result in SERRF profitably operating beyond January 31, 2024. As a result, staff has been working with Covanta on a decommissioning plan for the facility pursuant to the Seventh Amendment to SERRF Operations and Maintenance Agreement No. 23336, as authorized by the City Council on January 17, 2023. The decommissioning of SERRF is currently scheduled to begin on February 1, 2024.

## **Background**

SERRF is a Waste-To-Energy (WTE) operating facility located in the Port of Long Beach area and is co-owned by the City and the Los Angeles County Sanitation District (LACSD) under a Joint Powers Authority (JPA), with a two-third to one-third split between the City and the LACSD, respectively. SERRF is currently operated by Covanta under contract to the City.

SERRF was placed into service in July 1988 as a 30-year operating facility that has now been operating for over 35 years. SERRF was originally designed to close in 2018 and a series of efforts has extended its operations into 2024. In 2017, the City commissioned HDR Engineering, Inc. (HDR) to perform a physical condition assessment of SERRF to identify major capital expenditures that may be required to keep the facility operational beyond its original 30-year design life. Based on HDR's findings, the City invested \$13.7 million in capital and refurbishments in SERRF in Fiscal Years (FY) 2019 and 2020, with the expectation that the facility would be capable of continuing to process waste and generate electricity through the Covanta contract term of June 30, 2024.

The passage of State Assembly Bill 1857 (AB 1857) in late August 2022 removed the AB 939 waste diversion credit for jurisdictions that delivered municipal solid waste to existing WTE facilities in California beginning January 1, 2023. The anticipated reduction of nearly 50 percent of the annual waste tonnage processed at SERRF, along with its corresponding loss of revenue, introduced significant financial risks to the City for SERRF's continued commercial operations through the Covanta contract term of June 30, 2024.

Additionally, since the expiration of SCE's 30-year Power Purchase Agreement (PPA) in 2018, the SERRF Fund had been operating at an annual loss of approximately \$4 million, which was offset by available funds accumulated from prior years of operations. Staff estimated an additional revenue loss of \$2 million per month resulting from implementation of AB 1857. This would further increase the revenue shortfall and quickly deplete the funds available, thereby necessitating the closure of the facility at the end of February 2023.

Covanta approached the City in late 2022 and proposed amending the commercial structure of the current Agreement to continue SERRF's operations. 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, until the end of the contract term. This 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.

In recent months, Covanta encountered several equipment failures 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 amended commercial structure as a pilot to evaluate if the facility was sustainable on its own accord, which has since proven not to be the case.

Covanta's management concluded that the facility was not sustainable in its current state due to lack of clarity for SERRF's future (difficult to retain their staff) and the age of the facility. Covanta also identified \$8 million to \$17 million of additional capital investment necessary to extend the operating life of SERRF for an additional five years. An investment of this size by the City would deplete most, if not all, of the funds available in the SERRF Fund, leaving no funding available for the future decommissioning and demolition of the facility.

## **Future Operating Considerations**

As noted in the [memorandum](#) dated November 10, 2023, 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:

- 1) Staff evaluated the option of continuing operating SERRF beyond February 1, 2024, utilizing Covanta as the operator on a cost plus 15 percent basis and includes the \$17 million additional capital investment necessary to extend the operating life of SERRF for an additional five years. The financial analysis for this operating scenario reveals that the SERRF Fund balance would reduce to a negative \$104,021,330 amount at the end of five years using current market rate tip fees of \$80 per ton. A negative funds available balance of this size is not practicable for the operations nor the City's fiscal responsibilities. To retain the current SERRF Fund balance at the end of five years under

this option, tip fees would need to be increased to \$157 per ton, nearly double the current market rate tip fees. There would most likely be no waste brought to SERRF by haulers if the tip fees were set at this rate and therefore this option was dismissed from further consideration.

- 2) HDR's 2017 facility condition assessment identified capital investments in the range of \$40.9 million to \$66.3 million to continue to operate SERRF through 2039. Staff explored the option of potentially bonding for the \$66.3 million of capital needed; however, given the uncertainty of future revenue streams and the evolving legislative environment at the state, it became evident that the operations could not directly support the bond debt and would likely need the backing of the City's General Fund to secure the debt. Adding this potential bond debt burden to the already challenged City's General Fund would not be fiscally responsible and was therefore determined to be an unviable option.
- 3) Staff reached out to other potential operators for SERRF to solicit their interest in replacing Covanta and operating the facility after January 31, 2024. There are a limited number of qualified operators for WTE facilities in the US, with most of them located in east coast areas. None expressed any desire to relocate or establish new operations in the western United States at this time.
- 4) Pursuant to the terms of the Operations and Maintenance Agreement, City staff has been working with Covanta to develop a decommissioning plan for SERRF that includes salvaging equipment and materials to offset a portion of the decommissioning costs. It is anticipated that the decommissioning plan will be complete before January 31, 2024. Decommissioning operations are currently planned to commence February 1, 2024, and are estimated to be completed in twelve months.
- 5) 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.
- 6) 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.
- 7) 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.
- 8) The City has actively been planning for the possibility of decommissioning and how to transition SERRF to its next productive use. 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. Staff will ask for City Council approval to enter into the exclusive negotiating agreement on January 23, 2024 and will work

diligently to reach commercial terms with the selected proposer. It is estimated that it will take 3 – 5 years to commission the facility once commercial terms have reached.

9) The City desires to continue utilizing the SERRF site and assets to reduce the amount of waste to be disposed in landfills and comply with SB 1383 and AB 1826 (commercial organics law). A new organics receiving and processing facility at the SERRF site will benefit the City in the following ways:

- Support the City's Climate Action Plan (2022) through the reduction in greenhouse gas emissions associated with organic waste disposal and the development of infrastructure for organics processing.
- Provide a local solution to reduce of up to 50% of the City's residential waste that would otherwise go to distant landfills.
- Support the greater Los Angeles County region with a solution for organic waste processing with a new facility capable of processing up to 314,000 tons per year.
- Support the City's Sustainable City Action Plan (2010) by generating renewable energy (including biogas), reducing waste volume, recovering value and materials from waste.
- Support efforts to develop hydrogen technologies through utilization of its biogas production, including possible opportunities to advance the use of hydrogen fuel in goods movement via the ARCHES program.
- Maximize materials recovery with remaining waste managed through efficient conversion to compost, renewable energy, fuel, chemicals, or other usable products.
- Support the City and County's efforts to comply with the large number of regulatory requirements, including but not limited to:

AB 939 – The Integrated Waste Management Act of 1989

AB 32 – Global Warming Solutions Act of 2006

AB 341 – Mandatory Commercial Recycling Law of 2012

AB 1826 - Mandatory Commercial Organic Waste Recycling Law of 2016

AB 1594 – Prohibits green waste material from being used as daily cover at landfills

SB 1383 - California's Short-Lived Climate Pollutant Reduction Strategy of 2016

## Summary

SERRF, which incorporates WTE technology, was initially conceived and developed by the City as an environmentally responsible tool for its waste management. Multiple scientific studies have shown that WTE offers significant reductions in greenhouse gas emissions

compared to that of landfilling waste. It has served the City as a critical tool to avoid landfilling waste after reduction, reuse, and recycling, with every ton of waste processed at SERRF avoiding a ton of CO<sub>2</sub> equivalent emissions.

The fiscal challenges facing SERRF's continued future operations are numerous and are now at a point that they can no longer be overcome. Operating SERRF today—a facility that was initially designed for a 30-year operating life and is now in its 35<sup>th</sup> year of operations—has been extremely challenging and is no longer sustainable without the infusion of a significant amount of capital investment. Compounding this, the uncertainty of reliable future revenue streams created from the evolving legislative environment in the state, introduces significant unknowns and risks into any capital investment consideration for SERRF.

The SERRF Fund has been meticulously managed for over 35 years and currently has the funds available for the remaining tasks of decommissioning and demolishing the facility. Further actions to continue operating SERRF beyond January 31, 2024, would most likely jeopardize the health of the existing SERRF Fund. The proposed potential use of a new organic processing facility offers many of the same benefits that SERRF did at its inception and is therefore the best option to manage City's organic waste in the future.

If you have any questions, please contact Bob Dowell, Director of Energy Resources, at (562) 570-2001.

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