

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

<b>Item No.</b>	6e
<b>Date of Meeting</b>	June 8, 2010

**DATE:** May 17, 2010

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** Phil Lutes, Deputy Seaport Director  
Stephanie Jones Stebbins, Senior Manager, Seaport Environmental Programs  
Ellen Watson, Environmental Management Specialist II

**SUBJECT:** Request for the Port of Seattle Commission to authorize \$541,500 in additional funding for budget year 2010 for the At-Berth Clean Fuels Vessel Incentive Program (ABC Fuels).

**AMOUNT OF THIS REQUEST:** \$541,500

**SOURCE of FUNDS:** General Fund

**ACTION REQUESTED:**

Request the Port Commission to supplement the value of the At-Berth Clean (Fuels Vessel Incentive Program (ABC Fuels) by \$541,500 for a total 2010 annual Program budget of \$841,500. Within the \$541,500, \$135,500 represents funds that were originally approved in 2009, but were not used until 2010.

**BACKGROUND:**

The At-Berth Clean Fuels Vessel Incentive Program (ABC Fuels) was initiated in January 2009 in collaboration with the Puget Sound Clean Air Agency (PSCAA), as an effort to reduce sulfur emissions as part of the Port's participation in the Northwest Ports Clean Air Strategy. The ABC Fuels Program is an incentive for carriers to use ultra low sulfur diesel with a maximum of 0.5% sulfur in their auxiliary engines while at berth. With the establishment of the North American Emission Control Area (ECA) under the International Maritime Organization MARPOL Annex VI, ABC Fuels will serve as a bridge to the ECA requirements that will begin in 2012. The intent is for the incentive to pay 50% of the cost differential to use the cleaner, more expensive 0.5% (or less) sulfur fuels.

In April 2009, the Commission approved transfer of \$2.3 million in Port funding over the 2009 and 2010 budget years to the PSCAA in support of maritime emission reduction projects. The PSCAA earmarked \$500,000 of these funds for implementation of the At-Berth Clean Fuels Program, and accordingly, provide the incentive payouts to the participating carriers.

In 2009, the ABC Fuels Program incentive was \$1,500 payout per qualifying vessel (approximately 50% cost share). In order to participate, a carrier had to be a "frequent caller" with five or more visits to the Port in a calendar year. In 2009, participants included six container lines and two cruise lines: APL, COSCO, Hamburg Sud, Hapag-Lloyd, Maersk, Matson, Norwegian Cruise Line and Princess Cruises. In the first year, the Port had 238 qualifying visits and \$357,000 was paid out as incentives. The

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estimated total sulfur reduction from 2009 ABC Program participation was 68 metric tons. In addition, we had an estimated 3.4 MT reduction in particulate matter due to the switch in fuels at berth.

Due to changes in vessel operations resulting from the economic downturn, primarily increased time at berth, as well as higher fuel costs, during the annual program review, it was recommended that the incentive be increased. Beginning in 2010, the incentive was increased to \$2,250 per call. This higher incentive has led to a significant increase in participation. Currently, seven container lines and two cruise lines are participating in the program: APL, COSCO, Evergreen, Hamburg Sud, Hapag-Lloyd, Maersk, Matson, Norwegian and Princess. In first quarter 2010, 82 qualifying visits were made, a three-fold increase year to date, resulting in \$184,500 in incentives and a reduction of 22 metric tons of sulfur. Based on current participation, staff estimates that ABC Fuels will reduce 100 metric tons of sulfur emissions in 2010.

## **FINANCIAL IMPLICATIONS**

### **ABC Fuels Program Actual/Estimated Cost Since Inception**

Incentives and Admin Costs Paid Out in 2009 (\$500,000 included in 2009 Budget)	\$364,500
Incentives Paid Out Q1 2010	\$184,500
Estimated 2010 Annual Admin and Audit Costs	54,000
Incentives – Estimated Payouts Q2-Q4 2010	\$603,000
Total Estimated Cost 2009-2010	\$1,206,000

### **2010 Budget/Authorization Summary**

Amount authorized as part of the 2010 Budget	\$300,000
Current request for authorization *	\$541,500
Total 2010 Authorizations, including this request	\$841,500

**Note:**\* Of current request amount of \$541,500, \$135,500 represents funds that were originally approved in 2009, but were not used until 2010.

### **Source of Funds**

The 2010 Seaport Operating Budget included \$300,000 as a Non-Operating Public Expense for the 2010 ABC Fuels Program. The additional \$541,500 requested to fund the Program for the remainder of the 2010 will create an unfavorable variance in Non-Operating Expenses of \$541,500. Because this expenditure is a Non-Operating item, it will not impact reported Net Operating Income, but it does represent a cash outflow of \$541,500 more than what was budgeted in 2010.

The ABC Fuels Program is currently being funded from the general fund.

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### **PREVIOUS COMMISSION REVIEW:**

On December 2, 2008, the Commission was briefed on the At-Berth Clean Fuels Vessel Incentive Program.

On April 14, 2009, the Commission approved transfer of \$2.3 million in Port funding over the 2009 and 2010 budget years to Puget Sound Clean Air Agency in support of maritime emission reduction projects.

On June 23, 2009, the Commission was briefed on the 2008 Implementation Report for the Northwest Ports Clean Air Strategy, which included an overview of the ABC Fuels program.

On January 12, 2010 the Commission was briefed on the overall Seaport Air Quality Program, which included 2009 ABC Fuels program metrics.