

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b
Date of Meeting November 9, 2010

DATE: October 29, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Phil Lutes, Deputy Seaport Managing Director
Ellen Watson, Environmental Management Specialist II, Seaport Environmental Programs

SUBJECT: At-Berth Clean Fuels Program

Amount of This Request: \$110,250

Source of Funds: Operating Revenues

Total Project Cost: 2010 Costs: \$951,750

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to increase the amount of the At-Berth Clean Fuels (ABC Fuels) Vessel Incentive Program by \$110,250, for a total 2010 annual program budget of \$951,750 to cover participation by the projected number of qualifying vessels visits for the remainder of the year

SYNOPSIS:

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 particulate emissions as part of the Port's participation in the Northwest Ports Clean Air Strategy. The ABC program is an incentive for carriers to use distillate low sulfur diesel with a maximum of 0.5% sulfur in their auxiliary engines while at berth. The program funds 50% of the cost differential to use this cleaner but more expensive fuel.

ABC Fuels has been very successful, with a much higher level of participation than anticipated. Through the 3rd quarter of this year, there have been 322 qualifying visits by eight container carriers and three cruise ship lines that call at the Port of Seattle. It has also provided significant positive visibility for the Port's sustainability programs. It has been demonstrated that switching from bunker to distillate fuels with .5% sulfur can reduce fine particulate emissions by up to 70% per vessel call. The Northwest Ports Clean Air Strategy focuses on reduction of particulate matter, because of the human health impacts related to particular matter emissions. Our Emissions Inventory found that 44% of the Particulate matter originating at the Port of Seattle comes from ocean going vessels while they are at berth and reducing these emissions is a cornerstone of our air quality programs.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

October 29, 2010

Page 2 of 5

The challenge arising from this success is that the funding remaining for the program for 4th quarter is only \$120,000, which would provide incentives to only 53 additional vessels. At the current rate of participation, we anticipate a minimum of 101 qualifying vessel visits in the 4th quarter, which would deplete all funds by the second or third week of November. The additional funding required to pay for the additional 48 visits, thereby covering all 2010 anticipated visits, is \$110,250, for a total cost of \$951,750 in 2010. In the 2011 preliminary budget, \$1,050,000 has been proposed for the ABC Fuels Program.

PROJECT BACKGROUND:

In 2009, the ABC Fuels Program incentive was \$1,500 payout per qualifying vessel (approximately 50% cost share). Beginning in 2010, the incentive was increased to \$2,250 per call, due to changes in vessel operations resulting from the economic downturn, as well as higher fuel costs.

In June 2010, the Commission approved additional funding for the ABC Fuels program to cover the remainder of 2010, using projections based on early 1st quarter data only. Vessel operations have shown considerable volatility since then. Though we had a record-breaking month in May, our numbers dropped in June and then rose sharply in July and August. Our September numbers were very close to 2009 numbers for September. All in all, with our current rate of participation, we are now projecting approximately 423 qualifying vessel visits for 2010, with 101 in the 4th quarter, as indicated below.

Vessel visits

Estimated number of qualifying vessel visits: 350

Actual year-to-date number of qualifying vessel visits through 3rd quarter: 322

Projected 4th quarter visits 101

Projected 2010 total visits: 423

Incentives

Additional funding authorized June 2010 \$541,500.

Incentive payouts \$724,500 (through 3rd quarter)

Projected payout for 4th quarter: \$227,250

Estimated amount remaining in PSCAA budget for program: \$120,000

Gap in funding for 4th quarter: \$110,250

Projected total incentive funding requirement: \$951,750

BUDGET AUTHORIZATION SUMMARY

Original 2010 Budget	\$300,000
Previous 2010 request for authorization	\$541,500
Current request for authorization*	\$110,250
Total Authorizations, including this request	\$951,750
Remaining budget to be authorized	\$0
Total Estimated Project Cost	\$951,750

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

October 29, 2010

Page 3 of 5

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

Source of Funds

Funding for the ABC Fuels Program is provided by the General Fund. The 2010 Seaport Operating Budget included \$300,000 as a Non-Operating Expense for the 2010 ABC Fuels Program. The additional \$541,500 requested to fund the Program in June, along with the additional \$110,250 for the remainder of the 2010, will create an unfavorable variance in Non-Operating Expenses of \$648,750. This represents a cash outflow of \$648,750 more than what was budgeted in 2010, but because it is a Non-Operating Expense it will not impact reported Net Operating Income.

ECONOMIC AND ENVIRONMENTAL IMPACTS AND BUSINESS PLAN OBJECTIVES:

The ABC Program is the foundation for the newly initiated Green Gateway Partners Awards Program. Participation in this program or use of shore power are prerequisites to applying for an Award. Continuing this program through 2010 as we roll out the Green Gateway Partners Awards Program will send a message of commitment to our customers and other stakeholders.

The Program has provided significant positive visibility for the Port's sustainability programs. It has been demonstrated that switching from bunker to distillate fuels with .5% sulfur can reduce fine particulate emissions by up to 70% per vessel call. The Northwest Ports Clean Air Strategy focuses on reduction of particulate matter, because of the human health impacts related to particulate matter emissions. Our Emissions Inventory found that 44% of the Particulate matter originating at the Port of Seattle comes from ocean going vessels while they are at berth and reducing these emissions is a cornerstone of our air quality programs.

In 2011, the 2005 Puget Sound Emissions Inventory will be updated with new emissions data. This new data will help to measure our progress in achieving the Performance Measures established in the Northwest Ports Clean Air Strategy. It is our hope that we can sustain the momentum that we have achieved to-date with the ABC Fuels Program and see the positive impact in the 2011 Emissions Inventory.

With the establishment of the North American Emission Control Area (ECA) under the International Maritime Organization MARPOL Annex VI, ABC Fuels will also serve as a bridge to the ECA requirements that will begin in 2012.

ALTERNATIVES CONSIDERED:

1. Increase the funding for the 2010 ABC Fuels Program by \$110,250 to cover projected vessel visits for the remainder of the year. **This is the recommended alternative.**
2. Discontinue the 2010 ABC Fuels Program in 2010 once the currently authorized funds are expended. We would send a letter to the participating carriers informing them that due to the success of the program, we have run out of funds and will be unable to provide incentive payouts through the end of the year. We would request that they continue to submit reporting forms through the end of the year, and provide any remaining incentive

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

October 29, 2010

Page 4 of 5

funds to the first requests received. Participants would also be informed that funding for the ABC Fuels in 2011 is included in the budget.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

October 29, 2010

Page 5 of 5

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

On January 22, 2008, the Commission adopted the Northwest Ports Clean Air Strategy.

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

On April 14, 2009, the Commission approved the transfer of \$2.3 million in Port funding over the 2009 and 2010 budget years to the Puget Sound Clean Air Agency 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, provided the incentive payouts to the participating carriers.

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.

On June 8, 2010, the Commission supplemented the value of the At-Berth Clean Fuels Program by \$541,500 for a total 2010 program budget of \$841,500.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

ABC Fuels PowerPoint presentation