



# County of Santa Cruz

## DEPARTMENT OF PUBLIC WORKS

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JOHN A. FANTHAM  
DIRECTOR OF PUBLIC WORKS

AGENDA: May 18, 1999

May 6, 1999

### SANTA CRUZ COUNTY BOARD OF SUPERVISORS

701 Ocean Street  
Santa Cruz, California 95060

SUBJECT: BUENA VISTA LANDFILL GAS POWER PROJECT

#### Members of the Board:

On February 9, 1999, your Board received a report on the status of the Buena Vista Landfill Gas Power Project and approved several agreements necessary to begin final implementation of this project. On March 23, 1999, Public Works returned with a brief status report on the project and requested deferral of any final action on the project until May 18, 1999.

On February 17, 1999, the Monterey Bay Unified Air Pollution Control District (District) considered a report from District staff recommending actions related to the issuance of Emission Reduction Credits (**ERCs**) for the Buena Vista Landfill Gas Power Project. **ERCs** are required when emission levels from a project exceed source standards for a specific pollutant. **ERCs** are maintained through a "banking" system controlled by the District. **ERCs** go into the "Regular" Bank when emission sources within the District are shut down or emissions from a source are reduced. These **ERCs** can be bought and sold through private transactions for development of new projects within the District boundaries. The District also maintains a separate "Community" Bank of **ERCs** specifically for use with Public Service Projects. The **ERCs** contained within the Community Bank are available, at no cost, to public agencies constructing projects such as ours.

District staff has completed a draft permit for our project which indicates the need for supplemental **ERCs** to complete the permit. Public Works was informed early this year that a policy exists within the District rules that limits the use of **ERCs** within the Community Bank to no more than 50% of the total credits in any single calendar year. The **ERC** requirements for our landfill gas project exceed the 50% limit of the current **ERC** Community Bank. The result is that in order to receive the final District permit, the County must purchase a portion of the **ERCs** needed for our project through the **Regular** Bank.

District staff has been very supportive of our project. They have indicated that over the 15 year history of the ERC Community Bank account system, only two withdrawals have been made. Both of those withdrawals were for a landfill gas power project at the Marina Landfill in north Monterey County. Based on the limited historical use of this account and the fact that no other significant public service projects are currently under development within the District at this time, staff recommended that the District Board members waive the policy and issue the County its full ERC allocation from the Community Bank, at no cost. District staff went on further to recommend long term changes in the District's Basin Plan to place the Emission Reduction program for Public Service Projects within the Basin Plan itself, eliminating the need for a Community Banking program all together. This is becoming a common practice in air districts across the state and provides a streamlined, low cost process for public agencies considering new Public Service Projects.

At the February 17, 1999, public hearing before the District regarding this subject, the Board members voted 6-4 against the staff recommendation to waive the 50% Community Bank policy for our project or to initiate the process to create a long term solution for future Public Service Projects within the District. As a result, Public Works has been soliciting information from the ERC holders in the Regular Bank regarding pricing, availability, and the potential for discounting or donation of ERCs for a Public Service Project. There are six ERC holders within the Regular Bank that maintain the appropriate type and amount of credits needed for our project. We have contacted all six and three have declined to sell their ERCs. The three remaining ERC holders have indicated they may be amenable to sale of their ERCs, but none have been able to establish a price due to the lack of a historical local market for ERCs. As a result, all three ERC holders requested that the County make an offer for their consideration. After careful review of the project economics with Brown, **Vence** and Associates (**BVA**), we have determined that a price of \$1,000 per ERC could be managed without significant impacts to the project economics or design. Public Works has sent formal offers to all three ERC holders for response. If our offers are not accepted by any of the ERC holders, we will return this issue to the District for reconsideration of their February 17, 1999, decision.

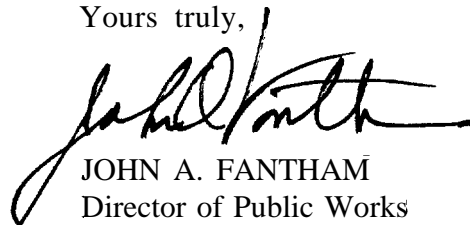
To date no responses to our offers have been received, and therefore, pending the outcome of these negotiations, the project development should continue to be placed on hold. Once the issue surrounding the ERCs and the District permit have been resolved, we will return to your Board with the necessary final actions to begin implementation of this project.

It is therefore recommended that the Board of Supervisors take the following action:

1. Accept and file this status report on the Buena Vista Landfill Gas Power Project.
2. Direct Public Works to continue working with the Monterey Bay Unified Air Pollution Control District to find a solution to the Emission Reduction Credit requirements for the Buena Vista Landfill Gas Power Project.

3. Direct Public Works to return on or before August 10, 1999, with a status report on the Buena Vista Landfill Gas Power Project.

Yours truly,



JOHN A. FANTHAM  
Director of Public Works

RPM:rw

RECOMMENDED FOR APPROVAL:



County Administrative Officer

copy to:      Public Works  
                 General Services  
                 Auditor-Controller  
                 Brown, **Vence** and Associates  
                 Monterey Bay Unified Air Pollution Control District