

BOARD LETTER APPROVAL

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Kendall Helm (Jan 15, 2026 16:00:32 PST)

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DATE: January 12, 2026

SUBJECT: Amendment to Section 23.143.1 of the Los Angeles Administrative Code and the Environmental Credit and Renewable Energy Credit Policy

SUMMARY

The purpose of this resolution is to amend Section 23.143.1 of the Los Angeles Administrative Code (LAAC) by ordinance and to delegate authority to the General Manager to update the Environmental Credit and Renewable Energy Credit (REC) Policy (Policy) in alignment with the amended LAAC 23.143.1. Resolution No. 013-185 and related Ordinance No. 182949 as codified in Section 23.143.1 of the LAAC delegates to the General Manager the authority to enter into environmental credit transactions, including emission credits and RECs, for the purpose ensuring compliance with applicable federal, state and local regulations.

The LAAC and Policy outline the Environmental Credit and REC trading programs that LADWP must comply with. They also establish the mechanisms by which LADWP manages business-related risks associated with its Environmental Credit and REC transactions.

Since the initial adoption of Section 23.143.1 in 2014, changes in the regulatory landscape have prompted the need for new types of environmental credit products such as Nitrogen Oxide (NOx) Emission Reduction Credits (ERCs). Additionally, in 2023, the United States Environmental Protection Agency (EPA) expanded the Cross-State Air Pollution Rule (CSAPR), establishing NOx emission budgets for affected states, including Utah and Nevada. This rule directly impacts the Intermountain Power Project (IPP) and Apex Generating Station (Apex), introducing a new category of environmental

credit (CSAPR allowances) which may need to be procured for compliance at these facilities in the future.

There have also been updates to several regulatory programs referenced in the LAAC and Policy, including:

- EPA's Acid Rain Program
- New Source Review (NSR) Permitting Program
- The Energy Policy Act (EPAAct)
- South Coast Air Quality Management District's (SCAQMD) NOx Regional Clean Air Market (RECLAIM) Program
- California Air Resources Board's (CARB) Assembly Bill 32 (AB 32) Cap-and-Trade Program and Low Carbon Fuel Standard (LCFS)
- California Energy Commission's (CEC) Renewable Portfolio Standard (RPS).

The ordinance amending the LAAC and Policy must be updated to incorporate these regulatory changes, reflect the latest compliance requirements, and recognize new environmental credit products (NOx ERCs and CSAPR allowances) with associated price limits.

Furthermore, the ordinance and Policy must be updated to include the flexibility to purchase, sell, or exchange California Energy Commission (CEC) eligible RECs, whether bundled or unbundled, as well as to sell additional environmental attributes (AEAs) associated with renewable energy that are not attributable to in-state regulatory programs.

City Council approval, by ordinance, is required for these changes, as they amend an ordinance previously approved by the City Council.

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners adopt the attached Resolution requesting City Council's approval, by ordinance, to make amendments to Section 23.143.1 of the LAAC and delegating authority to the General Manager to later update the Policy in alignment with the amendments once effective.

ALTERNATIVES CONSIDERED

Maintaining the current ordinance and Policy without amendment would result in the LAAC and Policy remaining outdated and not aligned with current regulatory requirements.

FINANCIAL INFORMATION

The environmental credits and RECs referenced in the Ordinance and Policy are only intended to be purchased and/or sold solely as needed for compliance purposes. Expenditures related to environmental credit and RECs vary from year to year and are

expected to continue fluctuating significantly due to evolving regulations that impact LADWP's power generating resources and compliance obligations. Since Subsection (1)(c) of Section 23.143.1 of the LAAC states that contracts and financial transactions shall be subject to limitations of prices. Accordingly, price limits for newly added environmental credit products (NO_x ERCs, and CSAPR allowances) must be incorporated into the updated Policy.

BACKGROUND

LADWP is subject to several federal, state, and local regulatory programs that allow for trading of environmental or emission credits and RECs as an approach to meeting emission reduction and renewable energy targets.

Environmental credits or allowances are byproducts of market-based cap-and-trade emission credit programs, which affect electric generating units such as LADWP's natural gas-fired units by allocating emission credits or allowances for criteria pollutants, including sulfur dioxide (SO₂), particulate matter (PM), and NO_x, among others. Under most cap-and-trade programs, facilities are allocated a set number of credits or allowances based on their historical emissions and are required to cover their actual emissions. LADWP does not participate in the environmental/emission credit or REC markets for speculative or risk-taking purposes, but solely to maintain compliance with applicable environmental laws and regulations.

Resolution No. 013-185 and Ordinance No. 182949, delegated the authority to the General Manager to enter into transactions for the purchase and sale of environmental credits and RECs as needed for compliance. Recognizing the risks incidental to trading of environmental/emission credits and RECs, LADWP developed the Policy to manage the business-related risks of environmental/emission credit and REC trading programs that impact LADWP.

Credits are purchased, sold, and exchanged only to ensure LADWP's compliance with environmental laws and regulations in accordance with the Policy. To capture the latest changes to existing regulatory programs, the Ordinance and Policy must be updated. Outdated information related to other environmental programs also needs to be updated in the Policy. The programs discussed in the Policy include the following:

- EPA's Acid Rain Program
- NSR Permitting Program
- EPCRA, and CSAPR
- SCAQMD's NO_x RECLAIM Program
- CARB's AB 32 Cap-and-Trade Program and LCFS
- CEC's RPS

The Acid Rain Program introduced a market-based cap-and-trade emission credit system to reduce SO₂ levels. Affected electric utility units were allocated emission credits (also known as allowances) based on their historic fuel consumption and a specific emission rate. Facilities that have been decommissioned and are no longer

subject to the program, such as Navajo and Mohave Generating Stations, must be removed from the list of facilities impacted by the Acid Rain Program. Currently, LADWP's in-basin plants, IPP, and Apex are subject to this program.

The NSR Permitting Program requires a permitting process for any new or modified power plants. Major stationary sources are required under federal NSR regulations to procure ERCs to offset the additional air emissions from these sources. The ERCs purchased on a one-time basis (versus purchasing a specific vintage year) are for specific criteria pollutants such as PM less than 10 microns, oxides of sulfur, and reactive organic gases. Beginning in approximately 2026 (subject to EPA approval), facilities will have to procure NOx ERCs instead of NOx RECLAIM Trading Credits (RTCs) to offset NOx emissions when permitting new or modified sources. The proposed price cap for NOx ERCs is \$700,000 pounds per day due to the volatility of the NOx ERC market.

EPA's CSAPR sets a pollution limit or emission budget for each state subject to this regulation. CSAPR NOx allowances are allocated to affected sources proportionately from the state emission budget, so sources can determine their compliance options by adding control technology, upgrading equipment, or purchasing allowances. One NOx allowance is equivalent to one ton of NOx emissions. The adoption of the "Good Neighbor Plan" in March 2023 extended the applicability of CSAPR to power plants in 23 additional states, including Utah and Nevada. However, a stay on the program was implemented in September 2023 due to ongoing litigation between EPA and several states, postponing IPP's and Apex's compliance with this program until a later time. As the account holder of these facilities, LADWP will ultimately have to purchase or sell allowances on behalf of IPP and Apex as needed. The Policy must be updated to include CSAPR requirements, as well as a price cap set at \$450,000 per ton of NOx for CSAPR allowances.

SCAQMD's NOx Cap-and-Trade Program is known as the RECLAIM Program, which enforces facility-wide emissions caps that decline each year, allocates RTCs to affected facilities like LADWP's in-basin generating units to cover their NOx emission compliance, and allows facilities to purchase and sell RTCs, resulting in cost-effective emissions reductions. Updates must be made to the allowance allocations for LADWP's in-basin generating stations, reflecting a shave of allocated credits to all RECLAIM facilities. In addition, the Policy must be updated to include a summary of the changes in anticipation of the end of the RECLAIM program by December 31, 2025. Once the RECLAIM program ends, LADWP's in-basin facilities will no longer need to hold NOx RTCs to cover their emissions. Facilities will be expected to acquire NOx ERCs instead of RTCs to offset emissions from new or modified sources.

CARB's AB 32 Cap-and-Trade regulation applies to covered entities emitting more than 25,000 metric tons of carbon dioxide (CO₂) equivalent. The electricity sector receives allowance allocations, based on cost burden, projected cumulative energy efficiency, and early investment in renewables. Each allowance is equivalent to one metric ton of CO₂ equivalent. The Policy must be updated to omit an outdated table showing

LADWP's past allowance allocations and reflect the program's allowance allocation extending to 2030.

CARB's LCFS is a greenhouse gas control measure adopted pursuant to AB 32. The rule's intent was to reduce, on a full-fuel lifecycle basis, the carbon intensity of transportation fuels in California by at least 10 percent by 2020. The Policy must be updated to reflect the amendments to LCFS that CARB adopted in 2018, including the requirement for large publicly owned utilities, such as LADWP, to provide 35 percent of its LCFS credits towards a California "Clean Fuel Reward" Electric Vehicle (EV) rebate program from 2019 to 2022, and 45 percent from 2023 and subsequent years. In addition, the Policy must be updated with information about the opt-in nature of LCFS for LADWP. LADWP is not directly required to comply with the rule but voluntarily opted into the program to generate LCFS credits for its EV charging station installations and use of compressed natural gas vehicles.

The EPC and the Alternative Fuel Provider Rule require certain fleets to procure alternative fuel vehicles (AFVs) for their light-duty vehicle acquisitions or leases greater than 120 days. Affected fleets may comply by acquiring new or used AFVs, purchasing credits from other covered fleets, or using credits they have earned. Credits may be earned by acquiring AFVs. The Policy must be revised to include clarifications regarding the methods through which allowances can be earned for the EPC program, and LADWP's actions to achieve compliance with the program, such as acquiring neighborhood EVs and investing in alternate fuel infrastructure.

RECs are generated from eligible renewable energy sources and are used for compliance with RPS targets first established by Senate Bill (SB) 2(1x) and further advanced by SB 350 and SB 100. The Policy must be updated to reflect the new targets for renewable energy resources. To effectively manage its RPS compliance targets, LADWP can purchase, sell, or trade RECs as necessary. Under the current policy, LADWP is limited to only purchase, sell, or trade unbundled CEC-eligible RECs to comply with California's RPS requirements. The proposed updates to the Policy would also allow the flexibility to sell other additional environmental attributes (AEAs) that are not usable with the CEC. Through management of the RPS program compliance, LADWP may opt to sell excess inventory of RECs that are no longer needed for compliance purposes.

LADWP may also opt to sell AEAs that are not attributable to California's renewable programs and do not detract from California-eligible RECs. An example of an AEA is Portfolio Energy Credits (PECs) eligible towards Nevada's RPS. LADWP currently has solar and geothermal renewable energy resources contracted in Nevada that generate RECs that are attributable to RPS program compliance and PECs for the remaining energy used for auxiliary load at the site. The auxiliary load energy and subsequent PECs are not eligible towards California's RPS. These PECs do not detract from generation of the California-eligible RECs. With the proposed updates to the Policy, LADWP can sell the PECs that are unusable toward California's RPS and use that revenue to lower project costs for the benefit of its ratepayers. In this example, LADWP will maximize the number of eligible RECs that it can claim for California's RPS and

PECs are only created for the residual energy generation that is eligible for Nevada RPS. As LADWP owns all environmental attributes from our contracted generators, other AEAs may become available, and this Policy update will allow LADWP flexibility to sell AEAs. This ensures these AEAs do not detract from LADWP's RPS compliance goals while monetizing on AEAs for the benefit of its ratepayers.

Section 23.143.1 of the LAAC must be updated to incorporate newly recognized environmental credit products, such as AEAs, as well as the previously mentioned updates to relevant regulatory programs. Additionally, the section must be revised to establish price caps for NOx ERCs, and CSAPR allowances, in accordance with Subsection (1)(c) of Section 23.143.1, which requires that contracts and financial transactions shall be subject to specific price limitations.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report (CAO) was approved on December 9, 2025.

ENVIRONMENTAL DETERMINATION

Determine item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15060(c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(5) states that organizational or administrative activities that will not result in direct or indirect physical changes in the environment do not meet that definition. Therefore, amendments to the Policy are not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Resolution as to form and legality.

ATTACHMENTS

- Resolution
- CAO Report
- Ordinance