

0320-00185-0000

T R A N S M I T T A L

TO Janisse Quinones, General Manager Los Angeles Department of Water and Power	DATE 12/9/2025	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT N/A	

PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING AN AMENDMENT TO SECTION 23.143.1 OF THE LOS ANGELES ADMINISTRATIVE CODE (LAAC) AND THE ENVIRONMENTAL CREDIT AND RENEWABLE ENERGY CREDIT POLICY TO UPDATE REGULATORY PROGRAMS REFERENCED IN THE LAAC AND THE TYPES OF ENVIRONMENTAL CREDIT PRODUCTS AVAILABLE

Transmitted for further processing, including Council consideration. See the City Administrative Officer report attached.



MAYOR
(Mitch Kamin for)

Attachment
MWS/PJH/JVW:DLG/JPQ:10260090t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

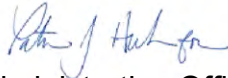
Date: November 17, 2025

CAO File No. 0320-00185-0000

Council File No.

Council District: N/A

To: The Mayor



From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Department of Water and Power dated September 25, 2025; referred by the Mayor for a report on September 29, 2025

Subject: **PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING AN AMENDMENT TO SECTION 23.143.1 OF THE LOS ANGELES ADMINISTRATIVE CODE (LAAC) AND THE ENVIRONMENTAL CREDIT AND RENEWABLE ENERGY CREDIT POLICY TO UPDATE REGULATORY PROGRAMS REFERENCED IN THE LAAC AND THE TYPES OF ENVIRONMENTAL CREDIT PRODUCTS AVAILABLE**

RECOMMENDATION

1. Approve the Los Angeles Department of Water and Power (LADWP) proposed Resolution and Ordinance authorizing amendment of Section 23.143.1 of the Los Angeles Administrative Code to update the regulatory programs referenced and add new types of environmental energy and renewable energy credit products available for purchase, sale, and exchange;
2. Delegate authority to the General Manager of LADWP to update the Environmental Credit and Renewable Energy Credit Policy; and,
3. Return the proposed Resolution and Ordinance to LADWP for further processing, including Council consideration.

SUMMARY

The Los Angeles Department of Water and Power (LADWP, Department) requests approval to amend Section 23.143.1 (Section) of the Los Angeles Administrative Code (LAAC) which authorizes the General Manager of the LADWP to enter into transactions for the purchase, sale, and exchange of energy credits and renewable energy credits (REC) for purposes of regulatory compliance. The LAAC Section details the various regulatory programs, credit types, and limits available as commodities and provides for the development of the Environmental Credit and REC Policy (Credit Policy). The LADWP also requests to delegate authority to the General Manager of the Department to update the Credit Policy to align with the amended LAAC Section.

The City Attorney has reviewed and approved the proposed Resolution and Ordinance as to form. City Council approval is required as the Council previously acted on this matter. Our Office has reviewed the request and recommends approval.

BACKGROUND

The LADWP is subject to several emission credit and REC programs that allow for the trading of credits as a way to comply with applicable federal, state, and local regulations. Environmental credits and RECs are part of market-based cap-and-trade emission credit programs that affect electric generating units such as those utilizing natural gas as well as vehicle fleets. Credits are allocated by specific pollutants and are limited to a set number based on historical emissions. The LADWP does not participate in speculative trade and only participates in environmental credit and RECs markets for compliance purposes.

On March 27, 2014, the City Council approved the addition of the LAAC Section (C.F. 13-0201) to address the purchase, sale, and exchange of environmental credits and RECs by the LADWP. The LAAC Section details the different regulatory programs and credit products available for procurement and has not been updated since its initial incorporation. Since 2014, multiple changes to the credit marketplace, including new types of credits, have occurred and the LADWP requests to amend the Section and update the Credit Policy accordingly.

Addition of Nitrogen Oxide (NO_x) Limits – In 2023, the United States Environmental Protection Agency (EPA) expanded the Cross-State Air Pollution Rule (CSAPR) which established nitrogen oxide emission budgets for states, including Utah and Nevada. This rule directly impacts the Intermountain Power Project (IPP) and the Apex Generating Station (Apex) both of which the LADWP is a participant. The IPP and Apex are located in Utah and Nevada, respectively. With the new rule in place, new credits called NO_x Emission Reduction Credits (ERCs) may need to be procured for continued compliance at these facilities. These limits will be updated in both the LAAC Section and the Credit Policy.

Additional Environmental Attributes (AEA) – The proposed Amendment will include AEAs as a new definition in Subsection (1)(a) – Definitions of the LAAC Section. AEAs are credits or emission allowances for renewable energy that are not usable in-state. An example are Portfolio Energy Credits (PECs) generated at a facility in Nevada and are attributed to the power used to operate auxiliary equipment at the generating plant. PECs are not eligible towards compliance with any regulatory programs in California but can be sold on the emissions credit market. Since the LADWP owns all attributes or credits generated, including those generated by contracted generators, the Department can sell AEAs and apply the revenue to lower project costs. By adding AEAs to the list of allowable commodities, the Department will have flexibility to generate the maximum number of RECs for compliance with regulations and sell any AEAs generated for the benefit of ratepayers.

The proposed Amendment to Subsection (1)(b) includes AEAs in the language regarding participation in credit markets for compliance purposes only and not speculative activities.

Changes to Contract and Financial Transactions – Subsection (1)(c) of the LAAC Section authorizes the LADWP to enter into contracts and financial transactions, no longer than for a period of five years, for the purpose of buying, selling, and exchanging environmental credits and RECs. The proposed Amendment includes new credits limits for NOx as described in Table 1 below:

Table 1 – Changes to LAAC Section 23.143.1		
Subsection	Program	Change
1(C)(1)	NOx RECLAIM Trading Credits	No change.
1(C)(2)	ERC	Add \$700,000 per pound per day limit for NOx.
1(C)(3)	CSAPR*	Program allowance to not exceed \$450,000 per ton.
1(C)(4)	EPA Act Alternative Fuel Vehicle Credits	No change.
1(C)(5)	Greenhouse Gas Allowances, offsets and Low Carbon Fuel Standard Credits	No change.
1(C)(6)	RECs	No change.
1(C)(7)	Contract and financial term limit	No change.

*New credit program

Except as stated in the Amended Ordinance, all other language remains the same.

Updates to the Credit Policy – Subsection (1)(d)(1) provides for the Board to establish the Credit policy to address mechanisms used to mitigate any business-related risks associated with the purchase, sale or exchange of environmental credits and RECs. The current Credit Policy was approved in 2013 and requires an update alongside the amended LAAC Section to correctly reflect current allowance allocations, new credits that are available, and any other changes to regulatory programs. The LADWP requests that authority to update the Credit Policy be delegated to the General Manager as the current authority is with the Board.

The following programs included in the Credit Policy will require updates:

- EPA’s Acid Rain Program – Affects LADWP’s in-basin plants, the IPP, and Apex. Decommissioned plants such as the Navajo Generating station are no longer subject to the program and need to be removed from the current list.
- New Source Review (NSR) Permitting Program – Affects new or modified power plants. Starting in 2026, facilities will have to procure NOx ERCs.
- The Energy Policy Act (EPA Act) and Alternative Fuel Provider Rule – Affects LADWP’s fleet of vehicles and requires alternative fuel vehicles to be procured for light-duty vehicles or leases greater than 120 days. Updates include clarifications through which allowances can be earned and an update to the Department’s efforts towards compliance.
- EPA CSAPR – Updates to include SCAPR requirements as well as a price cap for NOx.
- South Coast Air Quality Management District’s (SCAQMD) NOx Regional Clean Air Market

(RECLAIM) Program – Updates made to allowance allocations for LADWP’s in-basin generating stations. The program is anticipated to end on December 31, 2025 and affected facilities will be required to purchase NOx ERCs instead.

- California Air Resources Board’s (CARB) Assembly Bill 32 (AB 32) Cap-and-Trade Program and Low Carbon Fuel Standard (LCFS) – Applies to entities that emit more than 25,000 metric tons of carbon dioxide equivalent. The LCFS targets transportation fuels specifically. Updates to include current allowance allocations and requirements related to credits and rebate programs for electric vehicles.

Detailed information regarding these programs is included in the Policy and is used as the basis for the contracts and financial transactions the LADWP is authorized to enter into. Additional information for these programs can be found in the attached Board Report starting on page three.

Except as described above, no other changes will be made to the Credit Policy.

Alternatives Considered – Approval of the proposed Amendment is required in order to allow LADWP to remain in compliance with various regulatory requirements regarding emissions.

CITY COMPLIANCE

California Environmental Quality Act (CEQA) – The LADWP has determined, subject to the Board of Water and Power Commissioners approval, that the proposed amendment to Section 23.143.1 of the Los Angeles Administrative Code and, subsequently, the update to the environmental and emission credit policy are exempt pursuant to CEQA Guidelines Sections 15060(c)(3) and 15378(b)(5). The proposed Amendment does not meet the definition of a project and activities will not result in either direct or indirect changes in the environment.

The City Attorney has reviewed and approved the proposed Resolution and Ordinance as to form. As the City Council has previously acted on this matter, Council approval is required to approve the amendment. This Office has reviewed the request and recommends approval.

FISCAL IMPACT STATEMENT

Approval of the amendment to Section 23.143.1 of the Los Angeles Administrative Code will have no impact on the General Fund. The environmental credits and renewable energy credits purchased or sold are for compliance purposes only and subject to limitations of prices. The proposed recommendations in this report comply with the Los Angeles Department of Water and Power’s adopted Financial Policies.

Attachments – LADWP September 25, 2025 Letter, Board Letter, Resolution, proposed Ordinance, and proposed Environmental Credit Policy