RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES **DATE**: JUNE 8, 2020

ITEM NO: 9

SUBJECT: Annual Report On City Of Riverside's Use Of Allowance Value And Proceeds Of Greenhouse Gas Allowances

ISSUE:

Receive and file update on the City of Riverside's use of allowance value and proceeds of Greenhouse Gas Allowances.

RECOMMENDATION:

That the Board of Public Utilities receive and file an update on the City of Riverside's use of allowance value and proceeds of Greenhouse Gas Allowances.

LEGISLATIVE HISTORY:

Assembly Bill (AB) 32, enacted in 2006, mandates the California Air Resources Board (CARB) to develop regulations to limit California's greenhouse gas (GHG) emissions to 1990 levels by 2020. In December 2011, CARB developed its framework, associated regulations and market mechanisms to implement AB 32, effective January 1, 2012.

Two (2) subsequent bills, Senate Bill (SB) 32 in 2016 and AB 398 in 2017, established new GHG emissions reduction targets and extended the State's authorization to use market mechanisms to meet these targets. Specifically, SB 32 expands the limit on GHG emissions to 40% below 1990 levels by 2030, and AB 398 permits the continued use of the Cap and Trade Program through 2030.

BACKGROUND:

The cornerstone of CARB's GHG regulations is its Cap and Trade Program for GHG allowances. Electric distribution utilities that emit GHGs (such as from the use of fossil fuels to generate electricity) have an annual compliance obligation and must possess sufficient GHG allowances to offset such GHG emissions. To mitigate rate impacts, the Cap and Trade Program provides utilities with "free" allocations of GHG allowances through 2030. Publicly owned utilities such as Riverside Public Utilities (RPU) can use these GHG allowances to offset their GHG compliance obligations.

The Cap and Trade Program regulations contain strict limitations governing the use of the value and the proceeds derived from the sale of the allocated allowances, as follows:

> "Proceeds obtained from the monetization of allowances directly allocated to a publicly owned electric utility shall be subject to any limitations imposed by the governing body of the utility and to the additional requirements set forth in sections 95892 (d) (3)-(5) and 95892 (e)."

> "Auction proceeds and allowance value obtained by an electrical distribution utility [EDU] shall be used exclusively for the benefit of retail ratepayers of each electrical distribution utility, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers. Allocated allowance auction proceeds may be used to reduce greenhouse gas emissions or returned to ratepayers. Any allocated allowance auction proceeds returned to ratepayers must be returned in a non-volumetric manner."
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> "Use of the value of any allowance allocated to an electrical distribution utility other than for the benefit of retail ratepayers consistent with the goals of AB 32 is prohibited, including use of such allowances to meet compliance obligations for electricity sold into the California Independent System Operator markets. Use of allocated allowance auction proceeds to pay for the costs of complying with MRR [Regulation for the Mandatory Reporting of Greenhouse Gas Emissions] or the AB 32 Cost of Implementation Fee Regulation (California Code of Regulations, sections 95200-95207) is prohibited. Returning allocated allowance auction proceeds to ratepayers in a volumetric manner is prohibited."
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> "The proceeds received from the sale of allowances allocated to an EDU must be spent by December 31 of the year ten years after the vintage year of the allowances. To be spent, the proceeds must not remain in any account owned or controlled by the EDU or its corporate associates. If the proceeds have not been spent within ten years, they must be returned to ratepayers in a non-volumetric manner by December 31 of the year eleven years after the vintage year of the allowances." (California Code of Regulations Section 95892(d)(1), (3), (5) and (6))."

On April 18, 2014, the Board of Public Utilities (Board) approved the City's Policy on the Permitted Use of Greenhouse Gas Allowance Value and Proceeds (Policy). The Policy establishes the guidelines to ensure RPU's compliance with Section 95892(d)(1) of the California Code of Regulations. On September 6, 2016, the City Council approved a new section (III.d.4) be added to the Policy's list of permissible uses: energy efficiency projects at City facilities or infrastructure that will result in GHG emission reductions. The City's Policy requires staff to provide the Board with annual reports on the use, value and proceeds of allocated GHG allowances.

CARB Reporting Requirements

RPU must track the value and proceeds from the sale of GHG allowances, and such proceeds must be earmarked for the benefit of RPU's electric retail customers consistent with the goals of AB 32. In addition, California Code of Regulations Section 95892(e) requires RPU to prepare an annual report to CARB's Executive Officer describing the disposition of any auction proceeds and allowance value received in the prior calendar year.

DISCUSSION:

CARB's Cap and Trade Program provides RPU with approximately one million allocated allowances per year through 2020, an amount sufficient to meet RPU's expected direct compliance obligations from 2013 through 2020 without additional rate impacts to RPU electric customers. Through 2020, RPU expects to have allocated allowances in excess of its compliance obligations. RPU may sell these surplus allowances in the Cap and Trade Program's quarterly auctions. RPU must earmark the proceeds from such allowance sales to benefit RPU's electric ratepayers consistent with the Cap and Trade Program regulations.

As noted above, AB 398 (2017) extended the Cap and Trade Program through December 31, 2030. On July 27, 2017, CARB approved the 2016 Cap and Trade Amendments that include RPU's 2021-2030 annual allowance allocations. These allowance allocations should be sufficient to cover RPU's 2021-2030 direct compliance obligations, though RPU will not have as many excess allowances to sell at the auctions.

Regulatory amendments currently underway will implement the requirements of AB 398 to address banking provisions and the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. RPU staff is participating in the regulatory amendment process and providing comments through the Southern California Public Power Authority (SCPPA) and the California Municipal Utilities Association (CMUA). This is believed to be the most effective method of participating in the regulatory amendment process, as the City's interests are aligned with the statewide publicly owned utilities efforts.

In 2019, RPU received approximately $6 million in proceeds related to the sale of GHG Allowances. As of December 31, 2019, RPU has received a cumulative total of approximately $36.5 million in proceeds from the sale of excess allocated allowances. All proceeds from the auctions are placed in a restricted reserve account to be used exclusively for the benefit of RPU ratepayers consistent with the Cap and Trade Program regulations and Riverside's Policy. The following table shows how the proceeds from the auctioned allowances were used to date and the balance of the restricted reserve account, including interest, as of December 31, 2019:

To-Date Use of Allowance Proceeds

Qualifying Expense	City Council Approval	2016	2017	2018	2019	Total
DC Fast Charger at City Hall	10/6/15	$28,205	$0	$0	$0	$28,205
Ice Energy Pilot Program	3/3/15	$300,000	$1,543,340	$514,528	$1,826,002	$4,183,870
City-Wide LED Street Lights	9/6/16	$0	$159,309	$300,274	$346,742	$806,325
Excess Renewable Energy	9/6/16	$0	$0	$7,547,593	$3,456,067	$11,003,660
Total		**$328,205**	**$1,702,649**	**$8,362,395**	**$5,628,811**	**$16,022,060**
Reserve Balance (including interest) as of December 31, 2019						**$21,045,564**

In 2019, RPU expended approximately $1.83 million on the Ice Energy Pilot Program, $0.35 million on the City-Wide LED Street Light Program, and $3.46 million on excess renewable energy for a total of $5.63 million, all for the benefit of RPU ratepayers. Excess renewable energy is power procured by RPU to serve customer load which is in excess to RPU's annual target Renewable Portfolio Standard (RPS) mandates.

FISCAL IMPACT:

There is no fiscal impact related to this recommended Board action.

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Attachments:

1. City of Riverside Policy: Permissible Use of Greenhouse Gas Allowance Value and Proceeds
2. Presentation