



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: DECEMBER 7, 2021**

**FROM: PUBLIC UTILITIES DEPARTMENT      WARDS: ALL**

**SUBJECT: ADOPT REVISIONS TO THE CITY OF RIVERSIDE'S POLICY ON THE PERMISSIBLE USE OF GREENHOUSE GAS ALLOWANCE VALUE AND PROCEEDS**

## **ISSUE:**

Adopt revisions to the City of Riverside's Policy on the Permissible Use of Greenhouse Gas Allowance Value and Proceeds.

## **RECOMMENDATION:**

That the City Council adopt revisions to the City of Riverside's Policy on the Permissible Use of Greenhouse Gas Allowance Value and Proceeds.

## **BOARD RECOMMENDATION:**

On October 25, 2021, the Board of Public Utilities voted unanimously, with all members present, to recommend that the City Council adopt revisions to the City of Riverside's Policy on the Permissible Use of Greenhouse Gas Allowance Value and Proceeds.

## **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 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 the statewide Cap and Trade Program. Electric distribution utilities that emit GHGs, such as from the use of fossil fuels (e.g., coal and natural gas) to generate electricity, have an annual compliance obligation and must annually submit to the CARB sufficient GHG allowances to cover the total GHG emissions. To mitigate rate impacts, the Cap and Trade Program provides utilities with allocations of GHG allowances through 2030. Publicly owned utilities such as Riverside Public Utilities (RPU) can use these allocated GHG allowances to offset their compliance obligations instead of having to purchase the allowances necessary for compliance.

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)-(8) and 95892 (e).”

“Allowance value, including any allocated allowance auction proceeds, obtained by an electrical distribution utility must be used for the primary benefit of retail electricity ratepayers of each electrical distribution utility, consistent with the goals of AB 32, and may not be used for the primary benefit of entities or persons other than such ratepayers. Allocated allowance auction proceeds must be used to reduce greenhouse gas emissions or returned to ratepayers using one or more of the approaches described in sections 95892 (d) (3) (A)-(D) and may also be used to pay for administrative and outreach costs and educational programs described in section 95892d (d) (4).”

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.

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)).

CARB has also issued guidance that provides clarification to the intent of the language in the regulation in the “Guidance on Electrical Distribution Utilities and Natural Gas Suppliers Use and Reporting of Allocated Allowance Auction Proceeds” dated March 2021.

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) adding to the Policy's list of permissible uses: energy efficiency projects at City facilities or infrastructure that will result in GHG emission reductions. **It is important to note that if the Cap and Trade regulation is more restrictive or prescriptive than the City's Policy as to the use of allowance value, the regulation takes precedence.** The City's policies can be more restrictive or provide direction within the confines of the regulations but may not allow a use of the value that is inconsistent with the regulation.

To date, allowance value has been used to fund a direct current fast electric vehicle charger, to procure renewable generation that is in excess of state renewable portfolio standard requirements, support the conversion of the City's streetlights to light-emitting diode (LED) streetlights, and to provide peak demand reduction through the Ice Energy pilot energy storage customer program. Future expenditures will align with the policy discussed in this report.

## **DISCUSSION:**

CARB's Cap and Trade Program provided RPU with approximately one million allocated allowances per year through 2020, which was sufficient to meet RPU's direct compliance obligations from 2013 through 2020 without additional rate impacts to RPU electric customers. RPU sold the surplus allowances in the Cap and Trade Program's quarterly auctions. The proceeds from such allowance sales were earmarked 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.

The existing City of Riverside Policy on Permissible Use of Greenhouse Gas Allowance Value and Proceeds identifies permissible uses of the proceeds from the sale of allocated allowances including, but not limited to:

1. Investments/Costs associated with existing or renewable resources;
2. Investments/Costs associated with planning, design, development, and procurement of distributed renewable resources on City owned lands;
3. Investments/Costs associated with planning, design, development, and procurement of cost-effective energy storage technologies/devices;
4. Investments/Costs associated with planning, design, development, and procurement of cost-effective energy efficiency, demand response, and peak-shifting programs for the benefit of Riverside's retail electric customers;
5. Supplemental procurement of GHG allowances or offsets that are required to meet RPU's compliance obligation associated with its retail load serving function; and
6. Establishment of a community carbon tracking system.

Staff recommends revisions to the Policy to include the goals of SB 32, and AB 398 which extends the Cap and Trade Program through 2030. Staff also recommends modifying the permissible use

of proceeds from the sale of allocated allowances as follows:

1. Add: Electric vehicle infrastructure to support a City fleet conversion;
2. Add: Building electrification and customer decarbonization programs that will result in GHG emissions reductions;
3. Add: Energy efficiency and decarbonization projects at City facilities or infrastructure that will result in GHG emissions reductions;
4. Remove: Two activities for energy efficiency auditing or recommendation reports that do not result in direct GHG emissions reductions; and
5. Remove: The establishment of the community carbon tracking system because it does not result in direct GHG emissions reductions as required by the regulation.

### **STRATEGIC PLAN ALIGNMENT:**

This item contributes to Strategic Priority No. 4 Environmental Stewardship and Goal No. 4.1 - Rapidly decrease Riverside's carbon footprint by acting urgently to reach a zero-carbon electric grid with the goal of reaching 100% renewable energy production by 2040 while continuing to ensure safe, reliable, and affordable energy for all residents.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. Community Trust – The City of Riverside's Policy on Permissible Use of Greenhouse Gas Allowance Value and Proceeds has been adopted and approved in a transparent public process by the Board of Public Utilities and City Council. Annual reports on the use of allowance value and proceeds of GHG allowances are provided annually to the Board of Public Utilities.
2. Equity – Proceeds from the sale of allowances are used exclusively and for the equitable benefit of all RPU ratepayers consistent with the Cap and Trade Program regulations and Riverside's Policy.
3. Fiscal Responsibility – To mitigate rate impacts, RPU uses the GHG allowances to offset their compliance obligations. Proceeds received from the monetization of additional allowances are placed in a restricted reserve account and used exclusively for the benefit of RPU ratepayers.
4. Innovation – The City of Riverside's Policy on Permissible Use of Greenhouse Gas Allowance Value and Proceeds is creatively designed to ensure full compliance with the Cap and Trade Program, while benefiting RPU ratepayers.
5. Sustainability & Resiliency – The GHG allowance value received by RPU has been used to fund a variety of sustainable projects, including the conversion of the City's streetlights to light-emitting diode (LED) streetlights.

### **FISCAL IMPACT:**

There is no fiscal impact related to this action.

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Certified as to  
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Approved by: Kris Martinez, Interim Assistant City Manager  
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Red-lined Version of the City of Riverside Policy: Permissible Use of Greenhouse Gas Allowance Value and Proceeds
2. Clean Version of the City of Riverside Policy: Permissible Use of Greenhouse Gas Allowance Value and Proceeds
3. Guidance on Electrical Distribution Utilities and Natural Gas Suppliers Use and Reporting of Allocated Allowance Auction Proceeds
4. Presentation