RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES **DATE: JUNE 13, 2022**

SUBJECT: **ANNUAL REPORT ON CITY OF RIVERSIDE'S USE OF ALLOWANCE VALUE AND PROCEEDS OF GREENHOUSE GAS ALLOWANCES**

ISSUE:

Consider receiving an update on City of Riverside's use of allowance value and proceeds of Greenhouse Allowances.

RECOMMENDATION:

That the Board of Public Utilities receive and file an update of 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. The Cap and Trade program was established as one of the market-based mechanisms established by CARB to help the state meet its GHG emissions target.

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 established 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 and other industries 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 for electric distribution utilities' customers, the Cap and Trade Program provides the utilities with allocations of GHG allowances through 2030. Publicly owned utilities such as Riverside Public Utilities (RPU) can use these 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 that govern 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)."
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> "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 95892(d) (4)."
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> Use of the value of any allowance allocated to an electrical distribution utility other than for the primary 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 manger 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), (6), and (8).

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 July 25, 2016, and September 6, 2016, the Board and City Council, respectively, 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.

On October 25, 2021, and December 7, 2021, the Board and City Council respectively, adopted the revisions to the City's Policy to include the goals of SB 32, and AB 398 which extend the Cap and Trade Program through 2030 and modifying the permissible use of proceeds from the sale of allocated allowances.

The City's Policy requires staff to provide the Board with annual reports on the use of allowance value and proceeds of GHG allowances. **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. Policy amendments will be presented to Board and City Council for approval as changes to the regulations are made over time.

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 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.

Table 1: Total Allowance Allocation 2021 – 2030

Year	Allowances
2021	1,060,927
2022	1,056,559
2023	1,039,042
2024	1,015,558
2025	1,000,815
2026	991,145
2027	799,554
2028	609,032
2029	601,432
2030	583,388

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 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 2021, RPU received approximately $10.4 million in proceeds related to the sale of GHG Allowances. As of December 31, 2021, RPU has received a cumulative total of approximately $54.2 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, 2021.

Table 2: To-Date Use of Allowance Proceeds

Qualifying Expense	City Council Approval	2016	2017	2018	2019	2020	2021	Total
DC Fast Charger at City Hall	10/6/2015	$28,205	$0	$0	$0	$0	$0	$28,205
Ice Energy Pilot Program	3/3/2015	300,000	1,543,340	514,528	1,826,002	0	0	4,183,870
City-Wide LED Street Lights	9/6/2016	0	159,309	300,274	346,742	2,397,538	2,564,194	5,768,057
Excess Renewable Energy	9/6/2016	0	0	7,547,593	3,456,067	5,535,680	8,102,097	24,641,437
Total		**$328,205**	**$1,702,649**	**$8,362,395**	**$5,628,811**	**$7,933,218**	**$10,666,291**	**$34,621,569**
Reserve Balance (including interest) as of December 31, 2021								**$20,663,278**

In 2021, RPU expended approximately $2.6 million on the City-Wide LED Street Light Program, and $8.1 million on excess renewable energy for a total of $10.7 million.

As of December 31, 2021, the balance in the restricted reserve account is approximately $20.7 million. This account can only be used to fund activities that result in direct GHG reductions, as defined in the Cap and Trade Program regulations and the City's Permissible Use Policy.

<u>STRATEGIC PLAN ALIGNMENT</u>:

This item contributes to the following strategic priorities and goals from the Envision Riverside 2025 Strategic Plan:

> **Strategic Priority 4, Environmental Stewardship**
> Goal 4.1 Rapidly decrease Riverside's carbon footprint by acting urgently to reach a zero-carbon electric grid with the goal of reaching 100% zero-carbon electricity 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 annual reports on the use of allowance value and proceeds of GHG are provided annually to the Board of Public Utilities supporting transparency.

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