



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** JUNE 6, 2016

**ITEM NO:** 8

File ID – 16-1716 - Consent

**SUBJECT:** ANNUAL ELECTRICAL DISTRIBUTION UTILITY USE OF ALLOCATED ALLOWANCE VALUE REPORT TO THE CALIFORNIA AIR RESOURCES BOARD, AND ATTESTATION – COMPLIANCE REPORTING

**ISSUE:**

The issue for Board of Public Utilities (Board) consideration is to approve and attest to the accuracy of, the City's 2015 use of allowance value associated with its allocation of Greenhouse Gas Allowances (GHG) from the California Air Resources Board (CARB).

**RECOMMENDATIONS:**

That the Board of Public Utilities:

1. Approve the Electrical Distribution Utility Use of Allocated Allowance Form;
2. Attest as to the accuracy of the Electrical Distribution Utility Use of Allocated Allowance Form; and
3. Authorize the City Manager or his designee to execute and submit the attestation.

**BACKGROUND:**

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

The cornerstone of CARB's GHG regulations is its Cap and Trade Program for GHG allowances. Electrical Distribution Utility's that emit GHGs (such as fossil fuels associated with generating electricity) have an annual compliance obligation, and must possess sufficient GHG allowances to offset such GHG emissions.

To mitigate an Electrical Distribution Utility's retail electric rate impacts from the mandatory Cap and Trade Program, the implementing regulations provided Electrical Distribution Utility's with a "free" allocation of GHG allowances through calendar year 2020. These GHG allowances can be used to directly offset a Publicly Owned Utilities' GHG compliance obligation.

The Cap and Trade regulations contain strict limitations governing the use of the value and the proceeds derived from the sale of the allocated allowances, including limitations imposed by the Utilities' governing body. The limitations are found in the Cap-and-Trade Regulation Section 95892(d)(1), (3) and (5) of The California Code of Regulations as follow:

*"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."*

*“Auction proceeds and allowance value obtained by an electrical distribution utility 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.”*

*“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.”*

On April 18, 2014, the Board approved the City’s Policy on the Permitted Use of Greenhouse Gas Allowance Value and Proceeds (Attachment 1). The Policy establishes the guidelines to ensure Riverside Public Utilities compliance with Section 95892(d)(1) of the California Code of Regulations; Article 5: California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms.

The City’s Policy, requires annual reports on the Use of Allocated Allowance Value and proceeds of GHG to be provided to the Board.

### ***Recommended Additions***

Although the current policy lists some approved uses of the GHG proceeds, staff recommends adding projects that retrofit current inefficient lighting (i.e., incandescent, compact florescent, mercury vapor, etc.,) with more efficient Light Emitting Diode (LED) technology due to the reduced energy consumption of LEDs that resulting lower GHG levels and is consistent with the intent of AB32.

### ***Reporting Requirements***

The City must track the value and proceeds from the sale of the GHG allowances separately and such proceeds must be earmarked for the benefit of the RPU’s electric retail customers consistent with the goals of AB 32. In addition, Section 95892(e) requires Electrical Distribution Utility’s 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. This attached report fulfills this regulatory obligation (Attachment 2).

### ***Riverside Impacts***

The California Code Regulations provides for RPU receiving approximately one million allocated allowances per year through 2020 – an amount sufficient to meet its expected direct compliance obligations from 2013 through 2020 – without additional rate impacts to RPU electric customers. RPU expects to have allocated allowances in excess of its compliance obligations that can be sold into the CARB’s Cap and Trade quarterly auctions, with such proceeds earmarked to benefit electric ratepayers consistent with the Cap and Trade regulations.

On April 29, 2015, the Governor Brown issued an Executive Order B-30-15 that among other things, established a lower GHG reduction target to 40% below 1990 levels by the year 2030. CARB has initiated a stakeholder process to discuss changes to the Cap and Trade program post 2020. RPU staff is participating in the process and is providing its comments through the Southern California Public Power Authority (SCPPA). This is believed to be the most effective method, as the City’s interests are aligned with the larger SCPPA effort.

RPU has participated in a total of twelve (12) auctions since the inception of the Cap and Trade program and received the following proceeds from the sale of such excess allocated allowances:

CALENDAR YEAR	ALLOCATED ALLOWANCES	EXCESS ALLOWANCES SOLD	PRICE OF ALLOWANCES*	SALES PROCEEDS RECEIVED
2013	1,081,740	81,740	\$11.48 - \$14.00	\$1,027,203
2014	1,069,456	369,456	\$11.48 - \$12.10	\$4,302,315
2015	1,043,302	343,302	\$12.21 - \$12.73	\$4,269,819
<b>TOTAL</b>	<b>3,194,498</b>	<b>794,498</b>		<b>\$9,599,337</b>

*\*By regulation, annual price increases of 5% plus changes in CPI for the previous twelve month period.*

### ***Use of Allowance and GHG Proceeds***

All proceeds from the auction are placed in a restricted reserve account to be used exclusively for the benefit of RPU ratepayers consistent with the Cap and Trade regulations and Riverside's Policy.

### **FISCAL IMPACT:**

The proceeds from the sale of GHG allowances are being separately tracked in a restricted reserve account and will be used for purposes consistent with AB 32 and its implementing regulations for the benefit of the City's electric ratepayers.

Prepared by: Reiko Kerr, Utilities Assistant General Manager/Resources  
 Approved by: Girish Balachandran, Utilities General Manager  
 Approved by: John A. Russo, City Manager  
 Approved as to form: Gary G. Geuss, City Attorney

Certifies availability of funds: Laura Chavez-Nomura, Utilities Assistant General Manager/Finance

### **Attachment:**

1. Permissible Use of Greenhouse Gas Allowance Value and Proceeds
2. Electrical Distribution Utility Use of Allocated Allowance Value Form and Attestation