



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JUNE 12, 2017

ITEM NO: 6

SUBJECT: ANNUAL REPORT ON THE CITY OF RIVERSIDE'S USE OF ALLOWANCE VALUE AND PROCEEDS OF GREENHOUSE GAS (GHG) ALLOWANCES

ISSUE:

Receive, review and file this 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, review and file this update on the City of Riverside's use of allowance value and proceeds of Greenhouse Gas (GHG) Allowances.

BACKGROUND:

Assembly Bill (AB) 32, was enacted in 2006 and mandated California Air Resources Board (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. The Policy establishes the guidelines to ensure Riverside Public Utilities (RPU) 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.

On September 6, 2016, City Council approved a new section, III.d.4., be added to the Policy list of permissible uses, energy efficiency projects at City facilities or infrastructure that will result in greenhouse gas emission reductions (Attachment).

The City’s Policy requires annual reports on the use of allocated allowance value and proceeds of GHG to be provided to the Board.

CARB 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.

DISCUSSION:

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.

Enacted in 2015, Senate Bill (SB) 350 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.

In 2016, RPU received \$4,778,676 in proceeds related to the sale of GHG Allowances. As of December 31, 2016, RPU has received a cumulative total of \$14,378,013 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 regulations and Riverside’s Policy. Table 1 shows how the proceeds from the auctioned allowances were used to date and the balance of the restricted reserve account as of December 31, 2016:

Table 1

QUALIFYING EXPENSE	APPROVED	CALENDAR YEAR	AMOUNT SPENT
DC Fast Charger at City Hall	City Council 10/06/2015	2016	\$28,205
Ice Energy Pilot Program	City Council 03/03/2015	2016	\$300,000
Total Qualifying Expenses			\$328,205
Reserve Balance as of 12/31/16			\$14,049,808

Table 2 includes future projects that will be funded from existing GHG proceeds and were approved by City Council:

Table 2

QUALIFYING EXPENSE				APPROVED	APPROVAL AMOUNT
City-wide Program-	Streetlight Work Order	LED 1611216	Conversion	City Council 09/06/2016	\$1,150,000
Total					\$1,150,000
Available Reserve Balance					\$12,899,808

Staff had previously briefed the Board on the lawsuit challenging CARB's authority to create the "cap and trade" program, including the auctions (*California Chamber of Commerce v. State Air Resources Board*). On April 6, 2017, the appellate court ruled in favor of CARB, holding that CARB had the discretion to create this program, and that the program does not impose a tax in violation of Proposition 13, because the purchase of allowances is a voluntary decision which is not compelled by CARB.

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.

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Attachments:

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