CITY OF RIVERSIDE POLICY

PERMISSIBLE USE OF GREENHOUSE GAS ALLOWANCE VALUE AND PROCEEDS

INTRODUCTION:

Assembly Bill (AB) 32, enacted in 2006, mandated that the California Air Resources Board (ARB) develop a framework and the associated regulations to limit the GHG emissions in California to 1990 levels by the year 2020. Central to the ARB's GHG regulations is the establishment of the Cap-and-Trade program for GHG allowances, with the enforceable compliance obligation beginning on January 1, 2013, for GHG emissions.

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.

The electrical distribution utilities are allocated certain amounts of GHG allowances at no cost through CY 2030, to ease the transition to the Cap-and-Trade program and mitigate the cost and rate impacts to retail electric customers. Each allowance permits the holder of the allowance to emit one metric ton of carbon-dioxide equivalent (CO_2e) emissions.

PURPOSE:

This Policy established the guidelines to ensure RPU's compliance with §95892(d)(1) of the California Code of Regulations, Article 5: California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms.

Electrical distribution utilities are provided with certain amounts of freely-allocated allowances through CY 2030, to transition to a Cap-and-Trade program, while mitigating rate impacts to retail electric customers. Each allowance permits the owner of the allowance to emit one metric ton of carbon-dioxide equivalent (CO_2e) emissions.

USE OF PROCEEDS- REGULATORY COMPLIANCE:

Riverside Public Utilities (RPU) must comply with the regulatory restrictions and requirements governing the use of proceeds from allocated allowances, including;

I. "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). "

II. §95892(d)(3) – "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)." The objective of AB 32 and SB 32 is to reduce state-wide GHG emissions.

III. §95892(d)(7) – "Prohibited Uses of Allocated Allowance Value. Use of the value of any allowance allocated to an electrical distribution utility, other than for the primary benefit of retail electricity ratepayers consistent with the goals of AB 32 is prohibited. Prohibited uses include:

a. The use of allocated allowances to meet compliance obligations for electricity sold into the California Independent System Operator markets;

b. Use of allocated allowance auction proceeds to pay for the costs of complying with MRR [Regulation for the Mandatory Reporting of Greenhouse Gas Emissions], the AB 32 Cost of Implementation Fee Regulation (California Code of Regulations, section 95200-95207), or the Cap-and-Trade Regulation, including the purchase of allowances, except for the costs allowable pursuant to sections 95892 (d)(3)-(4);

c. Use of allocated allowance auction proceeds to pay for lobbying costs, employee bonuses, shareholder dividends, or costs, penalties, or activities mandated by any legal settlement, administrative enforcement action, or court order; and

d. Returning allocated allowance auction proceeds to ratepayers in a volumetric manner."

IV. "Deadline for Use of Allocated Allowance value. For allocated allowances received on or after October 1, 2017, 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, and the value of allocated allowances received prior to October 1, 2017 must be spent by December 31, 2027. 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))."

V. Permissible uses of the proceeds from the sale of allocated allowances, established by the City of Riverside, include, but are not limited to:

a. Investments/Costs associated with existing and/or new renewable resources, which may include:

1. Utility scaled renewable projects (e.g.: geothermal, solar, wind, biomass, renewable gas, hydrogen)

2. RPU-owned local solar projects

b. Investments/Costs associated with planning, design, development and procurement of distributed renewable resources on City owned lands.

c. Investments/Costs associated with planning, design, development and procurement of cost-effective energy storage technologies/devices.

d. 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, which may include the following:

1. Publicly-available electric vehicle charging stations or infrastructure.

2. Electric vehicle infrastructure to support a City fleet conversion.

3. Building electrification and customer decarbonization programs that will result in GHG emissions reductions.

4. Energy efficiency and decarbonization projects at City facilities or infrastructure that will result in GHG emissions reductions.

e. Supplemental procurement of GHG allowances or offsets that are required to meet RPU's compliance obligation associated with its retail load serving function.

VI. Additional allowable uses may be added to the Policy in the future subject to Board and City Council approvals.

REPORTING:

VII. The tracking and reporting of the allowance value and use of proceeds, is as follows:

a. The value and proceeds of the GHG allowances shall be tracked separately and earmarked for the benefit of the RPU's electric retail customers.

b. ARB reporting will be based on requirements as specified in the regulation.

c. Annual reports on the use of allowance value and proceeds of GHG allowances shall be provided annually to the Board of Public Utilities.

d. The City Manager or his designee shall attest and file the annual Greenhouse Gas Allowance proceeds usage report with the Executive Director of the California Air Resources Board.