



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE: MARCH 9, 2026**

**SUBJECT: CITY OF RIVERSIDE'S ALLOWABLE USE OF VALUE AND PROCEEDS FROM THE SALE OF GREENHOUSE GAS ALLOWANCES**

**ISSUE:**

Consider receiving an update on the City of Riverside's allowable use of value and proceeds from the sale of Greenhouse Gas Allowances.

**RECOMMENDATION:**

That the Board of Public Utilities receive and file an update of the City of Riverside's allowable use of value and proceeds from the sale of Greenhouse Gas Allowances.

**LEGISLATIVE HISTORY:**

Assembly Bill (AB) 32, enacted in 2006, mandated the California Air Resources Board (CARB) to develop regulations to limit California's greenhouse gas (GHG) emissions to 1990 levels by 2020. The Cap-and-Trade Program (Program) was established in December 2011 as one of the market-based mechanisms established by CARB to help the state meet its GHG emissions target.

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. The Program regulation in effect for the 2026 calendar year compliance period was adopted in 2019 and contains provisions from these bills.

State legislation and executive orders have been adopted since 2018 that will affect future years of the Program with regulatory amendments currently underway. These actions are expected to affect the Program stringency and the overall cap on GHG emissions, which in turn could lower the number of allowances allocated to utilities and other entities subject to the regulation.

Partially in response to these actions, on December 15, 2022, the CARB Board adopted the 2022 Scoping Plan Update. This Scoping Plan Update proposed a technologically feasible, cost-effective, and equity-focused path to continue reducing GHG emissions and meeting the state's climate target. Importantly, the updated 2022 Scoping Plan incorporated the latest GHG related legislation with the focus of the updates on creating a roadmap for the State to achieve 100%

carbon neutrality by 2045.

Finally, the most recent legislation signed into law in October 2025 is AB 1207. While the bill renames the program from Cap-and-Trade to Cap-and-Invest, its primary intent was the extension of CARB's authorization to administer the program through 2046 to help the state achieve its goal of 100% carbon neutrality by 2045. The bill maintained many key provisions of the program including reaffirming the direction to CARB to continue the allocation of free allowances to utilities to support affordability. The value from the allowances must continue to provide a direct customer benefit and reduce GHG emissions. A second significant change affecting utilities is the direction to CARB to allocate allowances from natural gas providers to electric distribution utilities by 2030. EDUs will be required to non-volumetrically return the value to customers once the allocation of these allowances begins. CARB is in the process of updating the Program regulations which are expected to be adopted later in 2026.

## **BACKGROUND:**

### California Cap and Trade Program Regulations and Planning

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 to generate electricity (e.g., from the combustion of coal and natural gas), have an ongoing compliance obligation and must periodically submit sufficient GHG allowances to CARB to cover their annual GHG emissions. To mitigate rate impacts for electric distribution utilities' customers, the Program provided the 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. Any leftover, excess allocated allowances (e.g., allowances not used for direct compliance) must be offered into the quarterly Cap-and-Trade Auction process. Allowances sold in the Auctions yield proceeds (e.g., revenue) to the utility; these proceeds are in turn to be used for the exclusive benefit of the utility's ratepayers.

Program regulations contain strict limitations that govern the use of the value and the proceeds derived from the sale of the allocated allowances. CARB has published the following regulatory language regarding the use of proceeds derived from the sale of allocated allowances:

“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 95892(d) (4).”

“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 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), (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 February 2022 (revised March 2023).

*Riverside City Policy on the Use of GHG Allowance Value and Proceeds*

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 established guidelines to ensure RPU’s compliance with Section 95892(d)(1) of the California Code of Regulations. The Policy outlined how RPU could utilize the value of the allocated allowances and required staff to provide the Board with annual reports on the use of allowance value and proceeds of GHG allowances.

After the initial adoption of the City Policies, amendments have been approved to reflect changes in the regulation and changes to permitted uses. On July 25, 2016, and September 6, 2016, the Board and City Council, respectively, approved a section (III.d.4) that 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 revisions to the City’s Policy to include the goals of SB 32 and AB 398 which extend the Program through 2030. Additionally, the revisions further modified the permissible use of proceeds from the sale of allocated allowances.

**It is important to note that if the Cap-and-Trade Program 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 Program regulation but may not allow a use of the value that is inconsistent with the regulation.

Another caveat is that proceeds can only be used by the electric utility as specified by the regulations and must show GHG emission reductions. RPU can possibly assist other City departments similar to assisting any customer (such as through a rebate program); however, RPU is not allowed to simply allocate money directly to another department or the general fund for use. RPU is responsible for the expenditure of funds, ensuring that the expenditure falls within the

regulatory requirements, and verifying that all expenditures are for the benefit of Riverside ratepayers.

### 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:**

The complete City of Riverside Policy entitled "*Permissible Use of Greenhouse Gas Allowance Value and Proceeds*" is provided as an attachment to this docket (see Attachment #1). Section V of this Policy document covers the permissible uses of proceeds; this section is reproduced below for discussion purposes.

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.

The justifications for including uses (a) through (e) are explained in more detail below.

Existing and/or new renewable resources (a). By definition, the procurement of any type of renewable energy product by a utility to serve its retail load must reduce that utility's reliance on more traditional, carbon intensive energy sources. Thus, GHG proceeds can be applied towards the costs for renewable energy procurement from renewable energy assets either inside or outside a utility's distribution system. Additionally, the procurement of carbon-free energy in place of carbon emitting energy benefits all ratepayers (via lower GHG emissions) and the reimbursement of such costs helps keep all ratepayers' costs lower than they otherwise would be.

To date, RPU has used approximately 79% of its GHG auction proceeds to pay for excess renewable energy purchases. It should also be noted that although RPU has historically only reimbursed its power supply budget for costs associated with excess purchases, CARB has imposed no regulations that limit the use of proceeds in this manner. Under CARB's adopted regulations, a public EDU can use auction proceeds to reimburse its power supply budget for costs associated with any renewable energy purchases.<sup>1</sup>

Distributed Renewable Resources on City owned lands (b). CARB supports the use of allowance value for adding renewable resources. This allowable use item was intended by the City to use the value for distributed renewable resources, if it was appropriate and cost effective. However, as of January 2026, no GHG auction proceeds have been spent on such efforts.

Cost-effective Energy Storage technologies/devices (c). CARB recognizes that energy storage represents a critical technology that must be deployed in sufficient volume to fully decarbonize the electric grid. As such, Riverside's adopted policy allows RPU to partially/fully reimburse its power supply costs for any thermal, mechanical, or chemical energy storage technologies that can be deployed to effectively reduce the utility's energy or capacity costs in the CAISO market.

Historically, partial reimbursement for the Ice Bear project was justified under this allowable use of proceeds option. Going forward, staff plan on using GHG proceeds to reimburse some of the costs associated with developing and deploying the Springs 36 MW / 144 MWh Battery Energy Storage (BES) system.

Cost-effective Energy Efficiency, Demand Response, and peak-shifting programs (d). This allowable use item is designed to cover any of the programs referenced above that, when implemented, yield positive GHG reduction benefits to all RPU ratepayers. It includes both vehicle electrification and building decarbonization programs and infrastructure, in addition to customer and City decarbonization projects.

The primary program that has been implemented under this allowable use of proceeds option is RPU's LED Streetlight Replacement project. This effort represents a City-wide infrastructure decarbonization project that results in meaningful GHG emission reductions while simultaneously benefiting all City residents.

Supplemental Procurement of GHG Allowances (e). This use was initially intended to buy allowances if insufficient allowances were turned in for retail compliance. However, this is no longer an allowed use of allowance value and will be removed when staff brings an updated policy recommendation later this calendar year.

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<sup>1</sup> See Question 10 and CARB's response in: CARB, "Guidance on Electrical Distribution Utilities and Natural Gas Suppliers Use and Reporting of Allocated Allowance Auction Proceeds," ISD-CCPEB (Rev. March 2024)

It is also worth pointing out that this City of Riverside Policy does not cover all the acceptable use of proceeds with respect to CARB regulations. For example, it is clearly permissible for RPU to refund a portion of its GHG proceeds to RPU ratepayers on a non-volumetric basis, even though this Riverside Policy document does not explicitly mention ratepayer refunds. Likewise, staff believe that budgetary reimbursements for the purchase of carbon-free energy products would also qualify as an acceptable use of proceeds under current CARB regulations, provided this carbon-free energy was used to serve RPU’s retail load. This is why the Policy language used at the beginning of section V contains the caveat “**include, but are not limited to**”.

Anticipated Future Use of Proceeds

To date, RPU has materially funded three primary efforts using GHG auction revenues: (1) the Ice Energy Pilot Program, (2) the City-wide LED Streetlight Replacement project, and (3) the increased decarbonization of RPU’s power portfolio via the purchase and reimbursement of excess renewable energy. Table 1 shows how the proceeds from auctioned allowances have been used to date, along with the balance of the restricted reserve account, including interest, as of December 31, 2024.

For 2025, RPU expects to credit an additional \$10.5 million towards the purchase of excess renewable energy. Likewise, RPU expects to credit approximately \$5.1 million towards finishing the City-Wide LED Street Light Program. (Note: The DC Fast Charger at City Hall was a one-time purchase and the Ice Energy Pilot Program ended in 2019.)

**Table 1: To-Date Use of Allowance Proceeds**

Qualifying Expense	DC Fast Charger at City Hall	Ice Energy Pilot Program	City-Wide LED Street Lights	Excess Renewable Energy	Total
City Council Approval	10/6/2015	3/3/2015	9/6/2016	9/6/2016	
Year	Proceeds (\$)				
2016	\$28,205	\$300,000	\$0	\$0	\$328,205
2017	\$0	\$1,543,340	\$159,309	\$0	\$1,702,649
2018	\$0	\$514,528	\$300,274	\$7,547,593	\$8,362,395
2019	\$0	\$1,826,002	\$346,742	\$3,456,067	\$5,628,811
2020	\$0	\$0	\$2,397,538	\$5,535,680	\$7,933,218
2021	\$0	\$0	\$2,564,193	\$8,102,097	\$10,666,290
2022	\$0	\$0	\$1,852,780	\$11,450,421	\$13,303,201
2023	\$0	\$0	\$2,026,476	\$11,344,851	\$13,371,327
2024	\$0	\$0	\$112,491	\$8,067,230	\$8,179,721
<b>Total</b>	<b>\$28,205</b>	<b>\$4,183,870</b>	<b>\$9,759,803</b>	<b>\$55,503,939</b>	<b>\$69,475,817</b>
<b>Reserve Balance (including interest) as of December 31, 2024</b>					<b>\$31,812,720</b>

Looking forward towards the 2026-2030 time-frame, staff currently anticipate receiving additional auction revenue. Staff are tentatively planning to use our current and future accumulated auction revenues over the next five years to fund the activities/programs shown in Table 2 below.

**Table2: Plausible Future Use of Allowance Proceeds**

Qualifying Expense	EV Charging Infrastructure	RPU Owned Energy Storage Projects	RPU Owned Local Solar Projects	Excess Renewable Energy
Time-Frame	Proceeds (\$)			
2026-2030	Up to \$10,000,000	Up to \$15,000,000	Up to \$5,000,000	all remaining funds

EV Charging Infrastructure. Staff anticipate that RPU will need to spend up to \$10 million to develop sufficient EV charging infrastructure at multiple Electric and Water Utility facilities to fully electrify the Utility’s fleet of vehicles. A major EV charging infrastructure project will need to be undertaken at the Utility Operations Center. Secondary projects will also need to be undertaken at the POE facility and JW North water treatment facility, in addition to other potential staff locations. Covering the infrastructure costs for hosting these charging stations is deemed an allowable use of proceeds under both CARB and RPU regulations, and any costs not covered in this manner will most likely have to be funded from either RPU Operational or Capital Improvement budget allocations (both of which are ratepayer funded).

RPU Owned Energy Storage Projects. As discussed in detail in RPU’s 2023 Integrated Resource Plan (IRP), the 36 MW Springs natural gas generation facility is nearing the end of its useful life. Since its deployment in 2002, this facility has provided the City of Riverside with 36 MW of internal generation capabilities. In the prior decade, energy from the Springs facility was routinely used to support Riverside’s internal distribution system during critical peak load events. Additionally, the 36 MW of available capacity qualifies as Local Resource Adequacy (RA) under CAISO tariff regulations, saving RPU approximately \$3.5 million per year in RA costs. For all these reasons, RPU is planning on replacing this generation facility in 2030 with a new 36 MW / 144 MWh Battery Energy Storage (BES) facility that will be capable of providing the same energy and RA benefits. Studies performed both during and after the 2023 IRP suggest that this BES will cost around \$60.0 million to engineer, design, and build. Although this new BES should pay for itself over its life span (via expected energy arbitrage revenues and associated RA benefits), staff are considering using allowance proceeds to offset up to 25% of these BES development costs.

RPU Owned Local Solar Projects. Staff are currently examining the merits of repowering the (now decommissioned) solar PV facility at the Utility Operations Center (UOC) and possibly pairing this new solar deployment with an additional battery energy storage system. If developed, this PV+BES generation project would be deployed and operated as an “in-front-of-the-meter” CAISO asset (like the Tequesquite PV facility), while also be designed to independently power the Utility Operations Center during any grid blackout events. As such, the solar generation from this facility would count towards meeting RPU’s increasing renewable energy mandate, while the battery could serve as a critical back-up power source for the UOC during emergencies. While the total cost for such a project has not yet been determined, staff are proposing that up to \$5.0 million of allowance proceeds<sup>2</sup> be tentatively allocated towards this endeavor.

Excess Renewable Energy. For at least the last 15 years, staff have been transitioning the Electric Utility’s power portfolio towards more renewable energy generation, while moving away from coal and natural gas generation. As outlined in the Envision Riverside 2025 Strategic Plan, the City has a goal of reaching 100% zero-carbon electricity production by 2040 while continuing to ensure safe, reliable, and affordable energy for all residents. Since the procurement of carbon-free energy in place of carbon emitting energy benefits all ratepayers and the reimbursement of

<sup>2</sup> Staff is also currently developing proposals for the use of Public Benefit Charge Funds which may be used for this project instead of GHG auction revenues.

such costs helps keep all ratepayers' bills lower than they otherwise would be, staff recommend that the bulk of our future allowance proceeds continue to be applied towards offsetting these renewable energy procurement costs.

It should be noted that the above list of projects is not meant to be exclusive or exhaustive. Indeed, other future projects or programs may very well arise that merit some degree of financial support via the use of GHG allowance proceeds. However, regardless of specific project in question, staff have always relied on the following three supplemental questionnaire guidelines when considering how to best use and allocate allowance proceeds:

- 1. Does the proposed project or program provide tangible health, quality-of-life, and/or economic benefits to all RPU ratepayers? (Or if not all ratepayers, then at least all ratepayers in the targeted customer class(es)?)*
- 2. Does the proposed project or program offset unavoidable costs that the Utility would otherwise have to incur and then collect from RPU ratepayers? (In other words, will it help keep RPU Electric rates / customer bills lower than they otherwise would be without such funding?)*
- 3. Will the proposed project or program assist the Utility in meeting and/or exceeding its' adopted decarbonization goals, and/or facilitate a meaningful reduction in the Utility's carbon footprint?*

The RPU Executive team has used these questionnaire guidelines in conjunction with the adopted CARB and City of Riverside regulations when assessing which projects or programs should qualify for any allocation of allowance proceeds. Staff respectfully recommend that these guidelines remain in place as future projects or programs come up for consideration.

### **FISCAL IMPACT:**

There is no fiscal impact related to this action.

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Approved as to form:	Rebecca Mckee-Reibold, Interim City Attorney

### Attachments:

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