RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES **DATE: JUNE 23, 2025**

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

ISSUE:

Consider receiving an 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 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 (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. The Program regulation in effect for the 2023 calendar year compliance period was adopted in 2019 and contains provisions from these bills.

Additional state legislation and an executive order were adopted in 2018 that will affect future years of the Program with regulatory amendments currently underway. Most relevant to the electric utility sector was the adoption of SB 100 in 2018 that established new, more restrictive targets for renewable energy procurement and specifically mandates that 100% of electric retail sales by 2045 be produced by renewable energy and zero-carbon resources. Additionally in 2018, a statewide carbon neutrality goal was established by Executive Order (EO) B-55-18. Both of these State actions will affect the Program stringency and directly affect the cap on GHG emissions, and the number of allowances allocated to utilities and other entities subject to the regulation.

On December 15, 2022, the CARB Board adopted the 2022 Scoping Plan Update, which is a guidance document that is required to be updated every five years. It was previously updated in 2017. The scoping plan must outline a technologically feasible, cost-effective, and equity-focused path to continue reducing GHG emissions and meeting the state's climate target. Updates of the scoping plan build upon the previous scoping plans by continuing the goal for GHG reductions in various sectors. Importantly, the updated 2022 Scoping Plan incorporates 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 or earlier. The Program continues to be a key implementation tool for achieving GHG emissions reductions in the strategies outlined in this state plan and is expected to extend beyond 2030.

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 annual compliance obligation and must annually submit to CARB sufficient GHG allowances to cover the total GHG emissions. To mitigate rate impacts for electric distribution utilities' customers, the 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.

Program regulations contain strict limitations that govern the use of the value and the proceeds derived from the sale of the 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)."
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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 manner 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, Title 17, 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 establishes guidelines to ensure RPU's compliance with Section 95892(d)(1) of Title 17 of the California Code of Regulations. The Policy outlines how RPU can utilize the value of the allocated allowances 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 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. Policy amendments will be presented to the Board and the City Council for approval as changes to the regulations are made.

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 and ensuring that the expenditure falls within the regulatory requirements. Also, all ratepayers benefit from being able to use the proceeds to meet City policies that direct RPU to source more electricity from renewable resources than is required by State law. The costs associated with meeting such City Council adopted policies are then not passed onto RPU's customers in rates or to the general fund.

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 modified the permissible use of proceeds from the sale of allocated allowances.

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, Title 17, 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 Program provided RPU with approximately one million allocated allowances per year from the Program's launch through 2024. These annual amounts have been sufficient to meet RPU's direct compliance obligations for all compliance years without additional rate impacts to RPU electric customers. RPU sold surplus allowances in the 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 and the City's Policy.

Table 1 shows the allowances that RPU will receive each year through 2030. The allowance allocations shown should be sufficient to cover RPU's direct compliance obligations, though RPU will not have as many excess allowances to sell at the auctions.

Table 1: Total Allowance Allocation 2024 – 2030

Year	Allowances
2024	1,015,558
2025	1,000,815
2026	991,145
2027	799,554
2028	609,032
2029	601,432
2030	583,388

Note: 2026-2030 total allowance allocations may be reduced by 10% to 40% in the CARB Scoping Plan update.

In mid-2023, CARB initiated a stakeholder process to evaluate and seek input on proposed regulatory amendments to the program. Proposed regulatory amendments will implement the requirements of AB 398 as well as recommended Program changes identified in CARB's 2022 Scoping Plan update. Amendments anticipated based on the requirements of various legislation, executive orders and the measures identified in the 2022 Scoping Plan include decreasing the GHG emissions cap each year, adjusting the price ceiling, redesigning the allowance price containment reserves, reducing the role of offsets, and the potential for facility specific GHG emissions caps. Allowance allocations for the years 2026 through 2030 are expected to be reduced below what is shown in Table 1 to reflect the increased renewable energy procurement targets established by SB 100.

These program changes, and specifically the adjustment of the overall program cap on the total GHG emissions allowed, have been expected by RPU staff. It is an important concept in all cap-and-trade type programs that the emissions cap and the number of allowances provided annually in the program will decrease over time to encourage the market participants to reduce carbon emissions in the most cost-effective way possible. It has always been part of the Program design to gradually decrease the allocation of allowances to utilities and to eventually end the Program at some point after 2030. Concurrent with the decreasing number of allowances RPU is allocated each year, the allowance proceeds will decrease each year.

Proceeds from Allowance Auctions

In 2024, RPU received approximately $4.5 million in proceeds from the sale of GHG Allowances that RPU did not use for direct compliance. As of December 31, 2024, the utility has received a cumulative total of about $99.1 million in proceeds from the sale of surplus or excess allocated allowances. All proceeds from the auctions are placed in a restricted use reserve account to be used exclusively for the benefit of RPU ratepayers consistent with the Program regulations and the City's Policy. Table 2 shows how the proceeds from the auctioned allowances have been used to date and the balance of the restricted reserve account, including interest, as of December 31, 2024.

Table 2: 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
Total	**$28,205**	**$4,183,870**	**$9,759,803**	**$55,503,939**	**$69,475,817**
Reserve Balance (including interest) as of December 31, 2024					**$31,812,720**

In 2024, RPU expended approximately $8.2 million in proceeds on two programs. Approximately $112,500 was spent on the City-Wide LED Street Light Program, and $8.1 million was spent for the purchase of excess renewable energy. (Note: The DC Fast Charger at City Hall was a one-time purchase and the Ice Energy Pilot Program ended in 2019.)

As of December 31, 2024, the balance in the restricted reserve account was approximately $31.8 million. As a restricted use reserve account and per the regulations, the proceeds from the sale of the allowances can only be used to fund activities that result in direct GHG reductions and for the benefit of the utility ratepayer, as defined in the Program regulations and the City's Permissible Use Policy.

The proceeds that remain in the reserve account are budgeted in the current Department budget that extends through the end of Fiscal Year 24/25 and will be included in the Fiscal Year 25/26 budget. Funds will continue to be applied to ongoing and future renewable energy procurement and the completion of the Citywide LED streetlight program, in addition to future programs that are consistent with the Cap-and-Trade Program regulations and Riverside's Policy.

GHG Emissions Reductions Associated with Expenditures of Proceeds

The GHG emissions avoided due to the expenditures for each of these programs are shown in Table 3. A total of 188,224 metric tons of carbon dioxide equivalent (MT CO_2e) has been avoided or reduced due to the programs that have been implemented. That is the equivalent of removing 100% of the emissions from almost 43,904 gasoline powered passenger vehicles driven for one year (as calculated using the Federal Environmental Protection Agency GHG equivalencies calculator on 4/2/2025).

Table 3: To-Date Avoided GHG Emissions by Program

Qualifying Expense	DC Fast Charger at City Hall	Ice Energy Pilot Program	City-Wide LED Street Lights	Excess Renewable Energy	Total
Reporting Year	**GHG Emissions Avoided (MT CO_2e)**				
2018**		1,362	934	24,506	26,802
2019		1,820	965	10,058	12,843
2020		-	6,940	16,272	23,212
2021		-	7,103	22,293	29,396
2022		-	5,317	32,270	37,587
2023			5,817	31,344	37,161
2024			410	20,813	21,223
Total	**	**3,182**	**27,486**	**157,556**	**188,224**

** GHG emissions accounting methodology for the annual CARB reports began in 2018. RPU must use methodology provided by CARB to complete the calculation. Expenditures prior to 2018 do not have an estimated GHG emissions savings as a result.

STRATEGIC PLAN ALIGNMENT:

This item contributes to Strategic Priority No. 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 and Goal 4.6 - Implement the requisite measures to achieve citywide carbon neutrality no later than 2040.

The 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