RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES **DATE: MAY 22, 2023**

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

ISSUE:

Consider an update on 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 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.

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 the CARB sufficient GHG allowances to cover the total GHG emissions. To mitigate rate impacts for electric distribution utilities' customers, the Cap and Trade 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.

The Cap and Trade Program regulations contain strict limitations that govern the use of the value and the proceeds derived from the sale of the allocated allowances, as follows:

> "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 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.

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. It 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.

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 the California Code of Regulations.

On July 25, 2016, and September 6, 2016, the Board and City Council, respectively, approved a new section (III.d.4) be 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 Cap and Trade Program through 2030. Additionally, the revisions modified the permissible use of proceeds from the sale of allocated allowances.

The City's Policy 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 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 regulations but may not allow a use of the value that is inconsistent with the regulation. Policy amendments will be presented to Board and City Council for approval as changes to the regulations are made over time.

Staff anticipates that the CARB will update the Cap and Trade Program regulations beginning in late 2023. Staff will bring amendments to the City's Policy if needed to reflect any new requirements included as part of the Cap and Trade regulatory amendments.

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:

CARB's Cap and Trade Program provided RPU with approximately one million allocated allowances per year through 2020, which was sufficient to meet RPU's direct compliance obligations from 2013 through 2020 without additional rate impacts to RPU electric customers. RPU sold the surplus allowances in the Cap and Trade 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.

As noted above, AB 398 (2017) extended the Cap and Trade Program through December 31, 2030. On July 27, 2017, CARB approved the 2016 Cap and Trade Amendments that include RPU's 2022-2030 annual allowance allocations. These allowance allocations should be sufficient to cover RPU's 2022- 2030 direct compliance obligations, though RPU will not have as many excess allowances to sell at the auctions.

Table 1: Total Allowance Allocation 2022 – 2030

Year	Allowances
2022	1,056,559
2023	1,039,042
2024	1,015,558
2025	1,000,815
2026	991,145
2027	799,554
2028	609,032
2029	601,432
2030	583,388

Regulatory amendments are expected to be initiated later this year to implement the requirements of AB 398 to address banking provisions and the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. The CARB 2022 Scoping Plan Update does provide a preview of the state's focus in correlation to how they will attempt to meet the state's carbon neutrality goal, which require modifying existing programs such as cap and trade. The plan describes the changes required by AB 398 such as decreasing the GHG emissions cap each year, adjusting the price ceiling, redesigning the allowance price containment reserves, reducing the role of offsets, carbon sequestration, and the potential for facility specific GHG emissions caps. It is anticipated that future legislation will follow to address these changes and will influence the future Cap and Trade Program regulations. RPU staff will be monitoring and participating in the upcoming regulatory amendment.

In 2022, RPU received approximately $16.8 million in proceeds from the sale of GHG Allowances that RPU did not use for compliance. As of December 31, 2022, the utility received a cumulative total of approximately $71 million in proceeds from the sale of 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 Cap and Trade Program regulations and the City's Policy. The following table (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, 2022.

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	$2,564,194	$8,102,097	$10,666,291
2022	$0	$0	$1,852,780	$11,450,421	$13,303,201
Total	**$28,205**	**$4,183,870**	**$7,620,837**	**$36,091,858**	**$47,924,770**
Reserve Balance (including interest) as of December 31, 2022					**$24,302,430**

The GHG emissions avoided due to the expenditures for each of these programs is shown in Table 3.

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
Total	**	3,182	21,259	105,399	129,840

** 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.

In 2022, RPU expended approximately $13.3 million in proceeds on two programs. Approximately $1.85 million was spent on the City-Wide LED Street Light Program, and $11.45 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, 2022, the balance in the restricted reserve account was approximately $24.3 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 Cap and Trade Program regulations and the City's Permissible Use Policy.

During last year's Program update to the Board of Public Utilities, Board members had several questions that were either addressed during the meeting or were to be updated in the report this year. To highlight the questions and responses, please see below:

1. *What are the GHG emissions reductions associated with the proceeds that have been spent?*

   Please see the GHG emissions reduced by program for expenditures beginning in 2018 through the current reporting year as shown in Tables 2 and 3 above. A total of 129,840 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 29,000 gasoline powered passenger vehicles driven for one year (as calculated using the Federal Environmental Protection Agency GHG equivalencies calculator on 4/7/2023).

2. *What is the plan for the remaining proceeds reserve amount?*

   The proceeds that remain in the reserve account are budgeted in the current Department budget that extends through the end of Fiscal Year 23/24. They were applied to ongoing and future renewable energy procurement, completing the Citywide LED streetlight program, and fuel-switching programs. Fuel-switching programs include rebate programs to support customers transitioning from the use of fossil fuels in the homes and businesses to electricity and are anticipated to be developed over the next year.

3. *Is there a plan to maintain the spending into the future in light of the decreasing number of allowances RPU is allocated each year? How will this affect our customers?*

   It has always been part of the Cap and Trade Program design to phase out the allocation of allowances to utilities and to eventually end the Program. Concurrent with the decreasing number of allowances RPU is allocated each year, the allowance proceeds will decrease each year. As funding declines, RPU will need to determine whether to simply phase out the project or program or find alternative funding for the program to continue.

4. *Where and how can different City departments benefit from the program? What is RPU doing to notify them to encourage departments to pilot projects?*

   The Cap and Trade Program regulations state proceeds can only be used by the electric utility as specified by the regulations (see prior discussion on use of allowance value) and must show GHG emission reductions. RPU can possibly assist other City departments similar to assisting any customer (such as through a rebate program) but is not allowed to simply allocate money directly to another department or the general fund for use. The utility is responsible for the expenditure of funds and ensuring that it 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.

   Finally, many City Departments are benefiting directly from the proceeds the CARB collects when allowances held by the CARB are sold (these are not proceeds from RPU). While these proceeds are limited in use to projects that reduce greenhouse gas emissions, they can be awarded to projects that are not related solely to utilities. The state proceeds from the program go into the California Greenhouse Gas Reduction Fund which has collected and budgeted for over $22.5 billion to programs by a variety of State Departments including many grant programs. One of the grants that the City has been awarded and was directly funded by the State's Cap and Trade Program proceeds is the Transformative Climate Communities Grant (TCC Grant). This grant award was $9 million and will provide projects and workforce training to the Eastside area of the City including energy and water efficiency upgrades to homes, solar installations, tree plantings, workforce development for green jobs, and community engagement. Similar to the City, however, the State is anticipating that the amount of the proceeds will decline over time and will eventually phase out these programs or transition them to other funding sources.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 4 - Environmental Stewardship** and **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.

This 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 associated with this report.

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