



City of Anaheim
PUBLIC UTILITIES DEPARTMENT

DATE: MARCH 23, 2022
TO: PUBLIC UTILITIES BOARD
FROM: PUBLIC UTILITIES GENERAL MANAGER
SUBJECT: CAP AND TRADE PROGRAM COMPLIANCE UPDATE

A handwritten signature in blue ink, appearing to be "Bob Deed", is written over the "TO:" and "FROM:" lines of the memo.

This item is for information only.

DISCUSSION:

On March 12, 2012, the City Council authorized Anaheim Public Utilities Department (APU) participation in the State of California's Cap and Trade Program in order to comply with Assembly Bill (AB) 32, the California Global Warming Solutions Act of 2006 and subsequently AB 398 (2017). Cap and Trade is one of many measures enacted by the State in an effort to reduce economy-wide greenhouse gas (GHG) emissions to 40% below 1990 levels by 2030 as codified in Senate Bill (SB) 32 (2016). To date, APU has successfully maintained full compliance with Cap and Trade rules and regulations, while continuing active participation in the Cap and Trade Program.

Cap and Trade is an important element of AB 32, which is a comprehensive, long-term approach to addressing climate change in California. The "Cap" refers to a statewide limit on GHG emissions that declines over time to encourage companies and industries to invest in cleaner technologies in order to avoid buying GHG emission allowances (allowances) that increase in cost every year. The "Trade" refers to the monetization of allowances, and the establishment of an auction platform and secondary market where allowances are purchased and sold. In addition to electric utilities, AB 32 requires refineries, food processors, cement production, and other large industrial plants to participate in the Cap and Trade program.

Under the Cap and Trade Program, electric utilities receive an allocation of free allowances as a cost containment measure to aid in the alleviation of rate impacts on utility customers. The free allowance allocation does not cover all of APU's emissions, and since APU has generation or power purchase agreements in excess of its retail customer needs, the purchase of additional allowances is required through the Cap and Trade auction mechanism. The following table summarizes APU's activity in the Cap and Trade market during the second compliance period covering 2018 to 2020.

COMPLIANCE PERIOD	TOTAL EMISSIONS (METRIC TONS GHG)	ALLOWANCES USED FOR COMPLIANCE
2018	1,241,879	372,563
2019	1,170,613	351,184
2020	927,175	2,615,920
Total	3,339,667	3,339,667

As part of the Cap and Trade Program, annual reporting of GHG emissions by electric utilities is required to the California Air Resources Board (CARB). APU is further required to validate results through a third-party verification. For the third Compliance Period (CP3), comprising emissions for 2018 to 2020, APU contracted Ashworth Leiginger Group (ALG) to perform this independent review. ALG reviewed and deemed APU's GHG monitoring plans and reported GHG emissions accurate and compliance with the Cap and Trade regulations. As such, as of March 2022 all compliance activities performed and submitted to CARB have been successful. It is important to note the establishment of strict rules to reduce the potential for market manipulation. Therefore, the Cap and Trade regulation strictly prohibits discussing or publicizing strategically confidential information such as pricing, allowance balances, and auction participation. APU's long-term goals include reducing reliance on carbon emitting resources, which will reduce the need to procure additional allowances. Since the number of allowances decreases over time, APU's effort to divest of its coal assets, such as the divestiture of San Juan Unit 4 in December 2018, Intermountain Power Project by June 2027, and procurement of additional renewable resources will help to reduce the financial impact of the Cap and Trade Program.

A distinction between large investor-owned utilities (IOU) and municipal utilities is that IOUs are required to purchase all of the allowances needed for compliance, but must sell the free allowances and return the sale proceeds to customers via a credit on their bills, known as the California Climate Credit. Conversely, municipal utilities are not required to sell free allowances and may directly use them for compliance purposes, avoiding the need to repurchase allowances at market prices. In effect, municipal utilities do not over-collect in order to credit customers on their bills.

The next Compliance Period will cover the years 2021 through 2023. Although the amount of free allowance allocations will decrease going forward, APU will continue to evaluate different options that include participating in the Cap and Trade market and optimizing its power generation resources to lower GHG emissions. The intent is to balance the available options to provide the best and least-cost solution over the next Compliance Period, and ultimately maintain affordable rates to customers, while reducing reliance on fossil fuel resources in a responsible manner.