



**City of Anaheim
PUBLIC UTILITIES DEPARTMENT**

DATE: MAY 22, 2019

TO: PUBLIC UTILITIES BOARD

FROM: PUBLIC UTILITIES GENERAL MANAGER

SUBJECT: CAP AND TRADE PROGRAM COMPLIANCE UPDATE

This item is for information only.

DISCUSSION:

On March 12, 2012, the City Council authorized the Department’s 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. To date, the Department is in full compliance and is actively participating 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 discourage the proliferation of power plants that use natural gas and coal. “Trade” refers to the monetizing of GHG emissions and the establishment of a market from which price signals encourage utilities to lower emissions.

Significant input from the Public Utilities Department (Department) and other utilities helped to establish a baseline of allowances to cover retail customer load to ensure that utilities were not starting in the market with a deficit that would require substantial rate increases as the Cap and Trade market developed. The baseline for retail customers provides free allowances through 2020 and a subsequent regulatory rulemaking, approved in 2016, have extended free allowances to utilities through 2030. Since the Department has generation or power purchase agreements in excess of its retail customer needs, additional allowances are required to be purchased through the Cap and Trade auction mechanism. The following table summarizes the Department’s activity in the Cap and Trade market during the second compliance period covering 2015 to 2017.

COMPLIANCE PERIOD	TOTAL EMISSIONS (METRIC TONS GHG)	ALLOWANCES SURRENDERED
2015	1,514,273	454,281
2016	1,433,141	429,942
2017	1,543,488	3,606,679
Total	4,490,902	4,490,902

As part of the Cap and Trade Program, electric utilities are required to annually report GHG emissions to the California Air Resources Board (CARB). The Department is further required to validate results through a third-party verification. All compliance activities have been performed and submitted to CARB as of May 2019. It is important to note that there are strict rules that have been established to reduce the potential for market manipulation. As such, information such as pricing is not allowed to be discussed or publicized in conformance to Cap and Trade rules.

The Department's long term goals include reducing reliance on coal-fueled resources, which will reduce the need to procure additional allowances. Since the number of allowances decreases over time, the Department's effort to divest of its coal assets, such as the divestiture of San Juan Unit 4 in December 2018, 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. 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 2018 through 2020. Although the amount of free allowance allocations will decrease going forward, the Department 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 balancing of available options is intended to provide the best and least-cost solution over the next Compliance Period, and ultimately maintain lower rates to customers.

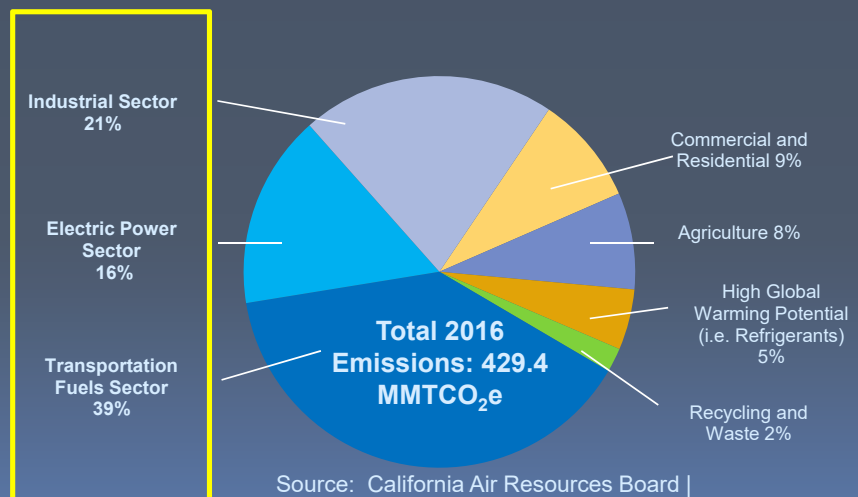
CAP & TRADE PROGRAM OVERVIEW AND COMPLIANCE UPDATE

PUBLIC UTILITIES BOARD
MAY 22, 2019

CAP AND TRADE OVERVIEW

- Cap & Trade is just one of many programs intended to reduce statewide greenhouse gas (GHG) emissions
- Covers 76% of the total statewide emissions in three largest emitting sectors

Sources of GHG Emissions



Source: California Air Resources Board |
2018 Edition California GHG Inventory

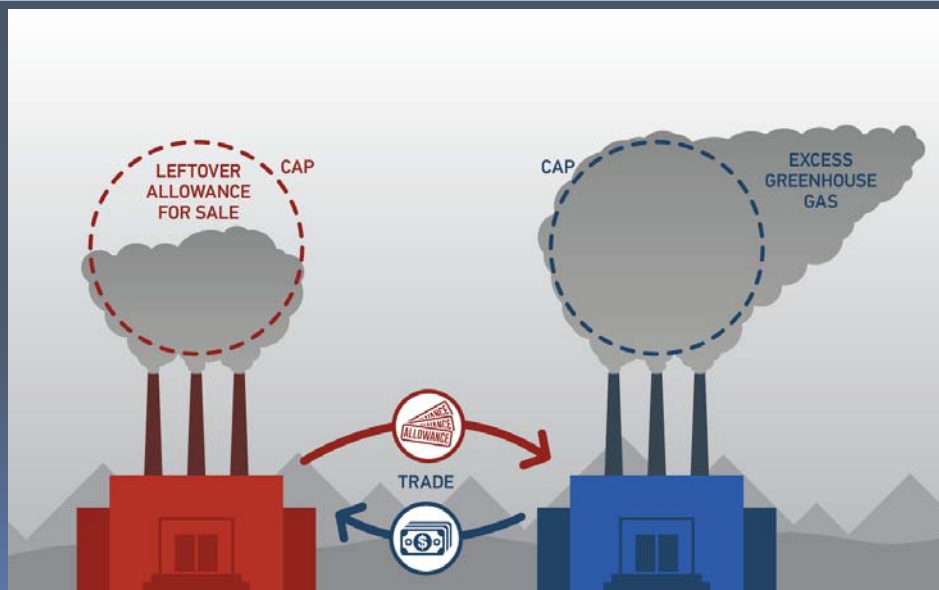
PERSPECTIVE ON GHG EMISSIONS

- One Metric Ton of Carbon Dioxide = One Carbon Allowance
- Typical car generates a ton every 2,300 miles



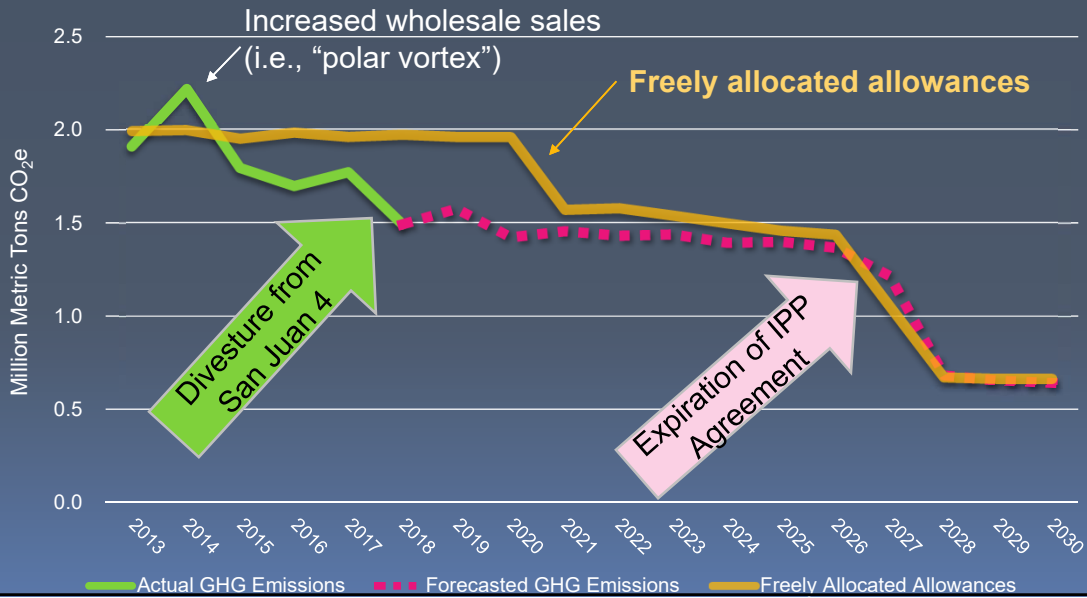
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CAP AND TRADE: HOW IT WORKS



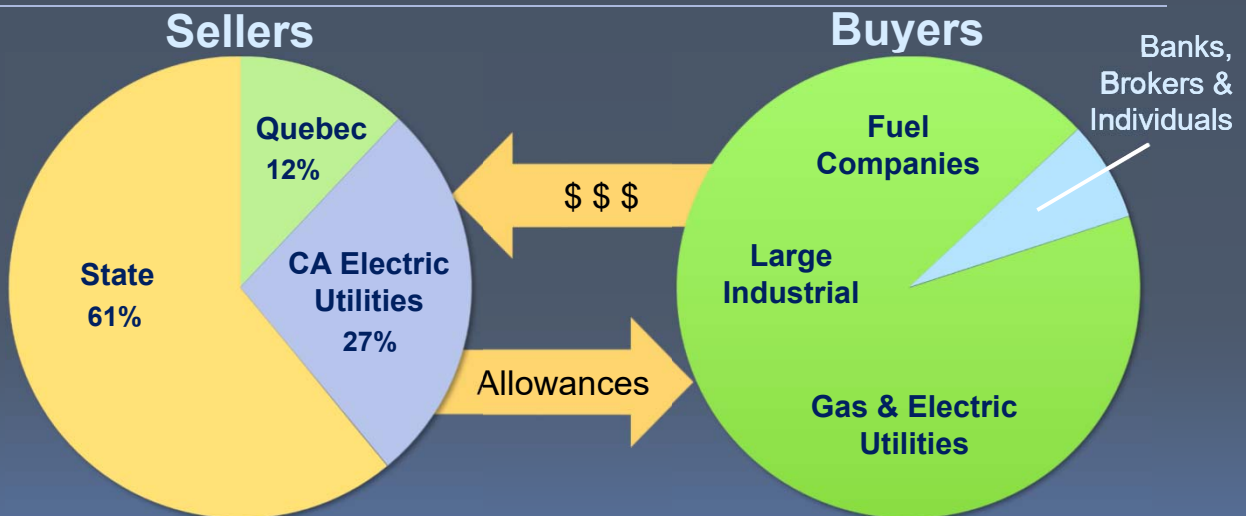
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ANAHEIM CAP AND TRADE PROFILE



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ALLOWANCE AUCTIONS



~ 80-90 million allowances sold per auction
 ~\$1.25 billion per auction 4 times per year

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COMPLIANCE REQUIREMENTS

- One allowance is required for every one metric ton of GHG emitted
- 3-year Compliance Periods
- Emissions are verified each year by an independent 3rd party auditor



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COMPLIANCE ACTIVITIES

- **Compliance Period 2 (2015-2017)**
 - Department deemed fully compliant by Air Resources Board in November 2018
- **Compliance Period 3 (2018-2020)**
 - Expect reduced emissions due to divesture from San Juan 4 coal plant and increased renewables
 - CY 2018 emissions verification underway

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CAP AND TRADE BENEFITS



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MOVING FORWARD

- Maintain compliance with the Cap & Trade Program
- Support/defend against any Program changes that could impact customer rates
 - Continue robust engagement in CARB's C&T rulemaking that seeks to reduce post-2020 allowance allocations to utilities

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