CALIFORNIA AIR RESOURCES BOARD

Cap-and-Trade Program
Summary of 2015-2018 Natural Gas Supplier Allocated Allowance Value Usage

Purpose

This report summarizes how natural gas suppliers (NG suppliers) used the value of allowances allocated to them by the California Air Resources Board (CARB) under the Cap-and-Trade Program (Program) during the period 2015-2018. It also describes current requirements for future uses. The value of these allocated allowances is referred to as "allocated allowance value" or, for those allowances which have been consigned to auction and sold, "allocated allowance auction proceeds" or "auction proceeds."[1]

Background

Natural gas suppliers receive annual allowance allocations from CARB pursuant to provisions of the Cap-and-Trade Regulation (title 17, California Code of Regulations, sections 95801 *et seq.*) (Regulation).[2] Under the Regulation, these allowances must be used for the benefit of ratepayers, consistent with the goals of the California Global Warming Solutions Act of 2006 (Assembly Bill 32, Nuñez, Chapter 488, Statutes of 2006, AB 32). NG suppliers were first covered by the Program in 2015, and the first NG supplier allocations were from the 2015 allowance budget year (i.e., vintage 2015 allowances).

The number of allowances allocated to each NG supplier is calculated based on its 2011 sales of natural gas to facilities not covered by the Cap-and-Trade Regulation (see Regulation section 95893). Allowances allocated to NG suppliers represent approximately 12 percent of the Program's annual allowance budget.

The Regulation requires all NG suppliers to consign a minimum percentage of their allocated allowances from each vintage year to the four Program auctions held in that calendar year. This minimum percentage was 25 percent for vintage 2015 allowances and increases by five percent each year, thereby reaching 50 percent in 2020 and 100 percent in 2030. The NG suppliers must either use the resulting auction proceeds for

[1] Proceeds resulting from the auction of allowances allocated to NG suppliers are distinct from the auction proceeds received by the State from the auction of California-owned allowances, which are deposited into the Greenhouse Gas Reduction Fund (GGRF) pursuant to section 16428.8 of the California Government Code. For information of GGRF expenditures see: California Climate Investments webpage.

[2] Cap-and-Trade Regulation (unofficial copy).

programs to reduce greenhouse gas (GHG) emissions or return the proceeds to ratepayers as non-volumetric rebates.

NG suppliers may use their remaining allowances (those not consigned to auction) directly for compliance with the Cap-and-Trade Program. These allowances satisfy a portion of the NG supplier's compliance obligation, thus reducing the NG supplier's cost of compliance with the Program.

CARB allocates allowances to two types of NG suppliers that together provide all natural gas supplied in California: investor-owned companies (IOU) and municipally owned gas utilities (POU or publicly owned NG supplier). IOUs include the largest NG suppliers in the State and are subject to oversight by the California Public Utilities Commission (CPUC), including with respect to how they use their allocated allowances. POUs are owned and operated by city governments and are much smaller than IOUs. The governing boards of POUs determine how to use their allocated allowances in accordance with the requirements in the Regulation.

CARB Reporting Requirements and This Summary Report

The Regulation requires each NG supplier to report to CARB by June 30 of each year on its use of allocated allowance value during the prior calendar year. The NG supplier must describe how allocated allowance value was used during the calendar year and how those uses were consistent with the requirements of the Regulation. This information, supplemented by information from CPUC and legislative requirements, forms the basis of this report.

The "IOU Use of 2015-2018 Allocated Allowance Value" section of this report summarizes IOU use of allowance value allocated for 2015 through 2018, based on reporting to CARB and CPUC. About two-thirds of the allowance value allocated to IOUs for these years was used to reduce Program compliance costs, and about one-third was returned to residential ratepayers.

The "Municipal Gas Utility Use of 2015-2018 Allocated Allowance Value" section of this document summarizes the individual POU use of allowance value reports submitted to CARB. Municipally owned gas utilities have used over half of their allocated allowance value to reduce Program compliance costs and have spent some on energy efficiency and transportation electrification projects. Much of their allocated allowance value remained unspent as of January 1, 2019.

IOU Use of 2015-2018 Allocated Allowance Value

There are four investor-owned natural gas suppliers (investor-owned NG supplier, or IOU) in California: Southern California Gas Company, Pacific Gas and Electric Company, San Diego Gas and Electric Company, and Southwest Gas Corporation. Together, the four IOUs account for almost all retail natural gas sales in California, and they receive about 98 percent of allowances allocated to NG suppliers. The total value of vintage 2018 allowances that CARB allocated to IOUs in October 2017 was approximately 626 million dollars.

IOUs used part of their allocated allowance value each year to reduce their Program costs by directly depositing the allocated allowances for compliance. For 2015-2017, their remaining allocated allowance value, less a small amount used for administration and outreach, was netted against remaining GHG costs (i.e., Program compliance costs) for those years. Starting in 2018, their remaining allocated allowance value (after depositing some allowances for direct compliance) has been used to provide annual rebates to residential ratepayers. These rebates will be reduced in 2020 through 2023 so that a portion of proceeds can be used for building decarbonization programs.

IOU use of allocated allowance value is largely directed by CPUC's Decision 15-10-032,[3] Decision 18-03-017,[4] and Resolution G-3565[5]. The use of auction proceeds for building decarbonization is required by Senate Bill (SB) 1477 (Stern, 2018) and will be directed within Proceeding R.19-01-011, which is ongoing as of February 2020.[6]

Figure 1 shows the use of value from allocated vintage 2015-2018 allowances for all IOUs. The information presented in Figure 1 is based on the IOU annual reports to CARB as well as data provided by CPUC. Each category of allowance value use shown in Figure 1 is described later in this report. The data presented in Figure 1 are available in a spreadsheet.

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[3] Decision Adopting Procedures Necessary for Natural Gas Corporations to Comply with the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Trade Program), (D.) 15-10-032 (October 2015). CPUC Decision 15-10-032.
[4] Decision Modifying Decision 15-10-032, (D.) 18-03-017 (March 2018). CPUC Decision 18-03-017.
[5] Resolution G-3565 (February 6, 2020). CPUC Resolution G-3565.
[6] See CPUC Building Decarbonization webpage.

Figure 1. IOU Use of 2015-2018 Allocated Allowance Value ($2.36 billion).[7]

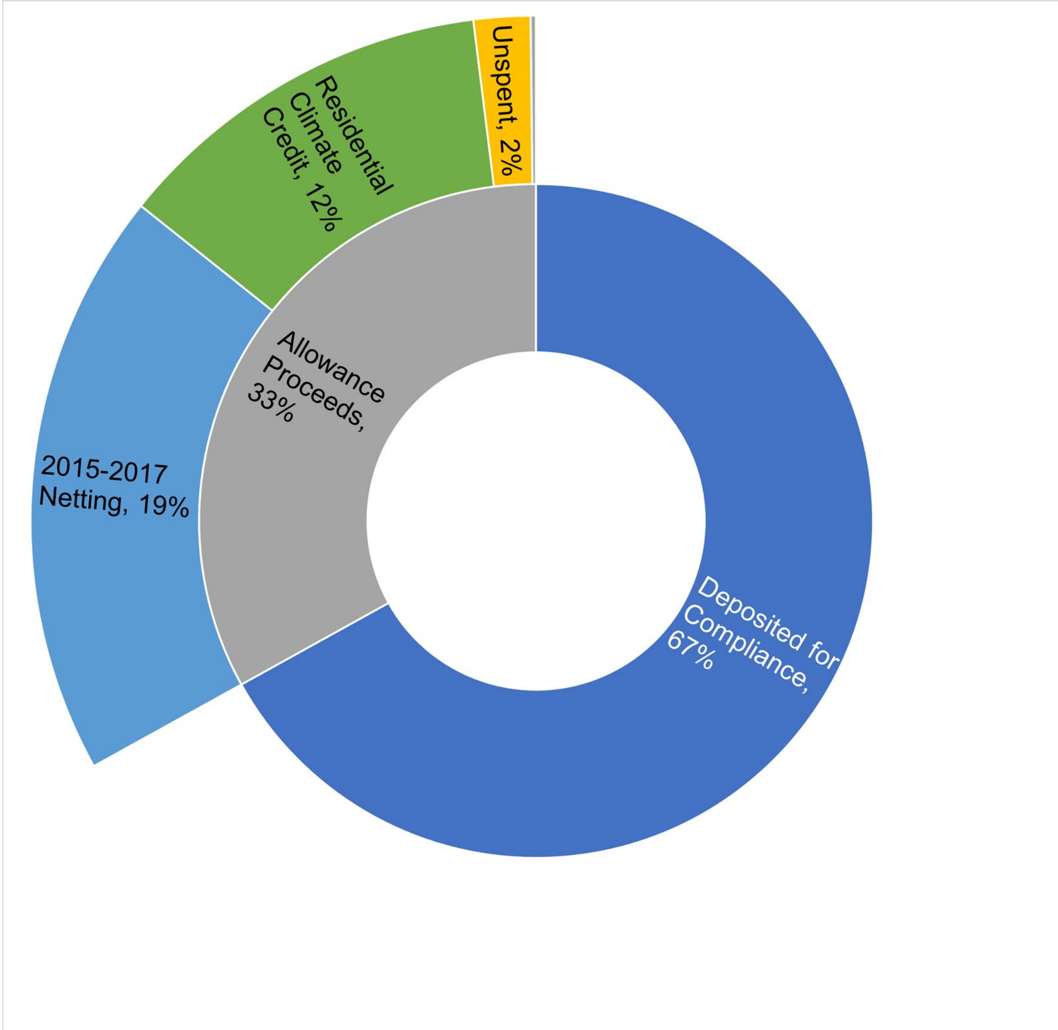

Figure 1 shows that of the vintage 2015-2018 allowance value allocated to investor-owned NG suppliers, 67 percent was used directly for Program compliance and 19 percent was netted against 2015-2017 GHG costs. After a small percentage was used to cover outreach and administrative costs, 12 percent was returned to residential households as annual Climate Credits. Two percent remained unspent due to use of forecasts when calculating per-household Climate Credits.[8]

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[7] The slice too small to be labeled is 0.2 percent expended on administrative and outreach costs. The amounts in this figure include accrued interest on auction proceeds prior to the distribution of proceeds to ratepayers. Data for Southern California Gas Company and San Diego Gas and Electric Climate Credits and netting of 2015-2017 costs are based on reporting to CPUC. These NG suppliers' Climate Credits and netting were delayed until 2019 and were therefore not included in their 2018 reporting submitted to CARB. For more information, see the CARB Protest of Advice Letter 5293-B and [CPUC Resolution G-3547](#).

[8] This amount will be trued up by including it in the amount available for distribution to ratepayers in subsequent years.

Allowances Deposited for Program Compliance
Per CPUC direction in Decision 15-10-032, all investor-owned NG suppliers deposit into their compliance accounts the maximum number of allocated allowances that is allowed by the Regulation (section 95893(b), Table 9-5). These allowances are surrendered to CARB to partially fulfill the NG suppliers' compliance obligations under the Program, thereby reducing their compliance costs. The percentage of allowances allocated to IOUs that were deposited for compliance was 75 percent in 2015, 70 percent in 2016, 65 percent in 2017, and 60 percent in 2018.

Auction Proceeds Netted Against 2015-2017 Program Compliance Costs
In 2018, CPUC Decision 18-03-017 directed each IOU to net the auction proceeds it had received from the sale of vintage 2015-2017 allocated allowances against the costs it incurred in purchasing allowances for 2015-2017 GHG emissions. After this netting, any remaining auction proceeds for each IOU were included in the next residential Climate Credits, and any remaining deficit was included in subsequent GHG costs.

Residential Climate Credits
CPUC Decision 18-03-017 also directed all IOUs' 2018 auction proceeds (except for administration and outreach expenditures), and most proceeds from subsequent years, to be used for annual rebates to residential ratepayers. These credits are referred to as California Climate Credits to mirror the semi-annual credits electric IOU ratepayers have received since 2014. For each IOU, all auction proceeds not used for the other purposes listed below (i.e., administration, outreach, and building decarbonization programs) are divided equally among that IOU's residential customers and returned to each residential customer as an on-bill annual California Climate Credit. These annual credits first appeared on customer bills in October 2018 and have since been distributed in April.[9] Table 1 shows the Climate Credits provided by each IOU to date.

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[9] See CPUC California Climate Credit webpage.

Table 1. Investor-Owned NG Supplier Climate Credits to Date

NG Supplier	2015-2017 Use of Auction Proceeds	2018 Climate Credit#	2019 Climate Credit
PG&E	netted against costs	$29.85	$25.45
SoCalGas	netted against costs	$26.22*	$24.01
Southwest Gas	netted against costs	$22.38	$24.86
SDG&E	netted against costs	$15.42*	$18.52

2018 Climate Credits include any remaining auction proceeds after netting 2015-2017 auction proceeds against 2015-2017 Program compliance costs. Issued October 2018.
* The 2018 credits for Southern California Gas Company and San Diego Gas and Electric were held and distributed in April 2019 in combination with the 2019 credits.

Administration and Outreach

Administrative and outreach costs include the costs of delivering Climate Credits and the costs of conducting outreach for allowed uses of auction proceeds as expended in each year. Each IOU spent between 0.1 and 0.8 percent of its 2015-2018 auction proceeds on administrative and outreach costs, for a total of 0.2 percent across all investor-owned NG suppliers as described in the footnote to Figure 1 above.

Building Decarbonization

SB 1477 requires the use of a portion of IOU allocated allowance auction proceeds for building decarbonization programs. The statute requires that, starting in 2020, $50 million total in IOU auction proceeds be contributed annually for four years to two building decarbonization programs: the Building Initiative for Low-Emissions Development (BUILD) Program and the Technology and Equipment for Clean Heating (TECH) Initiative. BUILD will focus on increasing electrification in new buildings and TECH aims to electrify space and water heating, especially in existing buildings. The programs are defined by legislation and will be further delineated within CPUC Proceeding R.19-01-011.[10] For 2020, as directed by CPUC Resolution G-3565, each investor-owned NG supplier will contribute their share of auction proceeds to these programs in proportion to their share of total investor-owned NG supplier allocated allowances. The auction proceeds that fund BUILD and TECH were directed to residential Climate Credits in previous years. $50 million represents about 15 percent of annual investor-owned NG supplier auction proceeds.[11]

[10] See CPUC Building Decarbonization webpage.
[11] Based on 2020 proceeds assuming all allowances sell at the floor price.

Municipal Gas Utility Use of 2015-2018 Allocated Allowance Value

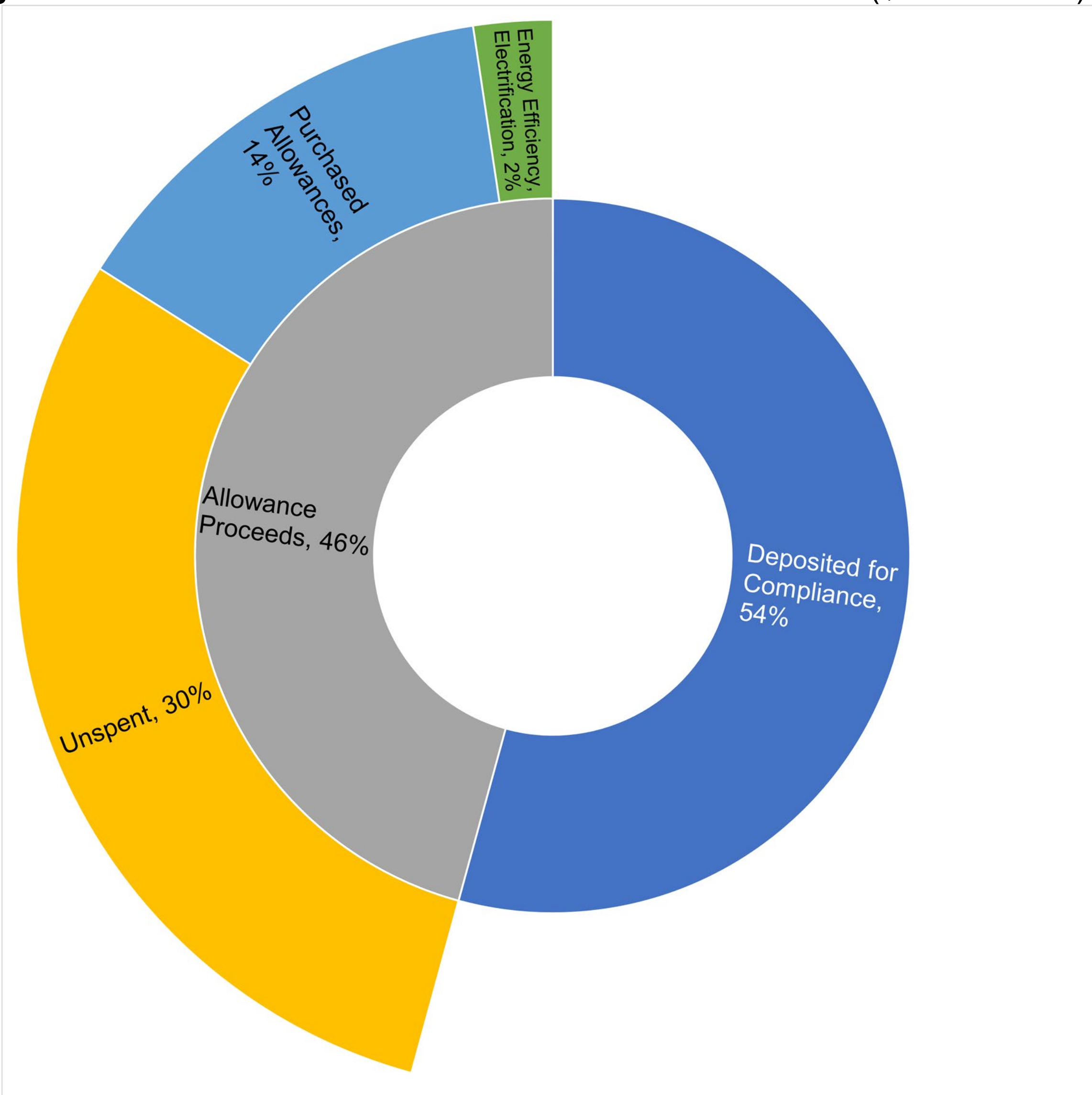
California's three municipal gas utilities (publicly owned NG supplier, or POU) are the cities of Long Beach, Palo Alto, and Vernon. POUs provide a small fraction of the total natural gas consumed in the State, and in aggregate they receive about two percent of the allowances allocated to all NG suppliers. The Regulation places the same requirements on their use of allocated allowance value as on investor-owned NG suppliers. POUs are not subject to CPUC direction or the requirements of SB 1477.

Figure 2 (below) shows the use of value from allocated vintage 2015-2018 allowances for all POUs. The information presented in Figure 2 is based on the POU annual reports to CARB. The data presented in Figure 2 are available in a spreadsheet. Also included in this spreadsheet is a list of each use of allocated vintage 2015-2018 allowance value reported by a POU.

Figure 2 shows that of the 2015-2018 allowance value allocated to publicly owned NG suppliers, 54 percent was used directly for Program compliance, 14 percent was used to purchase allowances, two percent was used for energy efficiency and electrification activities, and 30 percent remains unspent. Energy efficiency and electrification activities have included installing LED streetlights, industrial efficiency activities, residential energy efficiency outreach, and installing electric vehicle charging stations. Most of each POU's allocated allowance auction proceeds remains unspent.

Data shown in this report's figures are available in a table in Microsoft Excel format at the NG Supplier Use of Allocated Allowance Value web page.

Figure 2. POU Use of 2015-2018 Allocated Allowance Value ($0.037 billion).[12]



[12] Administrative and outreach costs are included within other activities rather than shown separately because they were not required to be reported separately to CARB until reporting for the 2018 data year.