Cap-and-Trade Program
Summary of 2015-2019 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 2015-2019. The value of these allocated allowances is referred to as "allocated allowance value" or, if the allowances have been consigned to auction and sold, "allocated allowance auction proceeds" or "auction proceeds."[1]

Background

NG 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).

For 2019, allowances allocated to NG suppliers were approximately 12 percent of the total allowance budget. The number of allowances allocated to each NG supplier is based on the NG supplier's 2011 sales of natural gas to facilities not covered by the Program. The method to calculate the annual allowance allocation to each NG supplier is specified by section 95893(a) of the Regulation.

CARB allocates allowances to two types of NG suppliers that together provide all natural gas supplied in California: investor-owned utilities (IOUs) and publicly owned gas utilities (POUs). IOUs are the largest NG suppliers in the State and are subject to

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[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).*

oversight by the California Public Utilities Commission (CPUC), which also directs how NG suppliers use their allocated allowance auction proceeds. 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 allowance value in accordance with the requirements in the Regulation.

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. The minimum consignment requirement was 25 percent for vintage 2015 allocated allowances and increases by five percent each year, as specified in Tables 9-5 and 9-6 of the Regulation. The minimum consignment requirement was 45 percent for vintage 2019 allocated allowances and will reach 100 percent for vintage 2030 allocated allowances. As required in section 95893(d)(3) of the Regulation, NG suppliers must either use the resulting auction proceeds for programs to reduce greenhouse gas (GHG) emissions or return the proceeds to ratepayers as non-volumetric rebates. For IOUs, the percentage of allowances consigned to auction is equal to the percentage of Program costs that IOUs pass through to their customers in rates. Allowances that IOUs do not consign to auction are used directly for Program compliance, reducing some Program costs for these NG suppliers, and therefore reducing the Program costs passed through to customers.

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. The information reported for data year 2019 includes reporting on calendar year 2019 expenditures plus several corrections and updates made by NG suppliers to prior use of allowance value reports. This information forms the basis of this report.

The "IOU Use of 2015-2019 Allocated Allowance Value" section of this report summarizes the individual IOU use of allocated allowance value reports submitted to CARB. Through 2019, about two-thirds of the allowances allocated to IOUs have been deposited directly for compliance. The remaining allowances allocated to IOUs were consigned to auction, and most of the auction proceeds have been returned to residential ratepayers in the form of annual on-bill California Climate Credits.

The "POU Use of 2015-2019 Allocated Allowance Value" section of this document summarizes the individual POU use of allowance value reports submitted to CARB. Through 2019, just over half of the allowances allocated to POUs have been deposited directly for compliance. The remaining allowances allocated to POUs were consigned to auction, and most of the auction proceeds are unspent as of January 1, 2020.

IOU Use of 2015-2019 Allocated Allowance Value

There are four investor-owned natural gas suppliers (investor-owned NG supplier, or IOU) in California with a compliance obligation: 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 2019 allowances that CARB allocated to IOUs was approximately 692 million dollars.

Allowances allocated to IOUs can be either deposited for compliance or sold at auction, however a minimum percentage must be consigned to auction each year as specified in Tables 9-5 of the Regulation. The Regulation requires that the use of all allocated allowances must benefit ratepayers and be consistent with the goals of AB 32.

IOU use of allocated allowance auction proceeds is largely directed by CPUC. Per CPUC Decision 18-03-017,[3] auction proceeds from vintage 2015 through 2017 allocated allowances, less a small amount used for administration and outreach, were netted against Program compliance costs for those years. Starting in 2018, this decision also directed all IOU auction proceeds to be 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, as required by Senate Bill (SB) 1477.

Figure 1 shows the cumulative use of allocated allowance value by all IOUs during the period 2015-2019. The information presented in Figure 1 is based on the IOU annual reports to CARB. Each category of allowance value use shown in Figure 1 is described later in this report. Figure 1 data, annual allocated allowance auction proceeds, and specific reported uses of allocated allowance value are available in a *spreadsheet*.

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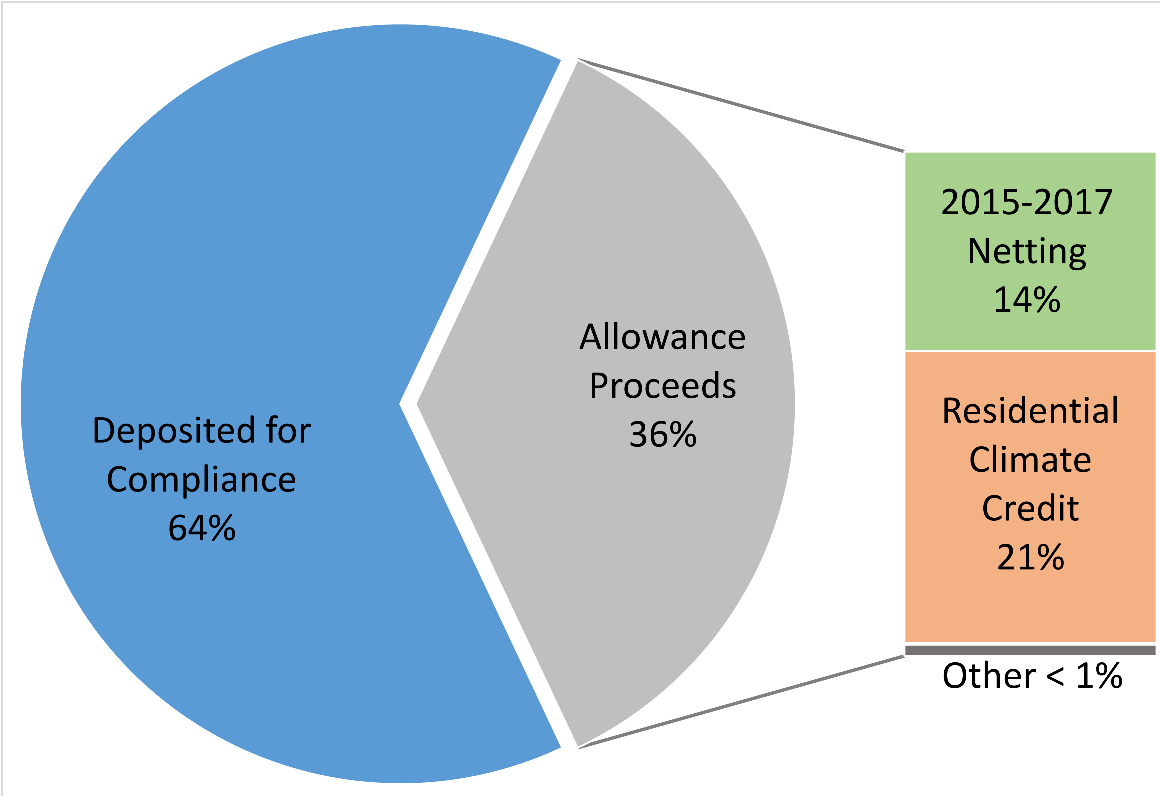
[3] Decision Modifying Decision 15-10-032, D.18-03-017 (March 2018). *CPUC Decision 18-030-017.*

Figure 1. IOU Use of 2015-2019 Allocated Allowance Value ($3.07 billion).[4]



IOUs have received approximately 3.06 billion dollars in allocated allowance value over the history of the Program. Figure 1 shows that of the vintage 2015-2019 allowance value allocated to investor-owned NG suppliers, 64 percent was used directly for Program compliance and 14 percent was netted against 2015-2017 GHG costs. After a small amount was used to cover outreach and administrative costs, 21 percent was returned to residential households as annual Climate Credits. As of January 1, 2020, less than one percent remained unspent due to use of forecasts when calculating per-household Climate Credits.[5]

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[4] "Other" includes unspent proceeds and administrative and outreach costs. The amounts in this figure include accrued interest on auction proceeds prior to the distribution of proceeds to ratepayers.

[5] This unspent amount will be included in the amount available for distribution to ratepayers in subsequent years.

Allowances Deposited for Program Compliance

Per CPUC direction in Decision 15-10-032[6], 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, which are recovered from ratepayers. 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, 60 percent in 2018, and 55 percent in 2019.

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 to meet Program compliance obligations for 2015-2017 GHG emissions. After this netting, any remaining balance of auction proceeds for each IOU was applied to the 2018 Residential California Climate Credits.

Residential California Climate Credit

CPUC Decision 18-03-017 also directed most IOU auction proceeds from 2018 and following 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 either October 2018 or April 2019 and are scheduled to be distributed in April in subsequent years. The CPUC webpage provides more details on California Climate Credits distributed by IOUs.[7]

Administration and Outreach

Administrative and outreach costs include necessary costs to administer the California Climate Credits and other allowed uses of auction proceeds and to inform ratepayers about these uses. Less than 0.2 percent of total IOU auction proceeds have been spent on administrative and outreach costs during 2015-2019.

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[6] 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*.

[7] See Residential Natural Gas California Climate Credit section on the *CPUC California Climate Credit webpage*.

Building Decarbonization

SB 1477 requires the use of a portion of IOU auction proceeds for building decarbonization programs. The CPUC requires that for each budget year starting July 1, 2019 and ending June 30, 2023 $50 million total in IOU auction proceeds be contributed annually 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 directed by CPUC Decision 20-02-027.[8] Each IOU contributes their share of auction proceeds to these programs in proportion to their share of total IOU allocated allowances. The auction proceeds that fund BUILD and TECH were directed to Residential California Climate Credits in previous years. $50 million represents about 15 percent of annual IOU auction proceeds.[9]

POU Use of 2015-2018 Allocated Allowance Value

There are three publicly owned natural gas suppliers in California: the cities of Long Beach, Palo Alto, and Vernon. POUs provide a small fraction of the total natural gas consumed in the State, and they receive about two percent of the allowances allocated to all NG suppliers. The total value of vintage 2019 allowances that CARB allocated to POUs was approximately 11 million dollars.

Allowances allocated to POUs can be either deposited for compliance or sold at auction, however a minimum percentage must be consigned to auction each year as specified in Tables 9-5 and 9-6 of the Regulation. The Regulation requires that the use of these allowances must benefit ratepayers and be consistent with the goals of AB 32. POUs are not subject to CPUC jurisdiction or the requirements of SB 1477.

Figure 2 shows the cumulative use of allocated allowance value by all POUs during the period 2015-2019. The information presented in Figure 2 is based on the individual POU annual reports to CARB. Figure 2 data, annual allocated allowance auction proceeds, and specific reported uses of allocated allowance value are available in a *spreadsheet*.

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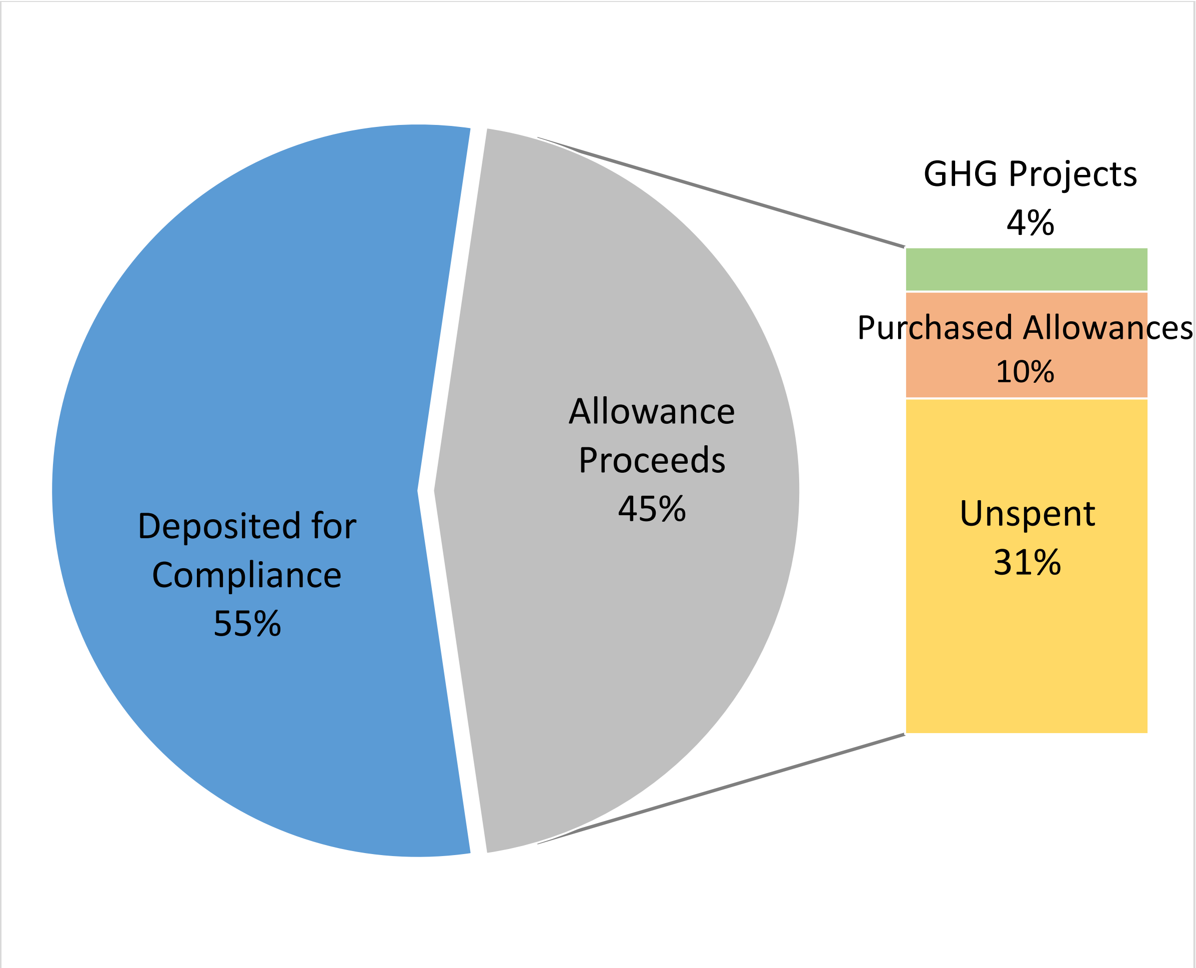
[8] Decision Establishing Building Decarbonization Pilot Programs, (D.) 20-03-027 (March 2020). *CPUC Decision 20-03-027*.

[9] Based on 2020 proceeds assuming all IOU allocated allowances that are consigned to auction sell at the auction floor price.

Figure 2. POU Use of 2015-2019 Allocated Allowance Value ($0.048 billion).[10]



POUs have received approximately 48 million dollars in allowance value over the history of the Program. Figure 2 shows that of the vintage 2015-2019 allowance value allocated to publicly owned NG suppliers, 55 percent was used directly for Program compliance, 10 percent was used to purchase allowances, four percent was used for energy efficiency and electrification activities, and 31 percent remains unspent as of January 1, 2020. Energy efficiency and electrification activities have included installing LED streetlights, industrial efficiency activities, residential energy efficiency outreach, and installing electric vehicle charging stations. As of January 1, 2020, most allocated allowance auction proceeds remain unspent.

[10] 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.