



February 9, 2016

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to adjust rates for natural gas service to recover current and future costs related to Assembly Bill 32, the California Cap-and-Trade Program; and increase appropriations in the Gas Fund (EF 301) in the Long Beach Gas and Oil Department (GO) by \$1,800,000. (Citywide)

**DISCUSSION**

In order to reduce the amount of greenhouse gases emitted into the atmosphere, the California legislature passed the Global Warming Solutions Act Assembly Bill 32 (AB 32) in 2006. AB 32 requires covered entities to reduce greenhouse gas emissions to 1990 levels by the year 2020 and ultimately achieve an 80 percent reduction from 1990 levels by 2050.

As part of AB 32, the California Air Resources Board (CARB) developed a Cap-and-Trade Program, which uses a market-based approach that provides economic incentives for covered entities to reduce the emission of greenhouse gasses. Beginning in 2015, all natural gas utilities in California were required to comply with the California's Cap-and-Trade Program. As a participant, Long Beach Gas and Oil Department (LBGO) must obtain emission allowances equal to the amount of carbon dioxide released by customers from the burning of natural gas within LBGO service territory, with each allowance equal to one metric ton of carbon dioxide. To reduce the economic impact to ratepayers, CARB allocated an amount of free emission allowances to cover approximately 75 percent of LBGO's total carbon dioxide emissions in 2015. To meet the remaining 25 percent of the total 2015 obligation, LBGO was required to purchase emission allowances from the CARB online auction platform. To continue to phase in energy-efficiency incentives, CARB decreases the amount of free allowances distributed to utilities each subsequent year. LBGO estimates it will receive an amount of free allowances equal to 70 percent of its total compliance obligation in 2016.

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For calendar year 2016, the regulatory cost of Cap-and-Trade Program compliance is estimated at \$2.3 million, \$500,000 of which has been collected from ratepayers in 2015 for this purpose. As with other electric and gas utilities subject to California's Cap-and-Trade regulation, LBGO will be recovering costs on a volumetric basis. On January 6, 2015, the City Council approved a charge of \$0.0223 per therm of natural gas used, which equated to an average monthly residential gas bill increase of \$0.56 (2.1 percent) in 2015. Due to an increase in the average emission allowance price sold at auction and a decrease in the amount free allowances issued by CARB, LBGO estimates a rate adjustment to \$0.027 per therm in order to collect approximately \$1.8 million needed to comply with the Cap-and-Trade requirements in 2016. By charging \$0.027 per therm, the average monthly residential gas bill is expected to increase approximately \$0.67 (2.5 percent) in 2016.

This matter was reviewed by Deputy City Attorney Richard Anthony on January 11, 2016 and by Budget Management Officer Victoria Bell on January 13, 2016.

TIMING CONSIDERATIONS

City Council action is requested on February 9, 2016 to adjust the rates charged to ratepayers in order to fully recover regulatory costs associated with California's Cap-and-Trade Program.

FISCAL IMPACT

The cost of Cap-and-Trade Program compliance is estimated to be \$2.3 million for the calendar year 2016. Of this amount, \$500,000 is currently appropriated. An appropriation increase in the amount of \$1,800,000 in the Gas Fund (EF 301) in the Long Beach Gas and Oil Department (GO) is requested for the remaining balance. Revenue collected from the rate increase will be used to recover regulatory compliance costs of the Cap-and-Trade Program. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



EDWARD FARRELL  
ACTING DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:

  
PATRICK H. WEST  
CITY MANAGER