



DEPARTMENT

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January 6, 2015

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California**RECOMMENDATION:**

Authorize the City Manager to create a separate line item on gas utility bills for recovery of regulatory costs associated with Assembly Bill 32, the California Global Warming Solutions Act of 2006; and, increase appropriations in the Gas Fund (EF 301) in the Long Beach Gas and Oil Department (GO) by \$1,500,000. (Citywide)

DISCUSSION

The State of California's Assembly Bill 32 Cap and Trade Program (Cap and Trade) became effective January 1, 2012. Approximately 85 percent of the Greenhouse Gas (GHG) emissions in California are covered under the program's cap.

Beginning in 2015, natural gas utilities are included for compliance with the Cap and Trade Program. As such, the Long Beach Gas and Oil Department (LBGO) is required to purchase GHG emission allowances related to its natural gas sales to small- and medium-sized natural gas customers (fewer than the equivalent production of 25,000 tons of carbon dioxide per year or approximately 4.7 million therms of natural gas usage). The costs associated with the purchase of emission allowances are to be passed through to utility customers via gas rates.

As a way to recognize reductions in GHG emissions already achieved through conservation and efficiency efforts by many utilities and their customers, the California Air Resources Board (CARB) will not require gas utilities to purchase the full amount of emission allowances that would be otherwise required for regulatory compliance. Essentially, CARB has created an incentive to meet emission reduction goals by distributing free GHG allocations.

On October 24, 2014, CARB allocated an amount of free allocations to LBGO that will cover approximately 75 percent of LBGO's compliance obligation. In order to meet the remaining 25 percent of the total obligation, LBGO will need to participate in the CARB emission auction. Based on an average price of \$13.65 per allocation posted in the August 2014 auction, LBGO estimates it will cost \$1.5 million to achieve the full emission allocation obligation in 2015.

Consistent with the practice of other gas and electric utilities subject to California's Cap and Trade regulation, and to encourage further conservation efforts, LBGO is proposing the implementation of a rate increase specifically to recover these costs. The new rate will be identified as a line item on customer bills and be volumetric based. LBGO estimates that participation in the Cap and Trade program will cost customers an additional \$0.02 per therm of natural gas. This equates to an estimated average monthly residential gas bill increase of \$0.58 (2 percent) in 2015. Creating a separate line item on utility bills will lead to greater transparency on the natural gas bills and customer understanding of the impact of climate change regulations.

This matter was reviewed by Deputy City Attorney Richard Anthony on December 2, 2014 and by Budget Manager Lea D. Eriksen on December 8, 2014.

TIMING CONSIDERATIONS

City Council action is requested on January 6, 2015, to initiate collection of the necessary revenue to recover costs associated with LBGO's mandatory participation in California's Cap and Trade Program which is effective January 1, 2015.

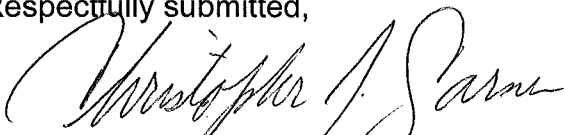
FISCAL IMPACT

The estimated cost of \$1.5 million will be offset by an associated revenue increase to gas rates. For transparency, this will be displayed as a separate line on customer bills. An appropriation increase in the amount of \$1.5 million is requested in the Gas Fund (EF 301) in the Gas and Oil Department (GO). There is no impact to local jobs associated with the recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:


PATRICK H. WEST
CITY MANAGER