ALJ/KHY/mph **Date of Issuance 8/23/2021**

Decision 21-08-026 August 19, 2021

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Review Climate Credits for Current Compliance with Statute and for Potential Improvements.	Rulemaking 20-05-002

DECISION ADOPTING CUSTOMER CLIMATE CREDIT UPDATES

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DECISION ADOPTING CUSTOMER CLIMATE CREDIT UPDATES

Summary

This decision reviews the current customer climate credits the State provides through the California Air Resources Board's (CARB's) Cap-and-Trade Program and adopts revisions to ensure that the credits are compliant with current statute and regulation and streamlines certain existing processes.

This decision determines the volumetric dispersion of the small business California Climate Credit and the volumetric dispersion of residential California Climate Credit for Bear Valley Electric Service (Bear Valley) customers do not currently comply with CARB's Cap-and-Trade Regulation.

This decision modifies the small business California Climate Credit to be a flat rate approach mirroring the other investor-owned utilities' residential California Climate Credit. This decision directs Bear Valley to utilize the same allocated allowance auction proceed distribution methods for Emissions-Intensive Trade-exposed (EITE), small business, and residential customers as other investor-owned utilities.

This decision directs, if and when CARB implements an adopted process to obtain sole responsibility for crediting large EITE facilities to minimize leakage associated with Cap-and-Trade Program costs in purchased energy, the transition procedure recommended in the *Staff Straw Proposal on Electric Investor-Owned Utility Cap-and-Trade Program Allowance Proceeds Use* and updated in Appendix A of this decision be instituted.

With respect to the California Industry Assistance for small and medium as well as large EITE facilities, this decision 1) amends the dollar conversion factor formula to eliminate the need for the true-up process; and 2) replaces the existing emissions factors with emission factors calculated by CARB as part of

the calculation of the allowance allocations for CARB's California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation. For small and medium EITE facilities only, this decision continues the existing once-per-compliance-period self-attestation auditing requirements for 2021-2030. Further, Energy Division will retain responsibility for calculating small and medium EITE facility credits.

The current distribution of the residential California Climate Credit in April and October is retained. However, San Diego Gas & Electric Company will retain its August and September distribution through 2022, which will allow for the completion of the two-year (2020-2021) summer distribution pilot approved in Decision (D.) 19-12-002, a Commission review of the two annual reports and a subsequent determination on the continuation of the summer distribution.

This decision authorizes Energy Division to hold and host a workshop on August 30, 2021, to discuss updates to Templates D-1 through D-5 of Appendix D of D.14-10-033 (as modified by D.14-10-055 and D.15-01-024), needed to align with changes in this decision.

To ensure California Climate Credits are able to adapt to new energy challenges and opportunities, this decision authorizes the Commission Energy Division to solicit informal comments, when the need arises, and, depending upon the responses, may hold a workshop and, if necessary, propose a new rulemaking.

Having resolved the issues in the scope of the proceeding, Rulemaking 20-05-002 is closed.

1. Procedural Background

On May 7, 2020, the Commission adopted the *Order Instituting Rulemaking to Review Climate Credits for Current Compliance with Statute and for Potential*

Improvements (Order) to review the three on-bill electric utility customer climate credits funded through the California Air Resources Board's (CARB) Cap-and-Trade Program: 1) Residential California Climate Credit; 2) small business California Climate Credit, and 3) California Industry Assistance. The Order introduced a *Staff Straw Proposal on Electric Investor Owned Utility Cap-and-Trade Program Allowance Proceeds Use* (Staff Proposal) to consider six topic areas: 1) small business California Climate Credit; 2) Bear Valley Electric Allowance Auction Proceeds; 3) Large Emissions-Intensive and Trade-Exposed (EITE) California Industry Assistance;[1] 4) Small and Medium EITE California Industry Assistance; 5) Residential California Climate Credit; and 6) Residential California Climate Credit Distribution to Submetered Customers.

Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison (SCE), PacifiCorp d.b.a. Pacific Power (PacifiCorp), Liberty Utilities (CalPeco Electric) LLC (Liberty), and Bear Valley Electric Service, Inc. (Bear Valley) were named Respondents to the proceedings in the Order.

The assigned Administrative Law Judge presided over a telephonic prehearing conference on June 16, 2020. On July 3, 2020, the assigned Commissioner issued her Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo). The Scoping Memo set forth threshold, short-term, and longer or near-term issues to be addressed in this proceeding. Following the filing of party comments, the Commission adopted Decision (D.) 20-10-002, *Decision*

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[1] Large EITE entities are large emitters (greater than 25,000 metric tonnes of Carbon Dioxide equivalent per year) that are covered entities under the Cap-and-Trade Program and operate within one of the North American Industry Classification System codes in Table 8-1 of the Cap-and-Trade Regulation. *See* Sections 95800-96023 of Title 17 of the California Code of Regulations.

Addressing Threshold and Near-Term Issues. Of note to this decision, D.20-10-002 addressed the formulas for crediting refineries post-2020 but adopted two other near-term issues on an interim basis and delayed a longer-term solution to this decision: the small business California Climate Credit return method and the allocation method for Bear Valley customers.

To address the longer-term issues, which we list in Section 2 below, the assigned Administrative Law Judge facilitated two workshops, which were held on November 17, 2020, and March 4, 2021. Following each workshop, the Administrative Law Judge issued a ruling seeking comments from the parties responsive to questions set forth in the ruling.

For the January 28, 2021 Ruling, the following parties filed timely comments: Green Power Institute, PG&E, Public Advocates Office of the Public Utilities Commission (Public Advocates Office), SDG&E, Small Business Utility Advocates (SBUA), SCE, the Utility Consumers' Action Network (UCAN) and a coalition of small multi-jurisdictional utilities filing together as the California Association of Small and Multi-Jurisdictional Utilities (CASMU).[2] The following parties filed reply comments to the January 28, 2021 Ruling: CASMU, PG&E, Public Advocates Office, SBUA, and UCAN.

Additionally, in the January 28, 2021 Ruling, parties were asked to file proposals to address the improvement of crediting processes including streamlining administration and delivery, the administrative feasibility and cost - effectiveness of these improvements, and the implementation date. In response, PG&E, SDG&E, and SCE filed a joint proposal, separate from the comments

[2] CASMU includes the following utilities: (Bear Valley Electric Service, Inc. (Bear Valley), Liberty Utilities (CalPeco Electric) LLC ("Liberty"), and PacifiCorp, d.b.a. Pacific Power ("PacifiCorp").

responding to the January 28, 2021 Ruling. Other parties included their respective proposals in comments responding to the January 28, 2021 Ruling.

For the April 1, 2021 Ruling, the following parties filed comments: California Large Energy Consumers Association (CLECA) jointly filed with Direct Access Customer Coalition (DACC), CASMU, PG&E, Public Advocates Office, SDG&E, SCE, and UCAN. The following parties filed reply comments to the April 1, 2021 Ruling: Green Power Institute and UCAN.

The record of this proceeding stands submitted on April 22, 2021.

2. Overview of the Three Customer Climate Credits

The California Global Warming Solutions Act of 2006 (Assembly Bill (AB) 32) established two emissions reduction goals to achieve (1) 1990 levels by 2020 and (2) 40 percent below the 1990 level by 2030. AB 32 named CARB as the agency responsible for achieving these goals and authorized CARB to adopt a market-based regulation that establishes a system of declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases.

Subsequently, CARB established its Cap-and-Trade Program, which supports a number of clean energy programs as well as three Commission-administered credits for customers of electric investor-owned utilities (Utilities): 1) the residential California Climate Credit; 2) the small business California Climate Credit; and 3) California Industry Assistance. Pursuant to Public Utilities Code Section 748.5, these three credits are funded through the consignment to auction of greenhouse gas allowances granted to Utilities on behalf of their ratepayers each year by CARB's Cap-and-Trade Program.[3] The

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[3] Public Utilities Code Section 748.5 directs the Commission to require that all revenues, including any accrued interest, be credited directly to the residential, small business, and emissions-intensive trade-exposed retail customers of the electrical corporation. An exception is

auction proceeds form a common pool of value, which are thereafter allocated to programs as described below.

After administrative and outreach expenses are accounted for, Public Utilities Code Section 748.5(c) allows the Commission to allocate up to 15 percent of the auction proceeds to clean energy and energy efficiency projects. Currently, the Solar on Multifamily Affordable Housing (SOMAH) program receives 10 percent (up to $100 million) of all auction proceeds first, while the Disadvantaged Community Green Tarff, Community Solar Green Tariff, the Disadvantaged Communities - Single Family Affordable Solar Homes (DAC-SASH) programs, and SCE's Clean Energy Optimization Pilot receive funding from the remaining five percent. The remaining funding pool then flows through to recipients of California Industry Assistance, available to Emissions-Intensive Trade-Exposed (EITE) facilities, who receive credits to minimize leakage associated with Cap-and-Trade Program costs in purchased energy. Once EITE facilities receive credits, the remaining amount flows through to the small business California Climate Credit. D.13-12-002 established a credit formula as a volumetric return multiplied by a steadily decreasing assistance factor. After small business California Climate Credits are distributed, the final pool of proceeds flows through to the residential California Climate Credit, where all remaining proceeds are divided among investor-owned utilities' residential customers.

For 2014 through 2019, the residential California Climate Credit was provided to residential customers twice a year (April and October) as a flat on-bill credit. In 2019, the Commission authorized SDG&E to pilot a 2020-2021

made for up to fifteen percent of allocated allowance auction proceeds, which the Commission can use at its discretion for "clean energy and energy efficiency projects."

summer (August and September) distribution to ascertain whether this would improve or increase customer awareness of the credit. The 2020 distribution was also changed for SCE, PG&E, Liberty, and PacifiCorp in response to COVID-19. For SCE, PG&E, and PacifiCorp, the October 2020 credit was provided in split payments during two months of Spring/Summer 2020.[4] In the case of Liberty, the October 2020 credit was advanced to July 2020, but not split.[5]

3. Issues Before the Commission

This decision addresses the following outstanding issues in the scope of the proceeding:

a. How should the Commission convert the small business California Climate Credit from a monthly volumetric return to comply with current CARB Cap-and-Trade regulations?

b. Should the Commission require Bear Valley to non-volumetrically return the proceeds of the consignment to auction of allowances from CARB to Bear Valley customers? [D.20-10-002 allowed Bear Valley to continue its current process while the Commission considered additional data regarding the impact of its administrative costs. The issue remains as to the future method for the return of allowance proceeds to Bear Valley customers.]

c. What changes should the Commission make to continue to distribute California Industry Assistance after 2020?

d. Should the Commission adopt the Staff Proposal to clarify the transfer process for crediting large Emissions-Intensive Trade-Exposed entities (EITEs) for the Cap-and-Trade costs embedded in electricity purchase to CARB, if and when CARB assumes responsibility from the Commission for crediting of these facilities to minimize leakage associated with Cap-and-Trade Program costs in purchased energy?

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[4] D.20-04-027 at Ordering Paragraphs 1 and 2 and D.20-05-052 at Ordering Paragraph 2.

[5] D.20-05-052 at Ordering Paragraph 3.

e. Should the Commission revise the process for crediting small and medium EITEs with California Industry Assistance in order to simplify the administrative process and make the calculation process more transparent?

f. What steps should the Commission take to ensure the residential California Climate Credit can adapt to new energy challenges and opportunities?

g. What changes to the residential California Climate Credit should the Commission make to improve communication and climate credit distribution to submetered households?

h. Are the three customer climate credits compliant with current statute and regulation? Where a credit is no longer compliant, what steps should the Commission take to re-align the two?

i. What steps should the Commission take to improve crediting processes including streamlining administration and delivery? What is the administrative feasibility and cost-effectiveness of these improvements? When should the implementation of these improvements occur?

j. What are the current outcomes of the customer climate credits with respect to the policy objectives adopted in D.12-12-033? What changes should the Commission make to improve these outcomes?

k. Should the Commission also consider the objective of customer understanding of the climate credits and the processes? What changes, if any, should be made to limit customer confusion? What improvements, if any, should the Commission make to the outreach for the three customer climate credits.

4. Updating the Three Customer Climate Credits

Below, we address the issues of compliance, policy objectives and future reviews, (Section 3, Issues f, h, and j) which are discussed with respect to all three climate credits. We then address each of the three customer climate credits individually (Section 3, Issues a, b, c, d, e, g, i, and k).

4.1. Customer Climate Credit Compliance with Statutes and Regulations

After review of the three Customer Climate Credits, this decision finds two aspects of the Commission's Customer Climate Credit rules that require revision to ensure alignment with the current statutes and CARB regulations: the volumetric dispersion of the small business California Climate Credits and the volumetric dispersion of allocated allowance auction proceeds to Bear Valley customers.

We begin with the recommendations from the Staff Proposal, which indicates three areas where Commission Customer Climate Credit rules should be revised in order to align with the current statutes. First, D.13-12-002 directs electric utilities to distribute the small business California Climate Credit volumetrically. However, regulatory amendments, which were adopted by CARB in July 2017 and effective October 1, 2017, prohibit volumetric returns of allowance auction proceeds.[6] Accordingly, the Staff Proposal recommends the Commission consider revisions to the small business California Climate Credit to ensure compliance with CARB regulation.

Second, and relatedly, the Staff Proposal notes that Bear Valley has been exempted from the allowance allocation distribution methods required of other utilities due to the very small amount of allocated allowance auction proceeds historically received by Bear Valley. In D.12-12-033, the Commission directed Bear Valley to return greenhouse gas allowances auction proceeds volumetrically to its customers in proportion to greenhouse gas costs incurred, calling the

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[6] Staff Proposal at 20 citing California Code of Regulation (CCR) Section 95892(d)(5), which describes the limitations on the use of auction proceeds and allowance value.

method cost-effective and administratively simple;[7] these directives to Bear Valley are no longer in compliance with CARB's current regulations.

Third, another area of misalignment involves the crediting formula for large EITE facilities that qualify as refineries. The Staff Proposal highlights that this formula would expire at the end of 2020, thus creating the need for Commission action. The expiration of the formula was addressed by the Commission in D.20-10-002 through adoption of the continuation of the formula previously adopted in Resolution E-4716.

In response to comments on the Order, the Scoping Memo included the scoping issue of ensuring the Climate Credits are compliant with current statute and regulation. Hence, the November 17, 2020 workshop included a review and party discussion of the three climate credits and related statutory requirements and regulations. The January 28, 2021 Ruling sought comments on whether the three non-compliance issues in the Staff Proposal the only non-compliance issues were.

PG&E, Public Advocates Office, SBUA, SCE, and UCAN agree there are no other non-compliance issues.[8] SDG&E agrees that the only apparent misalignment appears to be with regards to the Small Business Volumetric Return; SDG&E has no comment regarding the Bear Valley Volumetric Return and Refinery Formula.[9]

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[7] *Id*. at 26 citing D.12-12-033 at Finding of Fact 134.

[8] PG&E Opening Comments to January 28, 2021 Ruling at 1, Public Advocates Office Opening Comments to January 28, 2021 Ruling at 1, SBUA Opening Comments to January 28, 2021 Ruling at 1, SCE Opening Comments to January 28, 2021 Ruling at 2, and UCAN Opening Comments to January 28, 2021 Ruling at 2.

[9] SDG&E Opening Comments to January 28, 2021 Ruling at 1-2.

Bear Valley stated its disagreement with the characterization of its implementation of the climate credit as a compliance issue. Bear Valley asserts its procedures comply with the two Commission decisions on the climate credits (D.12-12-033 and D.20-10-002.) Bear Valley underscores that while it does not view the Commission's current adopted method of allowance proceed dispersal for Bear Valley as a compliance issue, it "appreciates the Commission staff's desire to account for the carbon price signal."[10]

Upon review of the three climate credits, this decision finds there are only two remaining aspects of the Commission Climate Credit rules that require revision to ensure alignment with the current statutes and CARB regulations: the volumetric dispersion of the small business California Climate Credit and the volumetric dispersion of allocated allowance auction proceeds for Bear Valley Customers. We address the solution for alignment with current statutes and regulations in Section 4.5 below.

4.2. Policy Objectives for the Three Climate Credits

We maintain the policy objectives established in D.12-12-033. As described below, nothing in the record of this proceeding leads us to revise the list of objectives or the prioritization.

During the November 17, 2021 workshop, parties received a presentation of the policy objectives the Commission used in D.12-12-033 to develop the Climate Credits. We list the objectives here, along with the prioritization the Commission assigned in D.12-12-033:[11]

- Preserve the carbon price signal. (High Priority)
- Prevent economic leakage. (High Priority)

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[10] CASMU Opening Comments to January 28, 2021 Ruling at 1-2.

[11] D.12-12-033 at Finding of Fact 39 and 40.

- Reduce adverse impacts on low-income households. (High Priority)
- Maintain competitive neutrality across load serving entities. (High Priority)
- Distribute revenues equitably recognizing the public asset nature of the atmospheric carbon sink. (Medium Priority)
- Achieve administrative simplicity and understandability. (Medium Priority)
- Correct for market failures that lead to underinvestment in carbon mitigation activities and technologies. (Low Priority)[12]

The January 28, 2021 Ruling sought comments from parties on the content of the policy objectives presentation and on the policy objectives.

The utilities in this proceeding generally agree with the current policy objectives for reviewing the Climate Credits. SCE asserts the policy objectives are being met and recommends no changes.[13] CASMU considers the seven policy objectives to be still applicable based on current law and policy and recommends the Commission continue to balance the seven policy objectives as articulated in D.12-12-033.[14] PG&E contends the policy objectives are being met through the current implementation of the three Climate Credits.[15] SDG&E also believes "the majority of the policy objectives are being met", but notes that

[12] D.12-12-033 at 69-70.

[13] SCE Opening Comments to January 28, 2021 Ruling at 4.

[14] CASMU Opening Comments to January 28, 2021 Ruling at 4-5.

[15] PG&E Opening Comments to January 28, 2021 Ruling at 1-2. PG&E recommends that in order to smooth electric bills and avoid customer confusion and dissatisfaction with bill volatility, the Commission should revise the timing of the gas credit to February. However, revising the gas climate credit is not in the scope of this proceeding.

D.12-12-033 pointed to "extenuating circumstances or conflicting priorities" being applicable to most of the objectives.[16]

Also referencing this conflict of priorities, Public Advocates Office surmises that this conflict will always create challenges in accomplishing all of the policy objectives. Public Advocates Office explains that "the strongest possible price signal would result in the highest energy costs, which in turn worsen economic leakage and increase adverse impacts to low-income households."[17] In addition, Public Advocates Office recommends the Commission adopt the additional policy objective of "raising customer awareness of the societal costs of climate change."[18]

While the utilities and Public Advocates Office generally agree with the current list of policy objectives, other parties recommend reprioritization.

SBUA maintains that the existing objectives all appear to be appropriate, with some of them being less of a priority (i.e., simplicity).[19] SBUA suggests the Commission prioritize competitive neutrality, carbon price signal preservation and equitable distribution with less prioritization on economic leakage prevention and market failure reduction.[20]

Green Power Institute argues that distributing the credits as rebates to customers serves to dampen the carbon price signal and does nothing to correct for market failures that lead to underinvestment in carbon mitigation activities

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[16] SDG&E Opening Comments to January 28, 2021 Ruling at 5.

[17] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 5.

[18] *Id*. at 6.

[19] SBUA Opening Comments to January 28, 2021 Ruling at 3.

[20] *Id*. at 4.

and technologies.[21] Green Power Institute further argues that because proceeds are provided proportionally to customers and are diminishing, the rebates are not a viable means for reducing adverse impacts on low-income households.[22] Green Power Institute contends changes to the Climate Credits should address these three policy objectives.[23]

Similar to Green Power Institute and SBUA, UCAN recommends reprioritization. However, UCAN states that given the overall energy issues that have arisen since adoption of the original policy objectives, the Commission should not only reorder, but also cull the policy objectives to the following: reduction of impacts on low-income households; administrative simplicity and understandability, equitable distribution of auction proceeds; and competitive neutrality.[24]

As further discussed below, we find it is reasonable to maintain the policy objectives established in D.12-12-033 as previously categorized by high, medium, and low priority. Nothing in the record of this proceeding leads us to revise the list of objectives or reprioritize (i.e., recategorize) them. We are not persuaded by those parties recommending reprioritization; none have offered compelling justification for refocusing on previously lower priorities or eliminating previously high-prioritized objectives.

For example, UCAN recommends reducing the number of objectives, identifying the COVID-19 pandemic conditions as a reason to cull and

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[21] Green Power Institute Opening Comments to January 28, 2021 Ruling at 2.

[22] *Ibid*.

[23] *Ibid*.

[24] UCAN Opening Comments to January 28, 2021 Ruling at 4.

reprioritize policy objectives.[25] We disagree. The purpose of the policy objectives is to identify durable long-term principles to guide climate credit policy. We note that reducing adverse impacts on low-income households remains in the category of high priority policy objectives.

UCAN also contends that overall energy issues and concerns arising since the adoption of D.12-12-033 should lead the Commission to focus on only four objectives: i) reduction of impacts on low-income households; ii) administrative simplicity and understandability; iii) equitable distribution of revenues; and iv) competitive neutrality. UCAN presents no further justification for revising the prior Commission findings on prioritization. In response to UCAN's recommendations, Public Advocates Office opposes elimination of preserving the carbon price signal policy objective. Public Advocates Office points to previous Commission statements that the carbon price signal helps ensure that "the price of goods and services reflects the full cost of carbon" to send clear signals to ratepayers to make efficient economic decisions."[26] In opposition to the proposal to eliminate the priority of economic leakage, Public Advocates Office points to the Health and Safety Code, which explicitly states that economic leakage should be minimized to achieve greenhouse gas limits.[27] We find the end result of UCAN's recommendation would focus on certain objectives the Commission previously found to be less of a priority (*e.g.*, achieve administrative simplicity and understandability) and omit higher priorities (*e.g.,* preserving carbon price signal); thus conflicting with prior findings of the Commission.

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[25] *Ibid*.

[26] Public Advocates Office Reply Comments to January 28, 2021 Ruling at 2.

[27] *Id*. citing California Health and Safety Code Section 38562(b)(8).

SBUA offers justification for its recommendation to reprioritize policy objectives: 1) correcting for market failure is less important because the Commission and other state agencies have multiple programs addressing this issue and 2) preventing economic leakage should be placed last in priority because "this is a difficult task for the climate credit" and it is "better addressed by other state economic development efforts.[28] First, as noted above, correcting for market failure is already deemed a low priority for the California Climate Credit by the Commission. Second, the Commission previously found the prevention of economic leakage to be a high priority because of the policy stance taken by CARB and the intent behind Senate Bill 1018, which adopted Public Utilities Code Section 748.5 establishing the parameters for the use of greenhouse gas allowance auction proceeds.[29] Accordingly, we find SBUA's justification unfounded; just because something is difficult does not make it a lower priority for the Commission.

We turn to Green Power Institute's statement that distributing credits as on-bill rebates dampens the carbon price signal and does not correct for market failures that lead to underinvestment in carbon mitigation activities and technologies. Green Power Institute further states that on-bill rebates are not a viable means for reducing adverse impacts on low-income households. Green Power Institute contends that allocating an increased proportion of the proceeds, up to the maximum permitted, to clean energy and efficiency projects will promote the three key policy objectives.[30] SBUA points out that these clean energy and efficiency projects appear to be fully committed making Green Power

[28] SBUA Opening Comments to January 28, 2021 Ruling at 4.

[29] D.12-12-033 at 65.

[30] Green Power Institute Opening Comments to January 28, 2021 Ruling at 1-2.

Institute's complaint moot.[31] The Staff Proposal provides details of how allowance auction proceeds are allocated and reviewed. The Staff Proposal explains that the first allocation from auction proceeds is 10 percent of available proceeds to the SOMAH program (up to $100 M). Then the DAC-SASH is allocated $10M annually. This is followed by funding for SCE's Clean Energy Optimization Pilot, as directed by D.19-04-010. Finally, the Community Solar Green Tariff and the Disadvantaged Community Green Tariff are funded up until the 15 percent limit directed by PU Code Section 748.5(c). Hence, we agree, the clean energy and efficiency programs appear to be fully funded; thus, Green Power Institute's concern on this point is moot.

We also point to the comments from SDG&E regarding previous Commission acknowledgment in D.12-12-033 of "conflicting priorities" being applicable to most of the objectives. Public Advocates Office supports this acknowledgement, providing an example of such a conflict. We agree such conflicts exist and will continue to exist. Accordingly, while we maintain the three categories of priorities (high, medium, and low), we continue the existing practice that when reviewing the Climate Credits, we will consider all policy objectives in the context of the various regulatory and legislative mandates for the distribution of greenhouse gas allowance revenues.[32]

Lastly, we turn to the Public Advocates Office's recommendation to adopt an additional policy objective of raising customer awareness of the societal costs of climate change. In D.12-12-033, the Commission discussed the policy objective of customer education, noting that any greenhouse gas allowance allocation

[31] SBUA Reply Comments to January 28, 2021 Ruling at 5.

[32] D.12-12-033 at 58.

method should be communicated clearly and effectively with all ratepayers.[33] The Commission declined to consider customer education as a separate policy objective and, instead, determined it should be a component of the greenhouse gas allowance revenue distribution method. We remain true to this course and discuss customer education as part of the outreach discussion in section 4.6 below.

4.3. Future Review of the Three Climate Credits

This proceeding examines what steps the Commission should take to ensure the residential California Climate Credit can adapt to new energy challenges and opportunities. We look at this in a broader sense to include all Climate Credits and determine that maximum flexibility will best allow the Commission to adapt the Climate Credits to new energy challenges and opportunities. Accordingly, we authorize Energy Division to solicit informal comments, when the need arises, from the most current service list for this proceeding. As discussed below, depending upon the informal comments received, Energy Division may hold a workshop and, if necessary, propose a new rulemaking.

The January 28, 2021 Ruling specifically comments on this issue. It is clear that parties interpreted the question differently, with many parties looking at specific changes to one or more of the Climate Credits. For example, PG&E recommends revising the timing of credit distribution,[34] Green Power Institute recommends moving as much of the proceeds into investments in clean energy options to benefit all customer classes,[35] and SDG&E recommends any Clean

[33] *Id*. at 68.

[34] PG&E Opening Comments to January 28, 2021 Ruling at 4.

[35] Green Power Institute Opening Comments to January 28, 2021 Ruling at 3.

Energy and Energy Efficiency program receiving proceeds from utilities' Cap-and-Trade allocated allowance auction proceeds be limited in the number of funding years in order to allow new programs to compete.[36] Public Advocates Office contends the Commission's only option to adapt to new energy challenges is adoption of a different non-volumetric funding allocation.[37] However, SBUA looked at the question in a much broader sense and recommended the Commission perform a review of the Climate Credits every four years to identify changes and solutions.[38]

During the March 4, 2021 workshop, this issue was presented and discussed more broadly and, similar to SBUA's recommendation, looked at establishing a routine process to address new energy challenges and opportunities. The April 1, 2021 Ruling describes the March 4, 2021 workshop proposed process to ensure the Climate Credits can address new energy challenges and opportunities. Specifically, the proposed process states:

> *As needed, Energy Division staff may – at their discretion – email the most current climate credit proceeding service list to solicit informal comments on whether proposed changes are needed to the three climate credits. Energy Division staff would determine whether there are sufficient issues or proposed changes to hold a workshop. Energy Division would email the service list with either a notice of a workshop or an explanation of the decision not to hold a workshop. If a workshop is held, Energy Division and workshop participants would discuss the climate credit proposals and the need for a formal proceeding. Following the workshop, Energy Division would determine whether the proposals require an Order Instituting Rulemaking.*

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[36] SDG&E Opening Comments to January 28, 2021 Ruling at 8.

[37] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 8.

[38] SBUA Opening Comments to January 28, 2021 Ruling at 4.

Parties were asked to comment on this proposal and present alternatives, if applicable. CASMU members support enabling Energy Division to identify issues and host a workshop as necessary and would participate in a rulemaking, should the Commission make that determination.[39] PG&E, SCE, CLECA and DACC also support the proposed process.[40] SDG&E, Public Advocates Office and UCAN support the process with some qualifications UCAN recommends adopting certain triggering data, points, or times to ensure there is a minimum positing of consideration.[41] Similarly, SDG&E recommends a set review schedule of every three years.[42] Public Advocates Office requests reassurance that any party may contact the Energy Division with concerns regarding the Climate Credits and that Energy Division will either respond to the concerns or solicit informal comments from all parties.[43]

We find maximum flexibility will best allow the Commission to adapt the Climate Credits to new energy challenges and opportunities. Hence, we do not establish a routine time period for the process to begin, as suggested by SDG&E. If we establish a three or four-year review cycle, the Commission may encounter an issue but have to wait for the next review cycle, which may require waiting one or more years for the Commission to deliberate and take action. Similarly, establishing triggering events may garner the same results. Further, we note since CARB is the principal agency responsible for the Cap-and-Trade

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[39] CASMU Opening Comments to April 1, 2021 Ruling at 1.

[40] PG&E Opening Comments to April 1, 2021 Ruling at 2, SCE Opening Comments to April 1, 2021 Ruling at 2, and CLECA and DACC Opening Comments to April 1, 2021 Ruling at 2-3.

[41] UCAN Opening Comments to April 1, 2021 Ruling at 2.

[42] SDG&E Opening Comments to January 28, 2021 Ruling at 2.

[43] Public Advocates Office Opening Comments to April 1, 2021 Ruling at 1.

regulations, we may need to quickly respond to new rules promulgated by CARB to limit the time the distribution of allocated allowance auction proceeds is not in compliance with new CARB regulations. Authorizing Energy Division with the discretion to email the service list to solicit informal comments on an issue provides the most efficient and flexible way to be alerted and to act, when necessary. Furthermore, we adopt Public Advocates Office's recommendation that any party may contact the Energy Division with concerns or opportunities regarding the Customer Climate Credits and that Energy Division will either respond to the concerns or solicit informal comments from all parties. This will ensure Energy Division is aware of and can address all potential issues or opportunities regarding the Customer Climate Credits.

4.4. California Industry Assistance

As previously discussed, California Industry Assistance is provided to EITEs receiving credits to minimize leakage associated with Cap-and-Trade Program in purchased energy. Below we address the proposals for revisions to the California Industry Assistance by size, first addressing proposals for large EITE facilities and then those addressing small and medium EITE facilities.

4.4.1. Large EITE Facilities

If and when CARB takes action to obtain sole responsibility for crediting large EITE facilities to minimize leakage associated with Cap-and-Trade Program costs in purchased energy, the transition procedure recommended in the Staff Proposal shall be instituted. We find it reasonable to approve this process prior to action by CARB in order to provide a seamless transition of crediting from the Commission to CARB while also ensuring no gaps in crediting nor double crediting (from both the Commission and CARB in the same year) of these facilities, as required by D.20-10-002.

The Staff Proposal explains that currently, CARB and the Commission provide assistance to large EITE facilities required to participate in the Cap-and-Trade Program. CARB allocates allowances to these facilities to minimize leakage risk and the Commission directs the investor-owned utilities to provide on-bill (or, if requested, check) credit in the form of California Industry Assistance for Cap-and-Trade costs embedded in large EITE facility electricity purchases.[44] For improved efficiency, CARB has indicated future action for consolidating the assistance for large EITE facilities into one allocation administered by CARB.

The Staff Proposal describes a transition process in Appendix 5, which is incorporated to this decision as Appendix A and updated for illustrative purposes.[45] A two-year process, the transition process accomplishes the following: preserves existing practices toward recipients; relies on existing authorities and process; maintains Commission adopted processes for balancing allowance auction proceeds among EITE's, small businesses and residents; and minimizes administrative complexity and redundancy between the Commission and CARB.

As proposed in the transition process, in Year 1, the Commission would direct the investor-owned utilities to cease all initial assistance crediting of large EITE facilities to minimize leakage associated with Cap-and-Trade Program costs in purchased energy and, simultaneously, CARB would commence crediting these facilities. CARB would be responsible for calculating all product-based true-up allocations for both Year 1 and Year 2. Energy Division would also

[44] Staff Proposal at 29.

[45] The proposal also contains revised language to be consistent with this decision and language used by CARB.

direct the investor-owned utilities to provide bill credits for positive product-based Year 1 and Year 2 true-up allocations, which continue existing practices. For any negative Year 1 and Year 2 true-up allocations, CARB would debit the true-up allocations from each facility's annual initial allocation.

In its initial comments to the Order, CLECA focused concern on the transfer of responsible agency from the Commission to CARB, the coordination between the two agencies, and the timing of the transition; CLECA, however, did not present opposition to the transition steps.[46] Raising further alarm, PG&E stated that beginning January 1, 2021, the CARB allowance allocations to the investor-owned utilities will be reduced, and will not include allowance allocations to cover indirect emissions of large EITE entities.[47] In response to the Scoping Memo, CLECA reiterated its concern that "unless CARB intends to undertake its formal amendment process very soon and complete it by year's end, the coverage of [l]arge EITE entities' indirect emissions may not be continuous if the Investor-Owned Utilities were to reduce or stop the bill credits to [l]arge EITE entities beginning next year. "[48] CLECA further states regardless of the ultimate approach, the process must be planned and timed carefully to ensure continuous coverage with no gaps for the large EITE entities, then there should be a simultaneous termination of the Commission's distribution to large EITE entities, and commencement of CARB's distribution.[49]

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[46] Comments of CLECA on the Order Instituting Rulemaking and Staff Proposal, June 4, 2020 at 4-6.

[47] Response of PG&E to Climate Credit Rulemaking, June 4, 2020 at 4-5.

[48] CLECA Opening Comments to the Scoping Memo, July 24, 2020 at 4.

[49] *Id*. at 6.

The record is limited with respect to this transition proposal. However, we find the administrative procedure proposed by staff emulates the current administrative processes and allows for seamless and continuous crediting of large EITE through the transition process. Further, this process maintains the policy objectives of preventing economic leakage and administrative simplicity and understandability. We underscore that this transition process will only be implemented after adoption of a publicly vetted crediting procedure by CARB. Until such time, the current process for crediting large EITE facilities remains in effect.

There are two additional revisions related to large EITE facilities that also impacts small and medium EITE facilities. Hence, we address them in Section 4.4.2.

4.4.2. Small and Medium EITE Facilities

The Staff Proposal recommended three changes to the calculation of California Industry Assistance related to small and medium EITEs:

- Transfer responsibility for calculating small and medium EITE facility credits from Energy Division staff to investor-owned utilities;
- Amend the dollar conversion factor formula to eliminate the need for the true-up process (this would also apply to large EITE); and
- Continue once-per-compliance-period self-attestation auditing requirements for 2021-2030.

The Staff Proposal explains that Energy Division staff currently uses an energy-based formula to calculate California Industry Assistance for all medium and small facilities that have not opted into the Cap-and-Trade Program. Because the energy usage data for this calculation is provided by the utilities, the Staff Proposal recommends streamlining the process and reducing the potential for introducing data handling errors by directing the utilities to perform the calculations while retaining the right to inspect or audit such calculations.

With respect to the dollar conversion factor formula, the Staff Proposal recommends simplifying the energy-based allocation by revising the dollar conversion factor formula, which would streamline the crediting calculation process for all EITE facilities by eliminating the need for true-ups for energy-based assistance. The Energy-Based California Industry Assistance formula is shown in a simplified version in Figure 1 below.[50]

Figure 1

Baseline Emissions	X	Emissions Factor	X	Cap Adjustment Factor	X	Dollar Conversion Factor	+/-	Trueup

The Staff Proposal underscores that, under the current definition, the value of the dollar conversion factor is not known until the end of a year, although the credit is issued in April. Under the existing definition established in D.12-12-033, the dollar conversion factor is defined as the average of California Independent System Operator's (CAISO) daily Greenhouse Gas Allowance Index Price for the year. Because this value is not known until after the completion of a given year, the energy-based allocation is currently calculated using the prior year's dollar conversion factor. Hence, a true-up is required.

The Staff Proposal offers two options for revising the dollar conversion factor to eliminate the need for annual true-ups. First, the dollar conversion factor could be defined at the CARB auction reserve price for the year, plus six

[50] The actual formulas are available in D.14-12-037, Appendix A, as modified by D.15-08-006 and D.16-07-007.

percent. The Staff Proposal provides data indicating the values for the dollar conversion factor have followed a similar trend to the values for the CARB auction reserve prices but have been approximately six percent higher.[51] This first option presumes allowance prices will continue their present trend. The second option recognizes the present trend may not continue. Option two, instead, defines the dollar conversion amount as the average of CAISO's daily Greenhouse Gas Allowance Index Price for the preceding year plus eight percent. The Staff Proposal explains the adjustment is the average annual increase in the dollar conversion factor.[52] Staff asserts the two options allow for increased predictability and certainty for credit recipients by eliminating the true-up process.[53]

Resolution E-4716 requires small EITE facilities[54] to self-attest in order to receive California Industry Assistance and for utilities to audit five percent of attestation applications during each compliance period to ensure North American Industry Classification System (NAICS) code conformance.[55] The Staff Proposal recommends continuance of the self-attestation and the compliance audits from 2021 through 2030.

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[51] Staff Proposal at 33, Graph 6.

[52] *Id*. at 34, Graph 7.

[53] *Id*. at 34.

[54] These facilities emit less than 10,000 metric tonnes CO_2e/year. As a result, these facilities are neither CARB covered entities nor Mandatory Greenhouse Gas Reporters under CARB's Cap-and-Trade regulations and are, therefore, 'invisible' at the facility level to CARB.

[55] Eligibility for California Industry Assistance requires facilities to operate under certain NAICS codes.

During the November 17, 2020 workshop, Energy Division presented an overview of the California Industry Assistance Credit and its proposals. The January 28, 2021 Ruling sought comments on the issues of:

- whether the Commission should revise the process for crediting small and medium EITEs with California Industry Assistance in order to simplify the administrative process and make the process more transparent; and
- whether the Commission should adopt one or more of the Staff-recommended proposals to simplify calculation and attestation processes for small and medium EITE facilities.

To ensure a complete record, Energy Division presented additional information on these issues during the March 4, 2021 workshop, including an overview of the California Industry Assistance Credit formula inputs. As part of this presentation, Energy Division introduced options to update the emissions factor used in the calculation of California Industry Assistance and established in D.14-12-037. At this time, staff clarified that proposed changes to the Dollar Conversion Factor and Emissions Factor would impact all EITE facilities: large, medium, and small. The April 1, 2021 Ruling sought comments from parties on these issues and asked additional related questions.

We begin with a discussion on transferring the responsibility for calculating California Industry Assistance for small and medium EITEs to the investor-owned utilities. PG&E, SDG&E, and SCE oppose this transference of crediting responsibility. PG&E asserts the calculation requires business specific information that PG&E does not possess but the Energy Division does.[56] Further, if the proposal is adopted, SCE requests the Commission simplify the credit calculation and provide training to the investor-owned utilities related to the

[56] PG&E Opening Comments to January 28, 2021 Ruling at 2.

calculation.[57] SDG&E highlights that the Joint Investor-Owned Utilities' Joint Proposal cautions the Commission about issues relating to preservation of trade secrets and the credit calculation process.[58] In support of the transference of credit responsibility, Public Advocates Office maintains that the Commission is no better situated to calculate California Industry Assistance than the utilities, agreeing with the Staff Proposal that the transmission of data between the Commission and utilities is an unnecessary step that creates the potential for data issues.[59] Further, Public Advocates Office contends this revision would align with the policy objective of administrative simplicity.[60]

We maintain the current process of Energy Division performing the calculation of California Industry Assistance. We agree with Public Advocates Office that the Commission is no better situated to calculate the credits. However, we find in favor of simplicity and to prevent additional implementation costs; as such, the Commission's Energy Division will retain the responsibility of calculating this credit.

We take this time to address PG&E's assertion that the calculation of California Industry Assistance requires business specific information that PG&E does not possess; this is not true. The small and medium EITE facilities use the energy-based formula, which relies on the energy-usage baseline provided by the utilities. Further, the Dollar Conversion Factor and Emissions Factor used in the calculation are public.

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[57] SCE Opening Comments to January 28, 2021 Ruling at 3-4.

[58] SDG&E Opening Comments to April 1, 2021 Ruling at 6.

[59] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 2-3.

[60] *Id*. at 3.

With respect to the concern of potential data issues, there is no data in this record that identifies the existence or severity of this issue. Accordingly, we make no changes to the roles and responsibilities for calculating this credit.

We move on to the issue of revising the dollar conversion factor formula. PG&E supports this proposal.[61] Public Advocates Office also supports the proposal, recommending the adoption of Option 2. Public Advocates Office contends Option 2 better reflects the current market value of greenhouse gas allowances since the data used better reflects current market conditions.[62] Public Advocates Office further cautions that Option 1 could substantially overvalue the California Industry Assistance Credit by relying on outdated price forecasts.[63] While neither supporting nor opposing the staff options for revising the dollar conversion factor formula, SCE proposes the Commission use a cents/kilowatt-hour (kWh) credit because utilities have customer energy consumption data.[64] However, in response to the April 1, 2021 Ruling, SCE supports Option 2 and states it proposes no other alternatives.[65] Noting the administrative burden the true-up creates, CLECA and DACC also support Option 2.[66]

We find it efficient to revise the dollar conversion factor formula by defining the dollar conversion factor as the average of CAISO's daily Greenhouse Gas Allowance Index Price for the preceding year plus eight percent. Redefining

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[61] PG&E Opening Comments to January 28, 2021 Ruling at 2.

[62] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 3.

[63] *Ibid*.

[64] SCE Opening Comments to January 28, 2021 Ruling at 4.

[65] SCE Opening Comments to April 1, 2021 Ruling at 5.

[66] CLECA/DACC Opening Comments to April 1, 2021 Ruling at 4-5.

the dollar conversion factor will eliminate the need for annual true-ups. We agree that Option 1 should not be adopted, as it relies on outdated price forecasts.

With respect to the continuation of the self-attestation and auditing for small EITE facilities, we make no changes. The record indicates no opposition to the current process and no recommended revisions or alternatives. PG&E, SCE, SDG&E state their support for this proposal.[67]

Finally, we address the emissions factor by replacing the existing emissions factors with emission factors calculated by CARB as part of the calculation of the allowance allocations for CARB's California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation. As discussed below, using CARB's emission-intensity metric maintains competitive neutrality across load serving entities, one of our policy objectives and unlike the current emissions factors, relies upon the same set of data used to calculate the allocation of allowances to the utilities, which are consigned to auction to generate proceeds to fund the residential, small business and EITE customer credits.

As indicated in Energy Division's March 4, 2021 presentation, existing emissions factors for SCE and SDG&E rely on a greenhouse gas-intensity metric calculated as part of the Commission's Self-Generation Inventive Program (SGIP's).[68] This metric was calculated in 2011.[69] The presentation explains that

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[67] PG&E Opening Comments to January 28, 2021 Ruling at 2, PG&E Opening Comments to April 1, 2021 Ruling at 4, SDG&E Opening Comments to April 1, 2021 Ruling at 7, and SCE Opening Comments to April 1, 2021 Ruling at 5.

[68] April 1, 2021 Ruling at Attachment 2, Slides 37-43.

[69] D.11-09-015 at Ordering Paragraph 1 and Attachment A.

because SGIP funds individual projects, the greenhouse gas-emissions intensity of the marginal generator is calculated to determine if funding a specific project would result in emissions higher or lower than the facility it may theoretically displace. To reflect PG&E's access to large hydropower and nuclear, the Commission adopted an emissions factor, in D.14-12-037, that is calculated differently from SCE and SDG&E. PG&E's emissions factor is non-marginal and based on utility-specific data.[70]

The April 1, 2011 Ruling sought comment on whether the emissions factors should be updated by using existing methodologies with newer data sources or if the Commission should change to another methodology. Only CLECA/DACC commented, stating that any utility-specific number would need to be calculated based on the total load of the entire utility, including unbundled, direct access, and other load.

Energy Division's presentation briefly describes an option to update PG&E's emission factor with CARB's total CARB direct allowance allocation ($MTCO_2e$) in a given year, divided by total retail sales for each utility in the same year.[71] Taking this a step further, we explore CARB's 2016 Cap-and-Trade Regulatory Amendments, which made additional greenhouse gas data publicly available, including utility-specific calculations of aggregate greenhouse gas intensity (calculated as an "EDU-Specific Emission Factor ($MTCO_2e/MWh$)"[72]. As part of CARB's calculation of each utility's allowance allocation and using the

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[70] April 1, 2021 Ruling at Attachment 2, Slides 37-43.

[71] *Ibid.*

[72] Publicly available on the CARB website: https://www.arb.ca.gov/regact/2016/capandtrade16/attach10.xlsx?_ga=2.77523541.1188518576.1624294625-1687426605.1621531956.

same dataset, CARB also calculates utility-wide greenhouse gas-intensity for each year through 2030, based on all projected load including community choice aggregator, direct access, and energy service provider load from the California Energy Commission's Integrated Energy Policy Report forecast and other publicly available sources (as documented within CARB's publicly available workbook).

We find replacing the current emissions factor with CARB's annual emission-intensity metric would meet several of the policy objectives in this proceeding. First, it would result in the three investor-owned utilities having comparable emissions factors based on the same underlying method, thus helping maintain competitive neutrality across load serving entities, one of our policy objectives. CARB's metric has the added advantage of deriving from the same set of data both the allocation to each utility and also the emissions factor used to determine the return of the proceeds from the auction of those allowances to qualifying EITE recipients. Finally, CARB's metric addresses the concern expressed by CLECA and DACC that calculations include all load served in the IOU territory. Accordingly, we adopt CARB's emission-intensity metric, the EDU-Specific Emission Factor ($MTCO_2e/MWh$) calculated as part of CARB's Allowance Allocation Calculation for 2021-2030, to replace the current emissions factor. Attached to this decision, as Appendix B, are updated formulas and rules for the distribution of greenhouse gas allowance revenue to EITE customers, consistent with the determinations in this decision.

We note that the emissions factor for Combined Heat and Power purchases and unspecified power purchases remains unchanged. Energy Division is instructed to publicly post the utility-specific Emissions Factors for the upcoming year on a Commission's Cap-and-Trade website prior to the distribution of the 2022 climate credits. If as part of a future public rulemaking CARB updates their allowance allocation calculations, Energy Division staff is instructed to use the most current (as of December 31) CARB-approved EDU-Specific (MTCO2e/MWh) emissions factors calculated by CARB as part of that effort for use calculating California Industry Assistance for the following year (for example: assistance factors as of December 31, 2021 will be used to calculate 2022 California Industry Assistance).

4.5. Small Business California Climate Credit

As previously determined, the small business California Climate Credit does not comply with CARB regulations, as it currently provides credits on a volumetric basis. This decision corrects this misalignment through adoption of a flat credit distribution method where qualifying small businesses receive a credit identical to the residential California Climate Credit at the same time the residential California Climate Credit is distributed. As described below, this change meets the policy objectives of preserving the carbon price signal, preventing economic leakage, and achieving administrative simplicity and understandability.

The Staff Proposal recommends converting the current Small Business Climate Credit method to a once-a-year flat credit. However, with a flat rate credit, the Commission must determine a total funding level. The Staff Proposal explains that with the existing volumetric method, the funding level was determined by the electric use of the small businesses. The Staff Proposal notes that the Small Business Climate Credit has recently accounted for approximately six percent of annual allowance auction proceed use.[73]

[73] Staff Proposal at 25 and Table 1.

The January 28, 2021 Ruling sought comments on the proposal to distribute small business California Climate Credits using the same process as the residential California Climate Credit distribution. Parties responded favorably. Supporting the proposal, PG&E asserts it will achieve simplicity for customer awareness and streamlining.[74] Public Advocates Office submits using a process similar to the residential California Climate Credit complies with Public Utilities Code Section 748.5(a) as it allows customers to see a carbon price "incentive to shift to economic activities that result in fewer greenhouse gas emissions."[75] SBUA also supports revising the small business California Climate Credit to be equal to the residential California Climate Credit, as it "would provide a modicum of relief to a vulnerable population."[76] SBUA contends the flat credit is superior to the volumetric credit, which dampens the conservation credit." UCAN also agrees with this proposal as it is straight-forward, retains simplicity, and provides ease of transition.[77]

Parties discussed these proposals during the March 4, 2021 workshop and provided more input in response to the April 1, 2021 Ruling. Specifically, parties were asked if the small business California Climate Credit is changed to a distribution methodology that mirrors the residential California Climate Credit, whether the small business California Climate Credit be distributed in the same month or months as the residential California Climate Credit. With the

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[74] PG&E Opening Comments to January 28, 2021 Ruling at 2.

[75] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 4, citing D.12-12-033 at 105.

[76] SBUA Opening Comments to January 28, 2021 Ruling at 2.

[77] UCAN Opening Comments to January 28, 2021 Ruling at 3.

exception of CASMU, parties agreed the two Climate Credits should be dispersed identically.[78]

CASMU does not support the transition to the flat credit. Instead, CASMU recommends a tiered system, based on historic usage, and contends this would comply with the regulation of not returning revenue on a volumetric basis.[79] We disagree. Basing the returns on historic usage would continue to thwart the desire to protect the carbon price signal, as it would not provide any incentive to shift to economic activities that result in fewer greenhouse gas emissions, as noted by Public Advocates Office.[80]

We also find it reasonable to convert the distribution method of the small business California Climate Credit from a volumetric based method to a flat credit where each qualifying small business, as defined in D.12-12-033, receives a credit equal and simultaneous to the residential California Climate Credit, as revised in Section 4.6 below. The flat credit approach meets two of the high priority policy objectives. First and foremost, it protects the carbon price signal, by attaching a price to emissions. In comparison allocating revenues volumetrically would disproportionately reward high consumption energy users.[81] The flat credit approach also meets the policy objective of preventing economic leakage. As described in the Staff Proposal, in 2018, the volumetric small business California Climate Credits ranged from a minimum of $0.01 to a

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[78] PG&E Opening Comments to April 1, 2021 Ruling at 3; SDG&E Opening Comments to April 1, 2021 Ruling at 5; SCE Opening Comments to April 1, 2021 Ruling at 4; and UCAN Opening Comments to April 1, 2021 Ruling at 4.

[79] CASMU Opening Comments to January 28, 2021 Ruling at 3-4.

[80] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 4 citing D.12-12-033 at 105.

[81] D.12-12-033 at 62-63, describing the Policy Objective of Preventing the Carbon Price Signal.

maximum of $7,125, with the 60th percentile and below receiving $30 or less. (This data also highlights how high consumption energy users are rewarded through the volumetric method.) Residential California Climate Credits in 2018 ranged from $29 to $39 per household for a single credit.[82] While some small businesses will see the loss of large credit, the large percentage of small businesses will remain the same or will become better aware of the California Climate Credit. While this is not a large credit, it may contribute to the prevention of economic leakage. As noted by SBUA, it would provide a modicum of relief to a vulnerable population."[83] Finally, the flat credit approach also meets the policy objective of achieving administrative simplicity and understandability. UCAN highlights that mirroring the residential California Climate Credit in terms of credit amount, frequency, and timing is straightforward, retains simplicity and provides for ease of transition.[84]

D.12-12-033 defined small businesses as non-residential entities on general service or agricultural tariffs whose electric demand does not exceed 20 kilowatts in more than three months within the previous twelve-month period.[85] In addition, D.12-12-033 allowed Liberty to determine eligibility for the small business customer designation on an annual basis in conjunction with its annual rate mitigation process due to the costs and administrative burden placed on Liberty to monitor eligibility on a more frequent basis. This decision maintains these eligibility determinations.

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[82] Staff Proposal at Table 2. Note that PacifiCorp Customers, the outlier, received $127 per household. This table also indicates that PacifiCorp customers make up less than 1 percent of the residential California Climate Credit recipients in 2018.

[83] SBUA Opening Comments to January 28, 2021 Ruling at 2.

[84] UCAN Opening Comments to January 28, 2021 Ruling at 3.

[85] D.12-12-033 at Conclusions of Law 11 and 12.

In comments to the proposed decision, CASMU requests a delay to 2023 to implement the changes to the small business California Climate Credit, stating the small multi-jurisdictional utilities have already planned climate credits for 2022 through their Energy Cost Adjustment Clause (ECAC) and Energy Resource Recovery Account (ERRA) proceedings.[86] We find the current timeline should allow for the changes in this decision to be included in the November ERRA updates. Furthermore, while the ECAC does not have a November update, nothing prevents the small multi-jurisdictional utilities from submitting supplemental materials updating the greenhouse gas tables in their ECAC. PG&E also supports a delay to 2023 citing the necessity to create new software to transition to the flat credit.[87]
Given the small business California Climate Credit is not compliant with CARB Cap-and-Trade Regulations at this time, we decline to delay implementation to ensure alignment with the regulations. However, we also acknowledge that technical delays may occur. In D.18-03-017, the Commission allowed the October 2018 Natural Gas Residential Climate Credit to be distributed with the April 2019 climate credit, if a delay in the related Advice Letter process necessitated it.[88] We find it reasonable to allow the same flexibility here for distributing the 2022 credit. Hence, we authorize the April 2022 small business California Climate Credit to be distributed in October 2022, if technical difficulties prevent the credit from being distributed in April 2022

Relatedly, SDG&E recommends, with the support of PG&E, that the Commission establish a 2022 interim Industry Assistance Factor of 50 percent for

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[86] CASMU Opening Comments to Proposed Decision at 1.

[87] PG&E Opening Comments to Proposed Decision at 3-4.

[88] D.18-03-017 at Ordering Paragraph 7.

the small business California Climate Credit, as a back-up to the implementation of the flat credit, in case the Advice Letter process discussed in Section 4.8 below is greatly delayed.[89] We find it reasonable to extend the current Industry Assistance Factor if the Advice Letter process adopted herein is delayed beyond the November ERRA update. We note that, in the event of such a delay, we do not require a true-up to reflect the changes.

To ensure awareness by small businesses of this upcoming change, investor-owned utilities shall consult with the Commission's Energy Division on appropriate outreach to small business customers in advance of or during the 2022 distribution year, including the development of an outreach message. Expenses for outreach shall be entered into the utility's Administrative and Outreach Memorandum Account.

4.6. Residential California Climate Credit

This decision retains the current distribution of the residential California Climate Credit in April and October, with the exception of the SDG&E residential California Climate Credit. While many parties recommend one or more summer distributions, as discussed below, this would create a tradeoff between customer awareness and averting impacts to low-income households. As discussed below, while D.19-12-002 directed SDG&E to revert distribution of the residential California Climate Credit back to April and October beginning in 2022, SDG&E has not completed the second year of the summer distribution pilot. Hence, the Commission does not have complete information on the outcome of the summer distribution pilot. We provide additional instruction to SDG&E below.

[89] SDG&E Opening Comments to Proposed Decision at 7-8 and PG&E Reply Comments to Proposed Decision at 1-2.

As asserted in the Staff Proposal and confirmed in Section 4.1 above, the residential California Climate Credit is compliant with all relevant regulations. The Staff Proposal made no recommendations for revisions to the credit, but suggested parties consider: 1) if the credit meets the policy objectives discussed in Section 4.2; 2) how the credit can adapt to new energy challenges and opportunities; 3) if customer awareness and outreach needs to be improved; 4) whether revising the timing and design of the credit is needed; 5) whether the timing and design could be revised to improve low income households; and 6) whether there are improvements that can be made to improve delivery to submetered customers.

Parties were asked to develop and present proposals for the March 4, 2021 workshop. Only the Joint Investor-Owned Utilities (Joint Utilities) filed a proposal. The Joint Utilities suggest changing the current April and October distribution timing but offer a different schedule for each utility: August (electric climate credit) and February (gas climate credit) for PG&E; August and September for SDG&E (maintaining the current pilot timing); and August and September for SCE. The Joint Utilities contend the timing proposals support the policy objective of reducing adverse bill impacts on low-income households.[90]

While not submitting proposals, other parties offer ideas for revising the residential California Climate Credit. Several ideas focus on outreach, which we address further below. Green Power Institute recommends moving as much of the proceeds as possible into investments that benefit all customer classes.[91] We dismiss this recommendation as it would not comply with Public Utilities Code

[90] Joint Utilities Proposals, February 19, 2021 at 2.

[91] Green Power Institute Opening Comments to January 28, 2021 Ruling at 3.

Section 748.5(c), as described above. UCAN suggests issuing the residential California Climate Credit once a year, in August or September, to yield a larger sum, which UCAN contends would lead to increased consumer awareness and, although UCAN does not explain how, increased consumer conservation.[92]

Parties discussed these proposals during the March 4, 2021 workshop. The April 1, 2021 Ruling sought comment specifically on the number and frequency of the residential California Climate Credits. In general, parties support summer distribution stating that it will lead to greater awareness and help to offset bills.[93] Liberty and Bear Valley note their customers have winter-peaking loads but support an annual August credit.[94] Public Advocates Office did not express support for any option, underscoring that both the residential and small business California Climate Credits should be distributed when they generate the most awareness of the energy cost impact of climate change. Public Advocates Office argues there is not sufficient data to conclude when this is.[95] We agree there is no data in the record of this proceeding pointing to a distribution timing that provides the greatest amount of customer awareness of the energy cost impact of climate change. However, Public Advocates Office also stated that distributing the credit during high-usage periods dilutes the impact of the carbon-signal and could lead to a misinterpretation of the lower energy bills.[96]

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[92] UCAN Opening Comments to January 28, 2021 Ruling at 3.

[93] PG&E Opening Comments to April 1, 2021 Ruling, April 15, 2021 at 3; SDG&E Opening Comments to April 1, 2021 Ruling, April 15, 2021 at 3-4; and SCE Opening Comments to April 1, 2021 Ruling, April 15, 2021 at 3-4.

[94] CASMU Opening Comments to April 1, 2021 Ruling, April 15, 2021 at 2-3.

[95] Public Advocates Office Opening Comments to April 1, 2021 Ruling, April 15, 2021 at 2.

[96] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 5.

Parties are divided with respect to the number of credit distributions. SDG&E contends it sees no net benefits to providing only one credit per year and there can only be downsides to changes.[97] SDG&E asserts it has achieved a high success of customer awareness of the Residential Climate Credit and maintains a single distribution of the credit could create customer confusion. UCAN maintains support for two credits each year. In support of one annual credit, PG&E asserts it will result in a larger, more noticeable, credit. CASMU highlights that a single credit would also lead to less administrative and operational costs.

While many parties recommend one or more summer distributions, this would create a tradeoff between greater customer awareness (*e.g.*, customer receive one large credit) and averting impacts to low-income (*e.g.*, by spreading the credits over twice a year, thus making an impact on two bills). In considering the options, we turn to the previously discussed policy objectives. The three objectives most related to this issue are preserving the carbon price signal, reducing adverse impacts on low-income households, and achieving administrative simplicity and understanding. We find retaining the current distribution schedule and making it consistent across all utilities will preserve the carbon price signal as compared to adopting a single credit distributed in August or September, which we agree dilutes the impact. Similarly, two credits a year, as opposed to one credit will better reduce adverse impacts on low-income households. Finally, maintaining the current two credits a year during April and October will eliminate additional costs for implementation and

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[97] SDG&E Opening Comments to April 1, 2021 Ruling, April 15, 2021 at 5.

ensure more allocated allowance auction proceeds go to customers. This also meets the policy objective of simplicity and understanding.

In the case of SDG&E, D.19-12-002 granted SDG&E's petition for modification, allowing SDG&E to distribute residential California Climate Credits in August and September of 2020 and 2021, instead of April and October of those years.[98] The Commission directed SDG&E to track certain information and adhere to specific reporting guidelines provided in D.19-12-002.[99] Ordering Paragraph 1 of that decision ordered SDG&E to revert to the April and October credit distribution in 2022, unless directed otherwise.

SDG&E submitted its 2020 Annual Report regarding Climate Credit Information Tracking and Reporting.[100] However, the 2021 summer season has just begun and until the Commission receives and reviews the outcomes of the 2021 Annual Report regarding Climate Credit Information Tracking and Reporting, it cannot make a final determination on the effectiveness of the summer distribution. Accordingly, we allow SDG&E to continue the summer distribution of residential California Climate Credits through 2022. The Commission will review the 2020 and 2021 reports and provide a determination.

This decision closes R.20-05-002, hence, SDG&E is directed to file its 2021 Annual Report regarding Climate Credit Information Tracking and Reporting in R.11-03-012, the proceeding where the two-year summer distribution pilot was approved. The Commission will consider whether the summer distribution should be permanent in R.11-03-012.

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[98] D.19-12-002 at Ordering Paragraph 1.

[99] *Ibid*.

[100] SDG&E Opening Comments to April 1, 2021 Ruling, April 15, 2021 at 3.

There are two additional issues listed in the Staff Proposal and discussed over the course of this proceeding: improving communication to submetered customers and improving outreach efforts. No party provided any recommendations with respect to improving communication with submetered customers; the Commission will continue to monitor the issue. With respect to improved outreach, we decline to adopt changes to current outreach efforts. Most parties support one of two conclusions: i) outreach efforts are sufficient OR ii the costs of additional outreach would outweigh the primary benefit of this program, which is to return customers' portion of the allocated allowance auction proceeds. Public Advocates Office recommends the Commission direct utilities to evaluate effectiveness of outreach.[101] Here again, the costs would outweigh the benefits.

Accordingly, the investor-owned utilities should continue providing bill inserts, emails, and master meter letters alongside the residential California Climate Credit and should continue to consult with Energy Division staff annually on the content of outreach materials. We clarify that pursuant to D.16-16-041, after 2019, Liberty and PacifiCorp must provide these materials alongside each California Climate Credit, if directed to do so by the Commission's Energy Division staff. Energy Division staff continue to have the authority to request and approve any outreach by a utility, consistent with the limitations set by D.16-16-041. Further, any outreach activities undertaken related to the climate credits can be funded as part of the administrative and outreach budget portion of each investor-owned utility's allocated allowance auction proceeds.

[101] Public Advocates Office Opening Comments to January 28, 2021 Ruling at 7.

4.7. Bear Valley Distribution Method for Small Business and Residential California Climate Credits

Beginning in 2022, Bear Valley shall cease using a volumetric approach and utilize the same allocated allowance auction proceed distribution methods for EITE, small business and residential customers as other investor-owned utilities. The Commission's previous justification for allowing Bear Valley to use the volumetric approach no longer applies. To account for proceeds and annually establish the value of the California Climate Credits, Bear Valley shall annually file by November 15 of each year a Tier 2 advice letter as instructed herein. We discuss our determinations below.

In D.12-12-033, the Commission found that Bear Valley would receive a small number of allowances under the Cap-and-Trade Program, making the administrative cost of distributing the allocated allowance auction proceeds greater than the value of the allowances. The Commission determined the volumetric approach would be cost-effective and administratively simple to implement.[102] Earlier in this proceeding, the Commission considered this issue as a near-term issue in D.20-10-002 and reviewed whether the administrative cost of distributing the allowance remains greater than the value of the allowances. The Staff Proposal contends that if Bear Valley utilizes the same process required as other investor-owned utilities, the allocated allowance auction proceeds would be approximately $1M a year, administrative and outreach costs would be minimal, and a semi-annual residential California Climate Credit would be approximately $20.[103] In response, Bear Valley argued the administrative and

[102] D.12-12-033 at Finding of Fact 134.

[103] Staff Proposal at 27.

outreach costs may be more significant.[104] In D.20-10-002, the Commission found insufficient data in the record, with respect to this issue and continued the current volumetric distribution method for Bear Valley customers for 2021. However, D.20-10-002 directed Bear Valley to file additional data in the record, so the Commission could determine whether their return method should be modified in the future.

Bear Valley filed revised estimates for administrative and outreach expenses for processing California Climate Credits, as well as justification to verify the claim that allowance allocations to Electric Distribution Utilities may be adjusted by CARB in the future to account for the acceleration of the Renewable Portfolio Standard, which requires an increasing share of a Utility's retail sales be generated from renewable sources. Under CARB's existing allocation method for allowances, load served through renewable sources does not result in allowance allocations to the Utility. Bear Valley's filing indicates its "administrative and outreach expenses for processing climate credits will cost approximately $11,120 per year which includes one customer mailer (additional outreach will increase costs)."[105] Bear Valley explains its "costs are lower than expected because Bear Valley's billing system already contains the coding change necessary to distribute the funds as a separate line item and the current billing stock has enough space remaining to properly display the credit."[106] Bear Valley adds that costs associated with credit distribution will be absorbed. Bear Valley contends, however, that its future allowance allocations, and by extension the amount of allocated allowance auction proceeds realized from the consignment

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[104] CASMU Opening Comments, July 24, 2020 at 5.

[105] Bear Valley Compliance Filing, November 16, 2020 at 1-2.

[106] *Ibid.*

of these allowances to auction and available for distribution to ratepayers, may decrease because CARB has publicly signaled that it plans to amend the utilities' 2020-2030 allocations to address accelerated RPS requirements of SB 100.[107]

In Section 4.1 of this decision, we confirmed Commission instructions to Bear Valley to use a volumetric method for determining small business and residential customers' California Climate Credits no longer comply with CARB regulations. Following a review of the Bear Valley administrative and outreach costs, we find our prior justification for allowing the use of a volumetric method no longer applies: the forecasted administrative cost of distributing the allowance proceeds ($11,120) is not greater than the forecasted value of the allowances ($821K – 1.2M). While Bear Valley contends its future allowance allocations may be decreased by CARB, we cannot say for certain what will be in a future CARB regulation and what will be the impact of the future CARB regulation on allowance allocations to specific utilities. Accordingly, we direct Bear Valley to cease using the volumetric approach and utilize the same allocated allowance auction proceed distribution methods for EITE, small business and residential customers as other investor-owned utilities.

In support of requiring Bear Valley to align its crediting method with the other investor-owned utilities, Public Advocates Office and SBUA maintain the Commission should also require Bear Valley to align its reporting requirements with those of the other investor-owned utilities.[108] Public Advocates Office recommends the Commission require annual filings from Bear Valley "demonstrating greenhouse gas Cap-and-Trade compliance and forecasting the

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[107] *Id*. at 3.

[108] Public Advocates Office Opening Comments on the Scoping Memo and Ruling, July 24, 2020 at 11-12 and SBUA Opening Comments to Order Instituting Rulemaking, June 4, 2020 at 4.

next year's emissions and climate credit, consistent with the reporting requirements placed on other utilities as directed in Appendix D of D.14-10-033."[109] However, recognizing Bear Valley has not filed a Power Purchase Adjustment Clause application in recent years, Public Advocates Office recommends requiring Bear Valley to file compliance and forecasting demonstrations as a standalone application.[110] We agree with Public Advocates Office and SBUA that Bear Valley should file compliance and forecasting reports, consistent with Appendix D of D.14-10-033, as modified by D.14-10-055 and D.15-01-024. However, the reporting and forecasting reports are compliance documents and do not rise to the level of an application, as suggested by Public Advocates Office. Instead, we find it reasonable to require the reporting to be filed in a Tier 2 Advice Letter, which is how templates are filed for natural gas climate credits. In comments to the proposed decision, Public Advocates Office stated that the reporting and forecasting filings are the method by which utilities seek recovery of greenhouse gas costs through rates.[111] We clarify that greenhouse gas emissions costs are addressed in other Bear Valley applications and should not be confused with the reporting and forecasting reports required herein, which address the climate credits.

Accordingly, to account for allocated allowance auction proceeds and annually establish the value of the California Climate Credits, Bear Valley should annually file by November 15 of each year a Tier 2 advice letter including: (1) the

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[109] Public Advocates Office Opening Comments on the Scoping Memo and Ruling, July 24, 2020 at 12.

[110] *Ibid*.

[111] Public Advocates Office Opening Comments to the Proposed Decision at 2.

templates ordered in Appendix D of D.14-10-033[112] (as updated by the workshop also directed in this Decision), (2) a narrative explanation of the expenses included in the templates, and (3) any tariff sheet updates needed to implement the California Climate Credits. For 2021 only, the advice letter filing should also include a determination from Bear Valley if they have, or anticipate having, any customers that will qualify as EITE facilities eligible for California Industry Assistance, as well as a description of the steps Bear Valley took to make that determination. While it is not anticipated that Bear Valley serves any load eligible for California Industry Assistance, Bear Valley should be subject to the same requirements as Liberty and PacifiCorp under Resolution E-4716, which established attestation and outreach requirements and timelines for small and medium EITE facilities to receive California Industry Assistance.[113] Lastly, for 2022, Bear Valley should consult with Energy Division staff on an appropriate outreach strategy to notify residential and small business customers why they are receiving a California Climate Credit.

4.8. Accounting Templates

In order to facilitate changes made to the California Climate Credits, as adopted in this decision, Templates D-1 through D-5 of Appendix D. of D.14-10-033 (and later modified by D.14-10-055 and D.15-01-024) must align with the adopted changes. Hence, a workshop should be held on August 30, 2021 to update Templates D-1 through D-5 of Appendix D of D.14-10-033 (and later modified by D.14-10-055 and D.15-01-024).

[112] Later modified by D.14-10-055 and D.15-01-024.

[113] Staff Proposal at 34-35.

D.14-10-033, *Phase 2 Decision Adopting Standard Procedures for Electric Utilities to File Greenhouse Gas Forecast Revenue and Reconciliation Requests,* applies to PG&E, SDG&E, SCE, PacifiCorp, and Liberty and set forth methodologies for calculating forecast greenhouse gas allowance auction proceeds and greenhouse gas costs, as well as recorded greenhouse gas allowance auction proceeds and greenhouse gas costs. D.14-10-033 requires each of these five utilities to file its greenhouse gas revenue and reconciliation application annually, and, if applicable, as part of its Energy Resource Recovery Account or Energy Cost Adjustment Clause forecast application. The Commission replaced and corrected Appendix D of D.14-10-033 in D.14-10-055 and D.15-01-024.

Workshop participants shall review the Templates D-1 through D-5 to ensure alignment with the determinations made in this decision. However, we also find it efficient to review the information required in the templates to ensure it continues to be essential for the evaluation of future forecast revenue and reconciliation applications or requests. The updates to Templates D-1 through D-5 will facilitate the proper accounting of greenhouse gas allowance auction proceeds, calculation of credits, improve the transparency of funding to programs, and reduce workload by removing any templates or portions of templates that are no longer needed to properly administer the California Climate Credits. The workshop will provide a collaborative environment to revise the templates to meet these objectives. We clarify that the workshop shall be solely focused on updating Templates D-1 through D-5 and shall not extend beyond these documents.

Within 15 days of the workshop, the investor-owned utilities shall jointly submit a Tier 2 Advice Letter to update the templates pursuant to this decision and taking into consideration the discussion at the workshop and input by the

Commission's Energy Division to meet the objectives discussed above. It is the intention of the Commission that updated templates will be used for the 2022 ERRA November Update. However, if there is an unforeseeable delay, the updated templates will be used in the next ERRA update.

5. Comments on Proposed Decision

The proposed decision of Administrative Law Judge Kelly A. Hymes in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on August 3, 2021 by UCAN, on August 4, 2021 by CASMU, the joint parties of CLECA and DACC, as well as Green Power Institute, PG&E, Public Advocates Office, SDG&E, SBUA, and SCE . Reply comments were filed on August 9, 2021 by Bear Valley, PG&E, SDG&E, SCE and UCAN. The decision reflects corrections and clarifications made in response to the comments. We address certain comments below. Comments reiterating prior arguments are not repeated here.

First, the proposed decision ordered SDG&E to revert its August and September residential California Climate Credit distribution to April and October. SDG&E asserts the proposed decision did not take into account the data contained in the first of its two reports required by D.19-12-002, which SDG&E contends shows that summer distribution is effective in improving awareness of the residential California Climate Credit.[114] SDG&E argues the proposed decision should be revised to allow continuation of the summer distribution or, at the very least, defer any change to distribution until after

[114] SDG&E Opening Comments to Proposed Decision at 6.

SDG&E has submitted its required second report.[115] We agree that we should allow for the completion of the two-year pilot, submittal of the second report required by D.19-12-002, and a final review and determination by the Commission. The decision has been revised as such.

Second, SDG&E recommends the Commission establish an interim Industry Assistance Factor of 50 percent for 2022, in case the flat credit cannot be implemented in time for the November ERRA update.[116] Relatedly, PG&E and CASMU both request additional time to implement the flat credit.[117] We provide additional flexibility in the decision but decline to delay implementation of the flat credit for the small business California Climate Credit. However, we establish a process if delay cannot be prevented.

Third, PG&E requests the Commission bifurcate the workshop process to one workshop to address the changes in this decision and then a second workshop to increase transparency and reduce workload. PG&E contends stakeholders may propose additional improvements to greenhouse gas templates other than those set forth in Templates D-1 through D-5. We clarify that the workshop shall be solely focused on updating Templates D-1 through D-5 and shall not extend beyond these templates.

Fourth, Green Power Institute asserts that its concern regarding the use of the 15 percent allocation for clean energy "is aimed as much at how the money is being spent…as it is at the total amount that is being spent." Hence, Green Power Institute argues its concern is not moot at all and requests the proposed

[115] *Id*. at 7.

[116] *Id*. at 9.

[117] PG&E Opening Comments to Proposed Decision at 3 and CASMU Opening Comments to Proposed Decision at 1.

decision's Conclusion of Law no. 4 be removed. While we acknowledge Green Power Institute's concern is broader than previously stated, the concern it previously stated is moot.

6. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Kelly A. Hymes is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. There are only two aspects of the Commission Climate Credit rules that require revision to ensure alignment with the current statutes and CARB Cap-and-Trade Program regulation: the volumetric dispersion of the small business California Climate Credit and the volumetric dispersion of residential California Climate Credits for Bear Valley customers.

2. Nothing in the record of this proceeding leads us to revise the list of objectives or the prioritization of the objectives.

3. There are no compelling reasons to reprioritize or refocus on previously established lower priority objectives or eliminate previously established high-priority objectives.

4. The purpose of the policy objectives is to identify durable long-term principles to guide climate credit policy.

5. Reducing adverse impacts on low-income households remains a high priority policy objective.

6. The end result of UCAN's recommendation for reprioritization of the policy objectives would focus on certain objectives the Commission previously found to be less of a priority and omit higher priorities leading to conflict with prior findings of the Commission.

7. Correcting for market failure is already deemed a low priority with respect to the California Climate Credits.

8. The Commission previously found the prevention of economic leakage to be a high priority because of the policy stance taken by CARB and the intent behind Senate Bill 1018.

9. The clean energy and efficiency projects funded before EITE small business, and residential customers are credited with allocated allowance auction proceeds are near or fully committed.

10. In D.12-12-033, the Commission declined to consider customer education as a separate policy objective and, instead, determined it should be a component of the allocated allowance auction proceed distribution method.

11. Maximum flexibility will best allow the Commission to adapt the California Climate Credits to new energy challenges and opportunities.

12. If the Commission were to establish a three- or four-year review cycle for the distribution of allocated allowance auction proceeds, the Commission may encounter an issue to resolve but be forced to wait for the next review cycle to address it, which may require waiting one or more years for the Commission to deliberate and take actions.

13. Establishing triggering events may garner the same results as a three- or four-year review cycle.

14. Authorizing Energy Division the discretion to email the service list to solicit information on an issue provides the most efficient and flexible way to act, when needed.

15. The record is limited with respect to the Staff Proposal process for transitioning the responsibility of crediting large EITE facilities from the Commission to CARB.

16. The administrative procedure proposed in the Staff Proposal for the transitioning of the responsibility for crediting large EITE facilities emulates the current administrative processes and allows for continuous crediting of large EITE facilities through the transition period.

17. The transitioning of the responsibility for crediting large EITE facilities maintains the policy objectives of preventing economic leakage and administrative simplicity and understandability.

18. Maintaining the Commission Energy Division as the responsible entity for calculating California Industry Assistance for small and medium EITE facilities is a simple solution that prevents additional implementation costs.

19. There is no data in the record that identifies the existence or severity of issues related to the preservation of trade secrets.

20. It is efficient to revise the dollar conversion factor formula by defining the dollar conversion factor as the average of CAISO's daily Greenhouse Gas Allowance Index Price for the preceding year plus eight percent.

21. Redefining the dollar conversion factor will eliminate the need for annual true-ups in the energy-based formula allocation method.

22. Option 1 for defining the dollar conversion factor presented in the staff proposal relies on outdated price forecasts.

23. With respect to the self-attestation and auditing for small EITE facilities, the record indicates no opposition to the current process and no recommended revisions or alternatives.

24. Replacing the current emissions factor with CARB's emission-intensity metric would meet several of the policy objectives in this proceeding.

25. Using CARB's emission-intensity metric would result in the three investor-owned utilities having comparable emissions factors and maintain competitive neutrality across load serving entities.

26. Using CARB's greenhouse gas emissions-intensity metric has the added advantage of deriving from the same set of data both the allocation to each utility and also the emissions factor used to determine the return of the proceeds from the auction of those allowances to qualifying EITE recipients.

27. CARB's greenhouse gas emissions intensity metric addresses the concern expressed by CLECA and DACC that calculations for such a metric include all load served in the investor-owned utilities' territory.

28. With respect to the small business California Climate Credit, basing the returns on historic usage would not provide any incentive to shift to economic activities that result in fewer greenhouse gas emissions.

29. With respect to the small business California Climate Credit, basing the returns on historic usage would continue to thwart the objective to protect the carbon price signal.

30. The flat rate credit approach meets two of the high priority policy objectives.

31. The flat rate credit approach protects the carbon price signal by attaching a price to emissions.

32. Allocating revenues volumetrically would disproportionately reward high consumption energy users.

33. The flat rate credit approach meets the policy objective of preventing economic leakage.

34. While some small businesses will see a large decline in the value of their small business California Climate Credit, the large percentage of small

businesses will retain the same size credit or will receive a larger credit, becoming better aware of the small business California Climate credit.

35. The revised small business California Climate Credit may contribute to the prevention of economic leakage.

36. The flat rate credit approach also meets the policy objective of achieving administrative simplicity and understandability by mirroring the residential California Climate Credit.

37. The current timeline should allow for the small business California Climate Credit changes adopted in this decision to be included in the utilities' November ERRA updates.

38. Nothing prevents the small multi-jurisdictional utilities from submitting supplemental materials updating the greenhouse gas tables in their ECAC applications.

39. In D.18-03-017, the Commission allowed the October 2018 Natural Gas residential California Climate Credit to be distributed with the April 2019 climate credit, if a delay in the related advice letter process necessitated it.

40. It is reasonable to allow the same flexibility for distributing the 2022 small business California Climate Credit.

41. It is reasonable to extend the current Industry Assistance Factor, if the adopted advice letter process is delayed.

42. One or more summer credit distributions would create a tradeoff between greater customer awareness and averting impacts to low-income households.

43. Retaining the current distribution schedule for the residential California Climate Credit will preserve the carbon price signal as compared to adopting a single credit distributed in August or September, which dilutes the impact of the carbon price signal.

44. Two credits a year, as opposed to one credit a year will better reduce adverse impacts on low-income households.

45. Maintaining the current two credits a year for the residential California Climate Credit (during April and October) will eliminate additional costs for implementation (with the exception of SDG&E.)

46. Retaining the current distribution schedule for the residential California Climate Credit meets the policy objective of simplicity and understandability.

47. D.19-12-002 allows SDG&E to distribute residential California Climate Credits in August and September of 2020 and 2021.

48. D.19-12-002 ordered SDG&E to revert to the April and October credit distribution in 2022, unless directed otherwise by the Commission.

49. SDG&E submitted its 2020 Annual Report regarding Climate Credit Information Tracking and Reporting.

50. The Commission cannot make a final decision on the effectiveness of summer credit distribution until the Commission receives and reviews SDG&E's 2021 Annual Report regarding Climate Credit Information Tracking and Reporting.

51. It is reasonable to allow SDG&E to continue the summer distribution of residential California Climate Credits through summer 2022.

52. No party provided any recommendations with respect to improving communications with submetered customers.

53. Most parties support one of two conclusions: i) outreach efforts for the California Climate Credits are sufficient OR ii) the cost of additional outreach would outweigh the primary benefits of the California Climate Credits, which is to return customers' portion of the allocated allowance auction proceeds.

54. The Commission's prior justification for allowing the use of a volumetric method for the small business California Climate Credit no longer applies.

55. Bear Valley's forecasted administrative cost of distributing the allowance proceeds ($11,120) is not greater than the forecasted average value of the allowances ($821K – 1.2M).

56. The Commission cannot say for certain what will be in a future CARB regulation and what will be the impact of the future CARB regulation on allowance allocations to utilities.

57. The reporting and forecasting reports required by D.14-10-033 (and modified by D.14-10-055 and D.15-01-024) are compliance documents and do not rise to the level of an application.

58. Templates D-1 through D-5 of Appendix D of D.14-10-033 (and modified by D.14-10-055 and D.15-01-024) must align with the adopted changes in this Decision.

59. It is efficient to review the information required in Templates D-1 through D-5 of Appendix D of D.14-10-033 (and modified by D.14-10-055 and D.15-01-024) to ensure the information continues to be essential for the evaluation of future forecast revenue and reconciliation applications or requests.

60. Updates to Templates D-1 through D-5 are necessary to facilitate the proper accounting of greenhouse gas allowance auction proceeds, calculation of credits, improve the transparency of funding to programs, and reduce workload by removing any templates or portions of templates that are no longer needed to properly administer the California Climate Credits.

61. A workshop will provide a collaborative environment to revise the Templates D-1 through D-5 to meet the discussed objectives.

Conclusions of Law

1. The Commission should revise the current method to eliminate volumetric dispersion of the small business California Climate Credit.

2. The Commission should require Bear Valley to revise its procedures to eliminate volumetric dispersion of Climate Credits.

3. The Commission should maintain the list of policy objectives and their associated priorities as previously adopted in D.12-12-033.

4. Green Power Institute's concern that the clean energy and efficiency projects should be fully committed is moot.

5. The Commission should authorize the Energy Division the discretion to contact the service list of this proceeding to solicit information on new issues regarding the distribution of allocated allowance auction proceeds.

6. The Commission should permit parties to contact Energy Division with new issues regarding the distribution of allocated allowance auction proceeds to ensure Energy Division is aware of these issues.

7. The Commission should adopt a transition process now to institute if and when CARB takes action to obtain sole responsibility for crediting large EITE facilities for Cap-and-Trade Program costs embedded in EITE facilities' electricity usage.

8. The Commission should maintain the current process that assigns Energy Division the responsibility to calculate California Industry Assistance for small and medium EITE facilities.

9. Option 1 for defining the dollar conversion factor, presented in the staff proposal, should not be adopted.

10. The Commission should adopt the following definition for the dollar conversion factor: the average of CAISO's daily Greenhouse Gas Allowance Index Price for the preceding year plus eight percent.

11. The Commission should make no changes to the self-attestation and auditing processes for small EITE facilities and extend these processes through 2030.

12. The Commission should adopt the CARB's annual "EDU-Specific Emission Factor (MTCO2e/MWh)" calculated as part of each utility's allowance allocation calculation as the emission-intensity metric to replace the current emissions factor.

13. The Commission should convert the distribution method of the small business California Climate Credit from a volumetric-based method to a flat credit where each qualifying business, as defined in D.12-12-033, receives a credit equal and simultaneous to the residential California Climate Credit.

14. The Commission should ensure awareness by small businesses of this upcoming change through appropriate outreach messages.

15. The Commission should retain the current distribution of the residential California Climate Credit in April and October.

16. The Commission should allow SDG&E to continue to provide the Residential Climate Credit in April and October through 2022.

17. The Commission should review the 2020 and 2021 Annual Reports regarding the Climate Credit Information Tracking and Reporting in Rulemaking 11-03-012 to determine whether to adopt the summer distribution permanently.

18. The Commission should continue to monitor the issue of improved messaging to submetered customers with respect to the residential and small business California Climate Credits.

19. The Commission should not revise the current Climate Credits outreach efforts.

20. The Commission should authorize Energy Division to request and approve any outreach by a utility, consistent with the limitations established in D.16-16-041.

21. The Commission should require Bear Valley to stop using a volumetric approach and use the same allocated allowance auction proceed distribution methods as other investor-owned utilities.

22. The Commission should require Bear Valley to account for proceeds and annually establish the value of the climate credits through the submission of a Tier 2 Advice Letter.

23. Energy Division should host a workshop to discuss revisions needed to align Templates D-1 through D-5, required by D.14-10-033, with the revisions in this decision and review the information required in Templates D-1 through D-5 of Appendix D of D.14-10-033 (and modified by D.14-10-055 and D.15-01-024) to ensure the information continues to be essential for the evaluation of future forecast revenue and reconciliation applications or requests.

24. The Commission should require PG&E, SDG&E, SCE, PacifiCorp, Liberty, and Bear Valley to jointly file a Tier 2 Advice Letter updating Templates D-1 through D-5 reflecting revisions discussed during the August 30, 2021 workshop.

25. The Commission should close R.20-05-002.

O R D E R

IT IS ORDERED that:

1. The Commission's Energy Division is authorized to solicit informal comments, when the need arises, from the most current service list for this or a successor proceeding on the distribution of allocated allowance auction revenue.

Energy Division may hold a workshop to discuss the informal comments and, if necessary, propose a new rulemaking to address issues that require Commission consideration.

2. If and when the California Air Resources Board implements an adopted process to obtain sole responsibility for crediting large Electric-Intensive Trade-Exposed (EITE) facilities to minimize leakage associated with Cap-and-Trade Program costs in EITE facilities' purchased energy, the transition procedure contained in Appendix A to this decision shall be instituted.

3. Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, PacifiCorp d.b.a. Pacific Power, Liberty Utilities LLC, and Bear Valley Electric Service, Inc. shall utilize the following definition of the dollar conversion factor: the average of the California Independent System Operator's daily Greenhouse Gas Allowance Index Price for the preceding year plus eight percent.

4. Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, PacifiCorp d.b.a. Pacific Power, Liberty Utilities LLC, and Bear Valley Electric Service, Inc. shall utilize the emission-intensity metric ("EDU-Specific Emission Factor (MTCO2e/MWh)") calculated as part of each utility's annual allowance allocation calculation used by the California Air Resources Board, in place of the emissions factors currently used for utility electricity purchases.

5. The Dollar Conversion Factor and Emissions Factor equations provided in Appendix B of this Decision are adopted and replace Equations 1, 5, and 9, which were adopted Decision (D.) 14-12-037 and modified in D.15-08-006 and D.16-07-007.

6. Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, PacifiCorp d.b.a. Pacific Power, Liberty Utilities LLC, and Bear Valley Electric Service, Inc. shall utilize a flat credit distribution method where qualifying small businesses receive a credit identical to the residential California Climate Credit at the same times the residential California Climate Credit is distributed. If technical difficulties prevent the Small Business California Climate Credit from being distributed in April 2022, the credit shall be distributed in October 2022. If the Advice Letter process adopted below in Ordering Paragraph 13 is delayed beyond the Energy Resource Recovery Account November update, the flat credit distribution method shall be delayed to 2023 and an Industry Assistance Factor of 50 percent shall be established on an interim basis.

7. No later than 45 days following the issuance of this decision, Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, PacifiCorp d.b.a. Pacific Power, Liberty Utilities LLC, and Bear Valley Electric Service, Inc. shall consult with the Commission's Energy Division to develop an appropriate small business customer outreach plan and outreach message regarding the changes adopted in this decision. Expenses for outreach shall be entered into the utility's Administrative and Outreach Memorandum Account.

8. Pacific Gas and Electric Company, Southern California Edison Company, PacifiCorp d.b.a. Pacific Power, Liberty Utilities LLC, and Bear Valley Electric Service, Inc. shall distribute residential California Climate Credits to residential customers two times a year during the months of April and October, commencing in 2022.

9. San Diego Gas & Electric Company (SDG&E) shall complete the pilot adopted in Decision 19-12-002 and continue the summer distribution of the Residential California Credit through 2022. No later than December 1, 2021, SDG&E shall file its 2021 Annual Report regarding Climate Credit Information Tracking and Reporting in Rulemaking 11-03-012.

10. Bear Valley Electric Service, Inc. shall utilize the same allocated allowance auction proceed distribution methods for Electric-Intensive Trade-Exposed facilities, small business, and residential customers, as required by other investor-owned utilities.

11. Bear Valley Electric Service, Inc. (Bear Valley) shall annually submit, by November 15 of each year, a Tier 2 Advice Letter to include: (i) the templates ordered in Appendix D of Decision 14-10-033 and modified in Decision 14-10-055 and Decision 15-01-024 (as updated by the workshop also directed in this Decision), (ii) a narrative explanation of the expenses included in the templates, and (iii) any tariff sheet updates needed to implement the climate credits. For 2021 only, the advice letter filing should also include a determination from Bear Valley if they have, or anticipate having, any customers that will qualify as Electric-Intensive Trade-Exposed facilities eligible for California Industry Assistance as well as a description of the steps Bear Valley took to make that determination.

12. Energy Division is authorized to hold and host a workshop on August 30, 2021, to discuss updates to Templates D-1 through D-5 in Appendix D of Decision 14-10-033 and modified in Decision 14-10-055 and Decision 15-01-024. Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, PacifiCorp d.b.a. Pacific Power, Liberty Utilities LLC, and Bear Valley Electric Service, Inc. shall attend.

13. Within 15 days of the August 30, 2021 workshop, Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, PacifiCorp d.b.a. Pacific Power, Liberty Utilities LLC, and Bear Valley Electric Service, Inc. shall submit a Tier 2 Advice Letter to update Templates D-1 through D-5 in Appendix D of Decision 14-10-033 and modified in Decision 14-10-055 and Decision 15-01-024. The Advice Letter shall be consistent with this decision and shall consider the discussion at the workshop and input by the Commission's Energy Division, in order to meet the objectives of proper accounting, improved transparency, and workload reduction.

14. Rulemaking 20-05-002 is closed.

This order is effective today.

Dated August 19, 2021, at San Francisco, California.

MARYBEL BATJER
President
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
DARCIE HOUCK
Commissioners

Appendix A

Large Emissions-Intensive Trade-Exposed Facilities Crediting

Appendix A

Large Emissions-Intensive Trade-Exposed Facilities Crediting Transfer Process from the Commission to CARB

Note: The adopted transfer process described below includes several updates from the transfer proposal included as Appendix 5 in the staff proposal to the Order Instituting Rulemaking 20-05-002. Changes were made to:

- Align the transfer procedure with other changes made in this decision;
- Remove extraneous information not related to the adopted transfer procedure but included in the original staff proposal appendix to provide background or options;
- Clarify how crediting errors would be handled, which was not included in the original proposal; and
- Provide clarity and consistency, including terminology consistency, with this decision.

Large EITE Crediting Transfer Process from the Commission to CARB

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1. Summary

This appendix summarizes the process Energy Division will follow to transfer assistance crediting in the form of California Industry Assistance for large Emission-Intensive Trade-Exposed (EITE) facilities (facilities emitting more than 25,000 metric tons CO_2e per year) from Energy Division to the California Air Resources Board (CARB) if and when CARB adopts regulatory amendments that modify CARB allowance allocation to large EITE facilities to minimize leakage associated with Cap-and-Trade Program costs in purchased energy. This appendix offers a process that:

- Preserves existing practices towards recipients.
- Relies on existing authorities and processes.
- Maintains, to the maximum extent possible, the Commission's decision-adopted processes for balancing allocated allowance auction proceeds among EITE facilities, small businesses, and residents over multiyear periods.
- Minimizes administrative complexity and redundancy across agencies.
- Ensures continuous crediting to large EITE facilities and avoids double crediting to any facility in a given year.

The transfer process will take two years. This timeline is required due to a two-year lag in calculating product based true-up allocations. This appendix uses "Year 1" and "Year 2" to discuss the transfer, where "Year 1" is the first year that CARB would provide an initial allocation to EITE facilities for their electricity purchases, and "Year 2" is the year immediately following "Year 1." To illustrate potential timing by example, this appendix uses 2023 and 2024 as examples of "Year 1" and "Year 2," respectively. Implementing this process, including identifying the actual time period for implementation, would depend on CARB adopting Cap-and-Trade Regulation amendments through a formal public process. As no such amendment process has been proposed at this time, the actual timing of this potential transfer is uncertain and 2023/2024 remain as illustrative examples, only.

- Beginning with Year 1 allocations (v2023 allowance allocation)[118], the Energy Division will direct utilities to cease all initial crediting of large EITE facilities and CARB will commence allocating to these facilities.[119]
- CARB calculates all product-based Year 1 (v2023) and Year 2 (v2024) true-up allocations (to true-up product-based prior year (v2021 and

[118] "v" indicates the vintage year for the allowances.

[119] For clarity only, this appendix describes the California Industry Assistance as a "credit" since it is provided as on-bill assistance, while any potential future CARB assistance is described as an "allocation".

v2022) initial allocations, respectively). The Commission will assist with this process as needed.

- Commission staff directs utilities to provide bill credits for positive product-based Year 1 and Year 2 (v2023 and v2024) true-up credits (for v2021 and v2022 product-based initial credits), continuing existing practices.
- For any negative Year 1 and Year 2 (v2022 and v2023) true-up calculations, CARB will debit the true-up allocations from each facility's annual CARB initial allocation.
- True-up allocations are only needed for product-based credits, as this decision ends the true-up process for energy-based credits.

In addition to distributing California Industry Assistance to covered entities (what Energy Division staff refers to as "large EITE facilities"), the Energy Division also assists medium (entities that emit 10,000-25,000 metric tons CO_2e per year and have a reporting obligation to CARB) and small (entities that emit less than 10,000 metric tons CO_2e per year) EITE facilities. Changes in this appendix apply only to large EITE facilities.

The Commission has a statutory obligation to distribute allocated allowance auction proceeds to EITE facilities.[120] Energy Division staff intend to continue fulfilling this obligation under this appendix. If in a future period CARB were to cease providing assistance to large EITE facilities to minimize leakage associated with electricity costs, Energy Division would resume crediting these facilities.

[120] PUC §748.5: "Except as provided in subdivision (c) the Commission shall require revenues…received by an electrical corporation as a result of the direct allocation of greenhouse gas allowances to electric utilities…to be credited directly to the residential, small business, and emissions-intensive trade-exposed retail customers of the electrical corporation."

Troubleshooting/Credit Inquires:

Energy Division staff will remain responsible for all credit calculations that occurred prior to the transfer of crediting from the Energy Division to CARB, i.e. prior to "Year 1." If any issues or errors are subsequently discovered in a historic credit that was provided to an EITE facility prior to the transfer, these issues will need to be assessed and resolved by Energy Division staff. CARB staff will be responsible for all allocation calculations starting in "Year 1."

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2. Design Considerations

A. Continuity with existing CARB and Energy Division practices

To minimize leakage, CARB allocates allowances to large EITE facilities for their direct emissions and utilities distribute California Industry Assistance to large EITE facilities via bill credits for embedded Cap-and-Trade Program costs in purchased energy as directed by the Energy Division. CARB provides initial and true-up allocations in October each year; the initial allocations are for the upcoming year and the true-up allocations are for the previous year (e.g., in October 2019, CARB provided vintage 2020 allowances for both initial allocation for 2020 emissions and true-up allocation for 2018 emissions). Utilities provide bill credits in April each year; these bill credits include initial credits for the current year and, for product-based crediting, true-up credits for two years ago (e.g., in April 2019, utilities provide initial bill credits for 2019 emissions and true-up credits for 2017 emissions.) The Energy Division does not request refunds from EITE facilities but applies negative true-up credits to new credits to properly correct for over-crediting in prior years. This transfer process applies schedules and features consistent with current practice, minimizes disruption to recipients, and utilizes existing administrative capacities and workflows.

B. Maintaining Parity Across Ratepayer Groups

From a common pool of allowance proceeds, utilities provide assistance to three groups: EITE, small business, and residential customers. EITE customer returns are formula-based; the formulas are not linked to the total amount of allowance proceeds available in a given year. Each residential household and small business receives an equal share of the remainder after EITE returns, administrative and outreach expenses, and authorized clean energy and energy efficiency funds have been calculated and removed from each utilities' forecasted total allowance auction proceeds for the year. To visualize the flow of allowance proceeds after California Industry Assistance is calculated, conceptually:

- A positive EITE true-up credit means that in a previous year EITE facilities did not receive their full assistance as determined in Commission decisions (due to the forward-looking nature of California Industry Assistance and use of prior years' data in forecasting for the upcoming year). The shortfall amount was passed through as an excess California Climate Credit to residential and small business customers.
- A negative EITE true-up credit means that in a previous year EITE facilities received an assistance amount in excess of their Commission-determined share (once again due to the forward-looking nature of California Industry Assistance and use of prior years' data in forecasting for the upcoming year), and the excess amount resulted in a lower California Climate Credit to residential and small business customers.

The transfer process for EITE assistance preserves the relationship among the available pool of funding, EITE, small business, and residential customers to the extent possible, adjusting future residential and small business California Climate Credits for the EITE true-up credits where practical.

C. Handling Debit Values using existing mechanisms

Energy Division does not have a simple and readily available mechanism to compel EITE facilities to return dollar value to a utility's allowance auction proceed account. Energy Division staff accounts for negative true-up credits by reducing current and future years' assistance amounts. This process does not require the creation of any new mechanism for EITE facilities to return funds to utilities. Instead, it uses the Commission's existing annual ERRA balancing process to pass-through imbalances in IOU allocations between the large EITE facilities and residential customers.

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3. Transfer Process

The transfer process is outlined below. To illustrate timing using a concrete example, this discussion uses 2023 and 2024 as "Year 1" and "Year 2," respectively. This process, including implementation timing, depends on CARB adopting Cap-and-Trade Regulation amendments through a formal public process to modify allowance allocation to EITE facilities. No such amendment process has been proposed by CARB at this time, and thus, the actual timing of this process is uncertain and 2023/2024 remain as illustrative examples, only.

A. Initial Crediting and Allocations

Energy Division and CARB will both continue initial and true-up crediting and allocations using existing schedules and processes until Cap-and-Trade Regulation amendments that modify CARB allowance allocation to EITE facilities are in effect. Starting with Year 1's credits (v2023), the Energy Division will direct utilities to cease providing

California Industry Assistance to large EITE facilities (with the exception of positive true-up allocations for previous years), and CARB will begin to allocate additional allowances to large EITE facilities (covered entities) through a methodology that would need to be incorporated into the Cap-and-Trade Regulation through a formal rulemaking process.

B. True-up Allocations

The true-up process has two steps: (1) Calculating the true-up allocation and (2) Distributing the true-up allocation.

i. Performing Calculations

Energy-Based Formula

Starting with credits in 2022, the energy-based crediting methodology no longer includes a true-up (prior to 2022, the initial credit was trued-up in the year immediately following the initial credit). Post-2021, neither the Commission nor CARB will need to perform true-up calculations for energy-based credits.

Product-Based Formula

The initial product-based credit is trued-up two years after the initial distribution. Commission staff currently receive the production information needed to calculate the true-up credit from CARB. Commission staff and CARB staff will collaborate to calculate the true-up allocations for Year 1 (v2023) and Year 2 (v2024) needed to true-up both prior year initial product-based credits (v2021 and v2022 respectively) calculated by the Commission and prior year initial product-based allocations provided by CARB.

ii. Performing Returns of True-Up Calculation

Once the true-up allocations have been calculated:

If True-Up Calculation is Positive

In Year 1 (2023) and Year 2 (2024), utilities will true-up the initial assistance provided to large EITE facilities in 2021 and 2022, respectively, as a credit on their electricity bill. Providing bill credits to EITE facilities with positive true-up calculations from the common allowance auction proceed pool will reduce the assistance amount available to residential and small business customers in the following year, after the overall greenhouse gas accounts are balanced during the ERRA process (e.g., providing bill credits to EITE facilities with positive true-up allocations in Year 2 (2024) will reduce the amount of proceeds returned to residential and small business customers in Year 3 (2025)).[121] This will net out any excess assistance to residential and small business customers provided in prior years.

If True-Up Calculation is Negative

A negative true-up credit indicates that a large EITE facility received more assistance in the initial credit than they would have if the Energy Division had access to perfect information at the time of crediting, due to the lag in data reporting. This also means that

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[121] The "Electric Procurement Cost Revenue Requirement Forecast and Forecast of Greenhouse Gas Related Costs" (ERRA) is the annual process by which PG&E, SCE, and SDG&E submit their forecast allowance auction proceeds accounts for review by the CPUC. Any distributions from the previous year in excess of or short of realized proceeds from consigning allowances at auction over the previous year are subtracted from or added to the upcoming years' predicted GHG allowance auction proceeds. This total estimate for the upcoming year is then used to calculate the upcoming years' residential climate credit, which is then approved by the Commission in a decision.

residential and small business customers received an inadequate share of the allowance proceeds in the year of the initial credit. In Year 1 and Year 2 (2023 and 2024), Energy Division staff have no readily available mechanism to compel California Industry Assistance recipients to return any potential negative true-up calculation. In previous years, Energy Division staff netted the negative true-up credit from the concurrent initial credits. Since CARB will be distributing initial allocations in Year 1 and Year 2 (2023 and 2024), Energy Division staff recommend that CARB net the negative true-up credits from CARB's initial allowance allocation on a facility-by-facility basis for Year 1 and Year 2 (v2023 and v2024) allowance allocations. As with other aspects of this process, CARB executing these negative true-up allocations depends on CARB adopting Cap-and-Trade Regulation amendments through a formal public process to modify allowance allocation to EITE facilities.

(END OF APPENDIX A)

Appendix B

Updated Formulas and Rules for Distribution of Greenhouse Gas Allowance Revenue to Emissions-Intensive and Trade-Exposed Customers

Appendix B

Updated Formulas and Rules for Distribution of Greenhouse Gas Allowance Revenue to Emissions-Intensive and Trade-Exposed Customers

Energy-Based Allocation Equation:

This equation replaces Equation 5 in D.14-12-037. As energy-based allocations no longer require a true-up at a later date, the word "Advance" has been dropped from the name of the equation.

Equation A. Energy-Based Allocation for an Individual Facility

$$A_t = B_{EP,e} \times AF_{a,t} \times C_t \times D_t$$

Where:

"t" is the budget year for which allocated allowance auction proceeds are provided to address emissions from electricity purchases.

"A_t" is the amount of allocated allowance auction proceeds allocated to the California Industry Assistance recipient with an energy-based allocation for budget year "t".

"$B_{EP,e}$" is the historical baseline annual arithmetic mean amount of emissions resulting from electricity purchased by the industrial facility from an investor owned utility or other electricity provider, excluding electricity from publicly-owned utilities, measured in $MTCO_2e$, using the years that ARB determined was appropriate for that facility as the historical baseline. The formula for this benchmark is defined in Equation 6 of D.14-12-037, with the update that the values for the emissions factors used are now those discussed in Section 4.4.2 of this decision.

"$AF_{a,t}$" is Assistance Factor for budget year "t" assigned to each industrial activity "a" in Table 8-1 of CARB's Cap-and-Trade Regulation. Originally, CARB's assistance factors ranged from 30% to 100% and declined over time, with the specific percentage is tied to CARB's determination of an industrial sector's leakage risk and the year for which the allocation is being sought. However, in response to AB 398, CARB changed all assistance factors to 100% (i.e., "1" for the purposes of this formula).

"C_t" is the Cap Adjustment Factor for budget year "t." The cap adjustment factor represents the decline in the overall GHG cap. The schedule for the cap adjustment factor can be found in Table 9-2 of CARB's Cap-and-Trade regulation as the Cap Adjustment Factor for "Standard Activities." Earlier versions of the Cap-and-Trade regulation called this column "All Other Direct Allocation."

"D_t" is the Dollar Conversion Factor calculated based on the average of CAISO's daily Greenhouse Gas Allowance Index Price for the previous year (i.e., "t-1") increased by 8%. The factor is expressed in terms of dollars per $MTCO_2e$.

Equation B: Product-based Allocation Formula for an advance allocation:

This equation replaces Equation 1 in D.14-12-037 and Equation 1 in Resolution E-4716. Note that the only difference between these two equations was that resolution E-4716 provided further clarification on how to handle some variables when calculating assistance to some industries. Consistent with the formatting of resolution E-4716, text added by resolution E-4716 that applies to refineries is bolded and underlined.

$$A_{b,t} = \left(\sum_{a=1}^{n}(O_{a,t-2} \times B_{EP,a} \times AF_{a,t} \times C_{a,t} \times D_t \times EF_b)\right) + Trueup_{b,t}$$

Where:

"a" is an eligible industrial activity defined in Table 9-1 of CARB's Cap and Trade regulation.

"b" is an individual industrial facility that operates in industrial activity "a."

"t" is the budget year for which the Commission is allocating revenue.

"$O_{a, t-2}$" is the total production output in year "t-2" associated with a given industrial activity at a given facility subject to the product-based benchmark. CARB's MRR data[122] is the source for product output, which must be discounted to remove product output produced within the service territory of a publicly owned utility (i) using actual location-specific data provided by CARB, or where such data are not available (ii) by the percentage of the facility's total electricity purchases in year "t-2" that are from publicly-owned utilities.

For refineries, product output will be in terms of $CWB_{Total+Hydrogen}$. CARB will confidentially provide product output data to the Energy Division. The Commission's formula for calculating $CWB_{Total+Hydrogen}$ is provided in Appendix D to resolution E-4716.

"$B_{EP,a}$" is the benchmark of electricity intensity of product output for industrial activity "a" in terms of megawatt-hours of electricity purchases per unit output for the applicable sector. The electricity intensity benchmark is calculated by summing the electricity purchases of all California entities in industrial sector "a," that CARB used to calculate product-based industry benchmarks in the Cap-and-Trade regulation, and then dividing this amount by these entities' total production output for the industrial activity. The exact formula used to calculate this benchmark for each industrial activity is discussed in Equation 2 of D.14-12-037 or, for refineries, Equation 2 of resolution E-4716.

[122] Throughout this Appendix, all references to CARB's MRR data refer to the verified MRR data that entities are required to report to ARB in September of each year.

"$AF_{a,t}$" is the "assistance factor" for budget year "t" assigned to a given industrial activity "a." " Assistance factors for each industrial activity are specified in Table 8-1 of ARB's Cap-and-Trade regulation. Originally, CARB's assistance factors ranged from 30% to 100% and declined over time, with the specific percentage tied to CARB's determination of an industrial sector's leakage risk and the year for which the allocation is being sought. However, in response to AB 398, CARB changed all assistance factors to 100% (i.e., "1" for the purposes of this formula).

"$C_{a,t}$" is the cap adjustment factor for budget year "t" assigned to each industrial activity "a." The cap adjustment factor represents the decline in the overall GHG cap. The schedule for the cap adjustment factor can be found in Table 9-2 of CARB's Cap-and-Trade regulation as the Cap Adjustment Factor for "Standard Activities". Earlier versions of the Cap-and-Trade regulation called this column "All Other Direct Allocation."

"D_t" is the Dollar Conversion Factor calculated based on the average of CAISO's daily Greenhouse Gas Allowance Index Price for the previous year (i.e., "t-1") increased by 8%. The factor is expressed in terms of dollars per $MTCO_2e$.

"EF_b" is the electricity emission factor in $MTCO_2e$/MWh specific to industrial facility "b" based on the facility's mix of electricity purchases during the historical period that CARB determined was appropriate for that industry and each electricity provider's emission factor as discussed in Section 4.5 of D.14-12-037 and Section 4.4.2 of this decision. The EITE facility-specific emission factor is calculated according to Equation 3 of D.14-12-037 or, for refineries, Equation 3 of resolution E-4716.

"$Trueup_{b,t}$" is the true-up term defined by Equation 4 of D.14-12-037, which adjusts for updated product output "O" for the year "t" once it is available. This value shall only be calculated if the entity was covered under the Cap-and-Trade Program in year "t-2."

Equation C: Advance Energy-based Allocation for an Individual Facility with Transitional Emissions Data:

This equation replaces Equation 9 in D.14-12-037.

$$A_t = B_{EP,e,t\text{-}2} \times AF_{a,t} \times C_t \times D_t + Trueup_t$$

Where:

"t" is the budget year for which revenue is provided to address emissions from electricity purchases and to which the true-up is added to address emissions that occurred during year "t-2."

"A_t" is the amount of revenue allocated to the operator of the industrial facility with transitional emissions data for budget year "t."

"$B_{EP,e,t\text{-}2}$" is the annual amount of emissions resulting from electricity purchases by the industrial facility from an IOU or other electricity provider, excluding publicly-owned utilities, measured in $MTCO_2e$, using "t-2" MRR data. The formula for this benchmark is defined in Equation 10 of D.14-12-037, with the update that the values for the emissions factors used are now those discussed in Section 4.4.2 of this decision.

"$Trueup_t$" is the true-up term defined by Equation 11 of D.14-12-037, which adjusts for actual electricity purchases from year "t-2". The true-up term will only be calculated if the entity was covered under the Cap-and-Trade Program in year "t-2."

"$AF_{a,t}$" is Assistance Factor for budget year "t" assigned to each industrial activity "a" in Table 8-1 of CARB's Cap-and-Trade Regulation. Originally, CARB's assistance factors ranged from 30% to 100% and declined over time, with the specific percentage is tied to ARB's determination of an industrial sector's leakage risk and the year for which the allocation is being sought. However, in response to AB 398, CARB changed all assistance factors to 100% (*i.e.*, "1" for the purposes of this formula).

"C_t" is the Cap Adjustment Factor for budget year "t." The cap adjustment factor represents the decline in the overall GHG cap. The schedule for the cap adjustment factor can be found in Table 9-2 of CARB's Cap-and-Trade regulation as the Cap Adjustment Factor for "Standard Activities". Earlier versions of the Cap-and-Trade regulation called this column "All Other Direct Allocation."

"D_t" is the Dollar Conversion Factor calculated based on the average of CAISO's daily Greenhouse Gas Allowance Index Price for the previous year (*i.e.*, "t-1") increased by 8%. The factor is expressed in terms of dollars per $MTCO_2e$.

(END OF APPENDIX B)