



CITY OF VERNON

NATURAL GAS REBATE PROGRAM

PROGRAM DESCRIPTION: The purpose of this natural gas customer rebate program is to encourage the reduction of greenhouse gas emissions, primarily by reducing natural gas consumption, but also by implementing other measures that are consistent with the goals of Assembly Bill 32 (AB-32). This can be accomplished by upgrading to high efficiency equipment, but also by an operational change that requires some investment. The City shall be open to any project or process change that can reduce greenhouse gases, and may include the City investing in its own natural gas infrastructure. The City shall also engage with customers to promote projects that qualify. The program is administered through the Vernon's natural gas and the customer service departments.

POLICY STATEMENT: The City of Vernon shall allocate revenues to a natural gas rebate program derived from the CA Greenhouse Gas Surcharge approved in Resolution 2015-12, dated March 17, 2015, and effective April 1, 2015. These revenues are from the sale of "freely allocated greenhouse gas allowances," less the reasonable cost to administer the program. Rebates shall be allocated in a fair and equitable manner, and consistent with AB-32 such that funds provided to customers verifiably reduce greenhouse gas emissions to the atmosphere.

PROGRAM FUNDING: Funding for this gas rebate program is exclusively from greenhouse gas allowances sold at each of the California Air Resource Board (CARB) cap-and-trade auctions. However, allowances sold must be replaced to fulfill the City's allowance requirement. Accordingly, the cost of all allowances purchased is covered by Vernon's gas customers through the CA Greenhouse Gas Surcharge on monthly natural gas billing statements effective

April 1, 2015. Administrative costs shall remain 15 percent or less, which includes the cost of rebate evaluation to customers, third-party verification when needed, and marketing of the program.

PROGRAM OBJECTIVES: The objectives of the gas rebate program are to:

- Support the statewide goal of reducing greenhouse gas emissions
- Provide proceeds from the sale of freely allocated greenhouse gas allowances to Vernon gas customers for the purpose of reducing greenhouse gas emissions
- Actively promote the program to gas customers in an equitable manner
- Design rebates such that rebate dollars are in proportion to benefit gained
- Provide support to customers to facilitate qualifying projects, including application and verification
- Maintain a reasonable cost to administer the program

BACKGROUND: The California Global Warming Solution Act of 2006, also known as Assembly Bill 32, requires that California Greenhouse Gas (GHG) emissions in 2020 be at the same levels as that of the year 1990, or an estimated 15% reduction compared to what emissions might otherwise have been in 2020. CARB was authorized to develop regulations to reach this goal, and the cap-and-trade program is one of several tools designed by CARB to do so. Under the terms of the cap-and-trade program, an overall limit was set for GHG emissions from capped sectors of the state's economy, and covered facilities subject to the cap are able to trade permits, also called allowances, to emit GHGs up to the capped amount.

CARB's implementation of cap-and-trade program started November 2012. The program was designed to phase in covered entities' participation over three compliance periods. The first period (calendar years 2013 and 2014) included electric distribution companies. At that time, CARB allocated allowances to Vernon for its electric utility. Vernon utilizes the proceeds from the sale of allowances not used to meet its compliance obligation exclusively for the benefit of retail electric ratepayers, and also consistent with the goals of AB-32.

The City's gas utility cap-and-trade compliance obligations are distinct from those made for the electric utility. For Vernon's electric system, the Council previously approved Resolution No. 2011-184, dated November 15, 2011, to implement a surcharge for the electric system.

In 2015, as the second compliance period began, the scope of the cap-and-trade program expanded such that natural gas suppliers became covered entities with a compliance obligation based on retail gas sales and transportation. As was the case with the electric utility, Vernon was given freely allocated allowances for the gas utility for the purpose of mitigating the cost impact of cap-and-trade to retail customers. A set percentage of those allowances must be sold in the open market, and the total of allowances is insufficient to cover Vernon's obligation to CARB. Consequently, Resolution 2015-12 was passed by City Council March 17, 2015, effective April 1, 2015, implementing Rate Schedule G-CARB, to begin collecting the CA Greenhouse Gas Surcharge from all Vernon gas customers. The purpose of the surcharge is to collect additional funds necessary to cover the cost of allowances sold at auction, and to purchase additional allowances necessary to meet the City's compliance requirement for 2015, and beyond.

According to the rules of the CARB Cap and Trade Program, proceeds from all auction sales of Vernon's freely allocated allowances must be used for the benefit of retail gas ratepayers, may not be volumetrically refunded, and must be consistent with the goals of AB-32.

The following specific language is from Section 95893, Part (d), of the Final Regulation Order (as of January 2015) issued by the California Air Resources Board.

- (3) *Auction proceeds and allowance value obtained by a natural gas supplier shall be used exclusively for the benefit of retail ratepayers of each natural gas supplier, consistent with the goals of AB-32, and may not be used for the benefit of entities of persons other than such ratepayers. Any revenue returned to ratepayers must be done in a non-volumetric manner.*
- (4) *Public utility gas corporations shall ensure equal treatment of their procurement and delivery customer and delivery-only customers.*
- (5) *Prohibited Use of Allocated Allowance Value. Use of the value of any allowance allocated to a natural gas supplier, other than for the benefit of retail ratepayers consistent with the goals of AB-32, is prohibited.*

Beyond the three items in the above-stated criteria, cap and trade program participants have set a precedent, also supported by CARB staff, that auction proceeds may be used for purposes within a utility entity that supports reduction of greenhouse gas emissions, but is not directly given to customers. For example, the Surprise Valley Electrification Corporation (Alturas, CA), has reported to CARB its intent to use allowance value to purchase more efficient service vehicles for its employees. Another example is payment to consultants and attorneys for advisory support associated with cap and trade.¹

REBATES AVAILABLE TO CUSTOMERS:

Pipe Insulation: Minimum pipe diameter must be one-half inch. Pipe must transport hot water or steam directly from gas-fired equipment. A minimum of one inch of insulation must be added to the existing bare pipe. Manufacturer's specifications must be included.

Pipe Insulation, Hot Water: \$2 /linear foot

Pipe Insulation, Steam: \$3 /linear foot

Tank Insulation: One or two inches of fiberglass or foam insulation must be added to existing bare liquid tanks.

One-inch insulation: \$2 /square foot

Two-inch insulation: \$3 /square foot

Process Boilers: Boiler must replace an existing boiler. Application must include the manufacturer's name and model name/number for the new boiler. New boilers must have combustion test under full load conditions to document achieving the specified minimum combustion efficiency. The predefined rebates below are only for boilers with

¹ Cap-and-Trade Program, Summary of Vintage 2013 Electrical Distribution Utility Allocated Allowance Value Reports

input less than or equal to 20,000 MBtuh. Larger boiler improvements may be eligible to receive rebates based on the customized rebate calculation, but must have a professional Flue Gas Analysis before, and then after, to determine the improvement in Combustion Efficiency (CE).

Water Boilers: \$2 /MBtuh (> 84% CE)

Steam Boilers: \$2/ MBtuh (> 83% CE)

MBtuh = 1,000 Btu per hour. CE = 100% - Stack loss in %

Steam Traps: Must replace, on a one-for-one basis, existing steam traps that fail to open. Application must include manufacturer's specification sheet for the steam trap that replaces the existing trap, as well as the invoice for the purchase.

Steam Traps: \$100 per trap

Customized Rebates: Energy savings projects can be customized beyond the predefined rebates. Customized rebates may be used for equipment replacements and improvements of existing processes.

The amount of a customized rebate may be the greater of \$1 per each annual Therm saved, or three years of rebate contribution paid to City. The rebate contribution is a *portion* of the total G-CARB Surcharge. Upon request, City shall calculate the three-year contribution amount available to a customer.

Customized projects require load history, performance calculations, and a detailed engineering review. City of Vernon may elect to provide technical support for projects that meet the program objectives, depending on funding available. Lease projects may qualify dependent upon the term of the lease.

SPECIAL PROVISION FOR OTHER GREENHOUSE-GAS REDUCING REBATES:

The first priority of funding associated with this program shall be to qualified projects that result in more efficient combustion of natural gas; however, rebate funds may also be used to support projects that reduce greenhouse gas emissions in other ways that are consistent with AB-32 and CARB guidelines. In the event funding is available and not otherwise being expended to natural gas projects, non-gas projects may be considered. The rebate amount shall be developed based on the merits of the proposed project, and shall be commensurate with surcharge contributions received from gas customers proposing non-gas projects.

Beginning in 2017, staff shall promote the use of electric vehicles to its larger natural gas customers. This will be done by offering to install electric vehicle (EV) charging stations at customer locations, either using city personnel or by reimbursing customers for purchase and installation. Additionally, the City shall offer to provide rebates to customers to cover the reasonable cost of electric vehicles purchased by customers; however, as stated above, the amount paid to a customer by City shall be commensurate with portion of the surcharge contributions available for rebates received from that customer. For each electric vehicle requested, the customer must first install a new EV charging station.

USE OF SURCHARGE FUNDS FOR INTERNAL GAS DEPARTMENT PURPOSES CONSISTENT WITH AB-32:

Beginning in 2017, the Vernon Natural Gas Division may elect to use a portion of the surcharge funds for the purchase of energy efficient fleet vehicles. These vehicles shall be fueled by natural gas or electricity, and may include charging stations as appropriate. The amount of surcharge funds spent for internal purposes shall not exceed, on average, twenty percent of the annual surcharge funds available for rebates.

REBATE CONDITIONS:

1. Applicant must allow City of Vernon to be involved from the beginning of the applicant's project, such that the City of Vernon can inspect/audit the equipment to be replaced prior to it being removed. Projects that commence prior to the VPU pre-installation inspection and approval may be disqualified from the Natural Gas Rebate Program (NGRP).
2. Rebates are contingent upon applicant being an active customer in good standing connected to the City of Vernon gas system and paying the G-CARB surcharge.
3. Rebates are contingent upon customers obtaining the necessary permits from the City of Vernon for all work done associated with the rebate application.
4. All rebates will be paid directly to the customer of record at the Vernon Public Utilities service address.
5. Natural gas savings must be quantified using reasonable engineering assumptions and calculations, except for the predefined rebate categories.
6. Equipment or systems installed must be expected to operate for at least five years from the date of installation.
7. Projects that receive incentives from other sources (excluding tax-related incentives) are not eligible.
8. The maximum rebate amount provided by the Natural Gas Rebate Program is **\$100,000, or 50% of the project cost; whichever is less.**
9. Available rebate funding shall be allocated based on the timing of application acceptance and approval.
10. Available rebate funding is subject to the amount of total rebate funding accumulated in the City's rebate balancing account.
11. Rebate program is not for new construction, nor is it for replacement, nor for installation where otherwise required by California Building Code or employee safety laws.

PROGRAM APPLICATION AND CONFIRMATION:

1. Pre-Installation Application

Applicants must submit a pre-installation application before beginning project work. (For EV charging stations and electric vehicles special applications are provided). Customer initiated installations prior to City acceptance of the pre-installation application may be rejected. The pre-installation application must contain the information necessary to determine the savings or greenhouse gas benefit otherwise and shall be the basis for the rebate. Subject to availability of funds, the City reserves money for the project, pending timely completion of installation. The pre-installation application shall consist of the following:

- Customer and project site information
- A technical description of the project
- Documentation of the savings estimated or greenhouse gas benefit (including an engineering calculation, as applicable)
- New/old equipment specification (if applicable)

2. Post-Installation Confirmation

The post-installation confirmation shall be coordinated by the applicant after the project is installed. The confirmation shall be the basis for the actual rebate paid, and shall consist of the following.

- Any changes from the pre-installation application
- Documentation showing actual Therms saved or greenhouse gas benefit
- Original, itemized, paid proof of purchase (sales slip or invoice)
- Scheduled site visit(s) for City to verify energy efficiency equipment modifications, installations, and overall efficiency impact

MARKETING:

Upon modification of the program, staff will notify all customers by letter or direct email including the details of the program. Additionally, staff will make personal contact with the largest gas customers.

PROGRAM ADMINISTRATION:

The Natural Gas Division of Vernon Public Utilities leads program administration. The Natural Gas Division develops and distributes promotional materials, sets appointments with customers to explain the program, follows up with customers, and facilitates the application, construction, and completion process.

The Customer Services Division processes the actual paper work and rebate check requests similar to the electric rebate program. Applications are anticipated at a rate of one per month maximum.