



## City Council Agenda Item

**City Council Meeting Date:** August 5, 2025

**TO:** Dean Albro, City Manager

**FROM:** Bob Cross, Financial Services Manager  
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**SUBJECT:** Adoption of Resolution No. 6768(25) Approving and Directing Use of the City's California Air Resources Board Freely-Allocated Greenhouse Gas-Allowance Sales Revenue to Fund a Rebate to Each Business and Residential Electric Utility Customer, and Approving the Necessary Appropriations from Electric Utility Reserves

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### **Recommendation:**

Staff recommends the City Council review and consider the following options:

- 1) Adopt Resolution No. 6768(25) (Attachment 1) appropriating \$3,005,000 from the Electric Greenhouse Gas (GHG) allowance reserves, and directing those funds to be used to distribute a one-time rebate (utility bill credit) in an amount of \$200 to each Electric Utility business and residential customer; or
- 2) Provide alternate direction.

### **Background:**

At the City Council meeting on September 17, 2024, and December 17, 2024, the City Council directed staff to schedule an agenda item for discussion of a possible rebate to electric ratepayers using GHG-allowance sales revenue.

In 2006, the California State Legislature passed, and Governor Schwarzenegger signed Assembly Bill 32, the California Global Warming Solutions Act (Act). This landmark legislation established legally binding GHG reduction targets for the state. In response, the California Air Resources Board (CARB) developed regulations that created the state's Cap-and-Trade Program to help meet those goals.

CARB launched the Cap-and-Trade Program in November 2012, and it is currently authorized to operate through the end of 2030. Under California's Cap-and-Trade

Program, all Electric Distribution Utilities (EDUs), including the City, receive a gradually decreasing allocation of free GHG allowances each year. These allowances are intended to help offset a portion of the utilities' costs for complying with the state's increasingly stringent GHG emission limits.

On August 21, 2012, the City Council adopted Resolution No. 5808(12), allowing the City of Lompoc to participate in CARB GHG Cap-and-Trade Program auctions. The City currently receives GHG emissions allowances through the statewide program and continues to participate in program auctions, receiving proceeds via program auctions.

State regulations strictly limit how proceeds from the sale of these allowances can be used. In general, proceeds must either fund projects or programs that reduce GHG emissions, such as energy efficiency upgrades or renewable energy investments, or be returned directly to electric ratepayers in a non-volumetric manner (California Code of Regulations, Title 17, Section 95892(d)(3)). State regulations prohibit the use of GHG allowance proceeds for any purpose other than the direct benefit of retail electricity ratepayers (California Code of Regulations, Title 17, Section 95892(d)(7)). As a result, only customers with an active electricity account are eligible to receive a utility bill credit.

For eligible customers, a utility bill credit may be applied to their total utility bill, not just the electric portion, including through "off-bill" methods permitted under Section 95892(d)(3)(D). If the full credit amount is not used in the first month, the remaining balance will automatically roll over to the customer's next utility bill and continue to do so until the credit is fully applied. However, if a customer discontinues electric service with the City before using the full credit, any unused portion will be returned to the GHG fund and will not be paid to the customer.

Under Resolution No. 5889(14), adopted by the City Council on February 18, 2014, the City's Electric Utility was authorized to use proceeds from the sale of its allocated GHG allowances for the following four purposes:

- Converting electrical circuits from 4kV to 12kV,
- Upgrading City-owned geothermal facilities,
- LED street light conversions, and
- Procuring renewable energy.

On May 19, 2020, the City Council adopted Resolution No. 6329(20), which authorized the City's Electric Utility to distribute proceeds from the sale of its allocated GHG allowances directly to electric utility customers. These distributions must be non-volumetric and may be applied either on customers' bills or through off-bill methods per California Code of Regulations, Title 17, Section 95892(d)(3).

Resolution No. 5889(14) was amended by the City Council on June 6, 2023, through Resolution No. 6759(23). This amendment expanded the authorized use of GHG

allowance proceeds to include funding for projects that support fuel-switching and zero-emission vehicles.

The most recent update to the use of GHG allowance proceeds was on September 17, 2024. The City Council adopted Resolution No. 6706(24), which rescinded Resolution No. 5889(14), prohibited the use of GHG allowance proceeds from CARB GHG-allowance sales for purposes other than for the benefit of retail ratepayers consistent with the goals of AB32, and authorized the use of CARB freely-allocated GHG-allowance sales revenue to fund the following eligible programs and projects:

Development of renewable energy including:

- NCPA's Middletown geothermal power-plant generation efficiency and steam-feed upgrade projects up to \$100,000 per year,
- Customer sized and utility sized photovoltaic systems (PV),
- Battery Energy Storage System (BESS),
- Purchase of energy from renewable sources,
- Purchase of renewable energy projects;

System upgrades including:

- Electrification infrastructure improvement projects,
- Efficiency and improvement updates to the distribution system's Supervisory Control and Data Acquisition (SCADA) management system,
- Upgrade electric metering assets to advanced metering infrastructure (AMI),
- Development of electric vehicle (EV) charging stations for municipal and public use,
- Software to monitor PV systems and EV chargers within the City;

Continued investment in energy efficiency for the City and customers including:

- Equipment replacements such as heat pumps, water heaters, lighting, and motors,
- Building efficiency improvements such as insulation improvements and high efficiency windows,
- Education – outreach and engagement;

- EV purchases;
- Matching funds for eligible grant opportunities;
- Projects to reduce sulfur hexafluoride (SF6) in the electrical distribution system; and
- Operational efficiency performance studies.

Distribution to some or all ratepayers in a non-volumetric manner, either on- or off-bill, as authorized by Title 17 California Code of Regulations Section 95892(d)(3)(D).

**Discussion:**

If the City Council wishes, it may, as allowed under Section 5 of Resolution No. 6706(24), direct the use of Electric Utility reserves generated from the sale of GHG allowances to provide a utility bill credit to each customer with an active Electric Utility account as of August 5, 2025, both residential and commercial. The City Council may choose any amount of the currently \$5,569,020 available. If the City Council chooses \$3,005,000, that would equate to a rebate of \$200 to each customer. These billing credits would begin appearing on customer accounts with the first utility billing month following approval.

*Alternative Uses*

As Council considers a possible rebate to electric ratepayers using GHG-allowance sales revenue, it is prudent for them to consider this option holistically, and in light of alternative or additional possible uses.

Currently, and in accordance with existing provisions of Resolution No. 6706(24), the Electric Utility has been applying GHG allowance proceeds to help offset the cost of its Geysers geothermal energy entitlement. If there is GHG allowance funding remaining after any approved rebate distribution, and for future GHG allowance proceeds that may be received, GHG allowance sales are expected to continue to be used to reduce the cost of renewable power procurement, among all other previously authorized uses.

Additionally, City Council may consider expanding the eligible uses of GHG allowance proceeds to include forward-looking investments in technologies that provide long-term benefits to ratepayers and support GHG emission reductions. Specifically, expanded eligible uses could include upgrades to aging infrastructure, battery energy storage systems (BESS), and local clean energy generation projects, each of which aligns with the legally permitted uses of GHG allowance proceeds and offers multiple advantages for the City and its Electric Utility customers.

### *BESS Projects*

BESS projects enhance grid reliability, reduce peak energy costs, and allow for better integration of renewable resources. By reducing the need for high-cost power purchases during peak demand periods, the Electric Utility can improve operational efficiency and deliver cost savings to ratepayers.

Several cities throughout the United States have already seen measurable benefits from similar investments. For example, in Sterling, Massachusetts, a municipal battery storage system saved approximately \$400,000 annually by avoiding peak demand charges and providing backup power during outages.<sup>1</sup> In Camarillo, California, a Tesla BESS funded by state and federal incentives reduced energy costs by approximately \$100,000 per year.<sup>2</sup> Similarly, the City of Los Angeles integrated battery storage with its Beacon Solar project to reduce reliance on expensive fossil fuel generation during peak hours, lowering electricity rates and reducing strain on the grid.<sup>3</sup>

### *Local Clean Energy Generation Projects*

Strategic use of GHG allowance proceeds can generate significant savings for the City's Electric Utility customers. Investments in local renewable energy sources, such as solar or wind power, reduce dependence on external power purchases. This shift could help stabilize electricity rates over time by protecting customers from the volatility of energy markets and rising fuel costs. Investments in local clean generation projects such as community solar, solar microgrids, or enhanced geothermal systems can further support the City's energy independence. In Fresno, California, a public-private partnership involving solar and storage is projected to save over \$100 million in taxpayer money over 20 years through a Power Purchase Agreement.<sup>4</sup> These types of projects can both reduce emissions and energy costs and also create local workforce opportunities and build community resilience.

Finally, early investments in clean energy prepare the City for future regulatory requirements. As climate policies tighten across the state, utilities such as the City that rely on carbon-intensive energy sources may face increased compliance costs. Proactively developing clean generation capacity allows the City to avoid such penalties and reduce the need to purchase Renewable Energy Certificates (RECs) to meet clean generation requirements, shielding residents from potential rate increases.

### *Additional opportunities*

GHG allowance proceeds also create opportunities beyond direct infrastructure improvements. They can serve as local matching funds to unlock larger state and federal grants, enabling the City to pursue ambitious energy projects without additional burden on ratepayers. Furthermore, they can attract private investment through public-

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<sup>1</sup> Clean Energy Group. Sterling Municipal Light Department Battery Energy Storage Project.

<https://www.cleanegroup.org/initiatives/technical-assistance-fund/featured-installations/sterling-energy-storage/>

<sup>2</sup> City of Camarillo. Tesla Battery Installation Project. [https://www.ci.camarillo.ca.us/news\\_detail\\_T2\\_R160.php](https://www.ci.camarillo.ca.us/news_detail_T2_R160.php)

<sup>3</sup> Los Angeles Department of Water and Power. Beacon Solar and Battery Storage Project Overview.

<https://www.ladwpnews.com/ladwp-fast-tracks-first-utility-scale-solar-battery/>

<sup>4</sup> City of Fresno. City of Fresno and ForeFront Power Break Ground on One of Largest Combined On-Site Solar Energy Projects in California. <https://www.fresno.gov/publicutilities/city-of-fresno-and-forefront-power-break-ground-on-one-of-largest-combined-on-site-solar-energy-projects-in-california/>

private partnerships. Projects like community solar programs or localized microgrids are examples where City investment can leverage outside funding to multiply impact.

Investing in pilot initiatives, such as battery storage, electric vehicle charging infrastructure, or energy equity programs, can also assist in positioning the City to compete more effectively for grant-type funding related to grid modernization, economic development, and clean energy access. Readily available funds demonstrate the City's commitment and financial readiness, which is an important factor in winning competitive grants from agencies like the California Energy Commission or the U.S. Department of Energy.

Equity should also remain a central focus. GHG proceeds can be utilized to support programs that assist low-income households in lowering energy costs through weatherization, energy-efficient appliances, or solar incentives. These targeted programs ensure that all members of the community, especially the most vulnerable, benefit from Lompoc's clean energy investments.

By using GHG allowance proceeds not only for short-term relief but also for long-term capital improvements, the City can deliver enduring value to ratepayers. These types of investments help reduce long-term energy costs, improve service reliability, support clean energy goals, and protect residents from future regulatory costs.

#### Implementing the Electric Utility Rebates

Staff has been evaluating the logistics of processing an Electric Utility credit to all current electric customers and has determined three possible avenues for implementation. First, there is a possibility that data can be uploaded directly into the billing system. If this is determined to be a viable option, minimal amount of additional staff time would be required and credits could likely be processed in the first billing period following approval.

If the direct-upload option is not technically feasible, manual entry into each of the approximately 15,000 accounts will be required. Staff anticipates this will require an approximate additional 270 hours of staff time in Utility Billing, between the manual entry and additional time to review each utility bill. Staff has identified two options for covering these additional hours. First, while not possible to process these during normal working hours, Utility Billing staff could work overtime to enter the credits outside of their normal work hours. It would not be possible to complete the task in one billing period, so the credits would have to be spread over two billing periods. This option would require a budget adjustment to transfer approximately \$21,000 from Electric reserves into Utility Billing overtime to cover this additional cost.

Alternatively, the Biennial Budget Fiscal Years 2025-27 included a personnel adjustment of one additional Treasury Clerk position, due to the additional time demands from billing an increased number of solar customers. That position is currently scheduled to be presented for Council approval with other position changes, either at the August 19, 2025 or the September 2, 2025 City Council meetings.. If it is approved at an upcoming City Council meeting, it is anticipated the position would be filled by October or November.

This would free up other staff to work on processing the Utility Billing credits during their regular work hours, which would cut the amount of overtime by about 50%, and would likely be completed in the following billing period.

Other Factors to Consider

As of the latest cash report, the Electric Utility had an unrestricted operating cash balance of \$(1.7M). The unrestricted cash balance reserve goal of 25% of operating expenses (3 months reserve) equals \$6.99M, making the Electric fund currently about \$8.69M below its cash reserve target.

Based on current market conditions, the City projects that the Electric Utility will need to purchase approximately \$7.8 million in Renewable Energy Certificates (RECs) between now and 2030 to meet its Renewable Portfolio Standard (RPS) compliance obligations. This timeline aligns with the current expiration date of the Cap-and-Trade program in 2030. Alternatively, the City can invest Cap-and-Trade auction proceeds into projects that would increase its green energy supply. Doing so would reduce the number of RECs required for compliance and generate long-term cost savings for the Electric Fund.

**Fiscal Impact:**

If the \$200 rebate option is applied and Resolution No. 6768(25) is adopted, Electric CARB restricted cash would decrease by \$3.0 million., but this would not impact the unrestricted operating cash balance. Each Electric Utility customer, both residential and business, would receive a \$200 utility bill credit applied to their utility account. The estimated total amount of utility bill credits, based on the number of electric meters in service during June 2025, is shown in Table 1 below.

Type of Service	Number of Meters	Amount
Residential	13,540	\$2,708,000
Mobile Home Parks	7	\$1,400
Commercial - Electric	1,435	\$287,000
Commercial - Power & Demand	43	\$8,600
	15,025	\$3,005,000
<u>Amount per Account</u>	<u>\$200</u>	
<u>Total Estimated Amount</u>	<u>\$3,005,000</u>	

**Conclusion:**

Adoption of Resolution No. 6768(25) will provide a one-time \$200 customer utility bill credit to each Electric Utility customer from the GHG proceeds.

Respectfully submitted,

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Bob Cross, Financial Services Manager

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Steven Valle, Electric Regulatory Compliance Coordinator

**APPROVED FOR SUBMITTAL TO THE CITY MANAGER:**

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Mike Luther, Utility Director

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Christie Donnelly, Management Services Director

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:**

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Dean Albro, City Manager

Attachment: Resolution No. 6768(25)