February 9, 2025

California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on Proposed Regulations for California Climate Disclosures Reporting under SB 253 and SB 261

Dear California Air Resources Board,

Sequent Energy Management, LLC ("Sequent"), a subsidiary of The Williams Companies, appreciates the opportunity to provide comments on the regulations proposed by the California Air Resources Board ("CARB") on December 9, 2025, to implement Senate Bill 253 (Climate Corporate Data Accountability Act) and Senate Bill 261 (Climate-Related Financial Risk Disclosure Program), as amended by Senate Bill 219.

Sequent is a marketer of natural gas that serves customers across the United States, including customers in California. Our business model is centered on the wholesale marketing of energy commodities, and our operations are conducted entirely outside California's borders. Importantly, Sequent has no physical presence in the state as it does not own or operate infrastructure or physical assets within the state, nor does it have any personnel in California. It transacts only at wholesale market delivery points associated with interstate commerce (i.e. citygate hubs) and not with end users in the state.

Since the passage of SB 253 and SB 261, Sequent has tracked CARB's regulatory activity related to implementing reporting programs for these disclosure requirements and participated in the pre-rulemaking comments and attended the webinars. Sequent is concerned that CARB is not accounting for companies like Sequent that have only minimal connections to the state. Accordingly, Sequent submits the following comments urging CARB to ensure its regulations focus only on entities with a genuine California operational nexus, while minimizing unintended burdens on non-resident wholesale market participants.

1. CARB Must Provide Parity for Non-Resident Natural Gas Marketers Without a Physical Presence in California by Adopting an Exemption for Wholesale Natural Gas Transactions.

As currently proposed, CARB's draft regulations exempt business entities whose only activity within California consists of wholesale electricity transactions. CARB should expand this exemption to include wholesale natural gas transactions. California's climate disclosure laws—SB 253 and SB 261—were enacted to enhance transparency around corporate greenhouse gas emissions and climate-related financial risks. The stated intent is to provide California

consumers, investors, and regulators with consistent, reliable data to assess the environmental impact and economic resilience of companies operating within the state. These laws are designed to target entities with a meaningful presence in California whose activities directly contribute to the state's emissions profile or financial exposure to climate risks. However, this legislative purpose does not support application of disclosure requirements to companies like Sequent, who do not sell directly to individual customers and have no physical assets, infrastructure, or personnel in the state. The only contact that natural gas marketers such as Sequent have with California is indirectly through the sale of bulk quantities of gas in interstate commerce at market delivery or entry points for further distribution. The two main natural gas market delivery points in California are PG&E Citygate (serving Northern and Central California) and SoCal Citygate (serving Southern California).

The proposed regulations already contemplate and particularly account for the fact that the wholesale energy market does not have a sufficient nexus with California to justify disclosure requirements by exempting wholesale electricity transactions. Article 6, Subarticle 1, Section 96071. Applicability, Subparagraph b, includes an exemption for any "business entity whose only activity within California consists of wholesale electricity transactions." The proposed regulations also specifically exclude wholesale sales of electricity from a company's sales for purposes of the definition of "doing business in California."

In CARB's "Staff Report: Initial Statement of Reasons," CARB explains that the exemption for wholesale electricity transactions was included based on Senator Scott Wiener's January 30, 2024 letter published in the Senate Daily Journal regarding the legislative intent to exclude such transactions.[1] Senator Wiener's letter states that wholesale electricity transactions "that occur through the Western Energy Imbalance Market and will occur through the Extended Day Ahead Market, operated by the California Independent System Operator" were not intended to "constitute 'doing business in California.'" While Senator Wiener's letter did not address wholesale energy transactions involving natural gas, the same economic and jurisdictional logic applicable to wholesale electricity transactions applies equally to wholesale natural gas transactions at California's citygate delivery points. These citygate delivery points function identically to the electricity delivery points referenced in Senator Wiener's letter.

The California Independent System Operator ("CAISO") manages a centralized, wholesale exchange where entities transact at the grid (not with end consumers). The Western Energy Imbalance Market ("WEIM") is a real-time market operated by CAISO. It resolves the minute-to-minute mismatch between scheduled and actual electricity supply/demand across a wide footprint. Participants in the WEIM transact only in wholesale electricity. The Extended Day Ahead Market ("EDAM") is a day-ahead market extending CAISO's footprint. Participants submit bids and schedules for the next day and economically commit generation on a

[1] Staff Report, pg. 6 (citing California Legislature. (2024, January 30.) Senate daily journal, one hundred forty-second legislative day, 2023–24 regular session (p. 3057). Available at https://leginfo.legislature.ca.gov/faces/pubSenDailyJrn2.xhtml?type=doc&sessionyear=20232024&pagenum=3057&sessionnum=0&fileid=996).

region-wide basis before real-time operations. For both WEIM and EDAM, no in-state physical presence or facility is required to participate.

Wholesale natural gas transactions at California citygates (e.g., PG&E Citygate, SoCal Citygate) are entirely analogous. Citygates are interstate pipeline delivery points that, like the CAISO markets, function as regional wholesale hubs; prices at these delivery points reflect the costs of transportation from upstream hubs, and marketers, like Sequent, deliver gas at these delivery points into California's pipeline distribution systems without owning or operating infrastructure in the state. Furthermore, the wholesale electricity and natural gas markets are inextricably tied to one another. Natural-gas-fired electric generation participates directly in CAISO's WEIM and EDAM. When these markets commit a gas-fired generator in the day-ahead schedule or dispatch it in real time, that generator must secure corresponding natural gas supply and transportation. This creates a direct operational link between CAISO's electricity market commitments and the natural gas that is delivered at interstate pipeline citygates. U.S. interstate natural gas pipeline operations rely on nominations, balancing, storage, compression dispatch, and linepack management, all of which are sensitive to hourly and daily swings in power-generation demand.

Therefore, WEIM's real-time dispatch and EDAM's day-ahead unit-commitment processes drive upstream gas nominations, intra-day balancing, and citygate flows. The natural gas market's hub-and-citygate structure where gas is delivered from interstate pipelines into local networks functions as the fuel-supply analogue to CAISO's market dispatch: both are wholesale, interstate transactions that support power-sector operations with no in-state physical presence.

Wholesale gas marketers such as Sequent, just like entities whose only business in California consists of wholesale electricity transactions, operate entirely outside California's borders and do not engage in activities that generate emissions or economic activity within the state beyond a financial transaction. Including such entities within the scope of these laws and proposed regulations would dilute the focus of the regulations and impose burdens on companies whose connection to California is not only minimal, but purely transactional. Furthermore, including wholesale natural gas transactions within the scope of the law while exempting wholesale electricity transactions would burden one segment of the wholesale energy market while benefitting another. CARB should therefore ensure parity between wholesale electricity transactions and wholesale natural gas citygate transactions by including wholesale natural gas transactions within the existing proposed exemption for wholesale electricity transactions to remain consistent with the Legislature's stated intent.

2. CARB Should Establish a De Minimis Exemption Based on the Portion of a Company's Total Revenue Generated in California.

To ensure proportionality, CARB should establish an exemption for companies with minimal financial contacts with California. In its September 2025 pre-rulemaking comments, Sequent urged CARB to consider a de minimis threshold of 5%, meaning a minimum of 5% of a company's total revenue must be generated within California, below which entities would be

exempt from reporting requirements. To put this in perspective, Sequent's California-related revenue represented less than 0.07% of its total gross revenue in 2024 (and an even smaller percentage in 2025). And yet, Sequent's de minimis financial relationship with California could subject it to an undue burden of complying with these climate disclosure regulations. This is contradictory to the intent of the laws and contrary to CARB's stated intent for excluding other minimal relationships with the state. Establishing a de minimis threshold would allow CARB to focus its regulatory efforts on entities with meaningful in-state operations or business relationships while avoiding undue burdens on out-of-state businesses with minimal California activity, minimizing risk of regulatory overreach and associated litigation.

Sequent again urges California to adopt a de minimis threshold when defining "revenue." When discussing the definition of revenue in the Staff Report, CARB focused on a definition to "identify[] companies that may potentially have large operations and associated carbon footprints." Further, CARB has already recognized that there are de minimis contacts with California that should be exempt from disclosures; CARB excluded thresholds for real property and tangible personal property and compensation in the state tax code when defining "doing business in California" because including those thresholds "would bring companies into the regulation's scope with marginal operations in California that are beyond the intent of the legislation." These statements acknowledge that California is sensitive to the impact on businesses that have a de minimus relationship with the state. Yet, the proposed regulation fails to include a de minimis financial exemption. This oversight must be corrected.

3. A Tax Nexus is not the Correct Proxy for an Environmental Regulatory Program.

CARB's December 2025 proposed regulations align the applicability definitions with California tax-code concepts. While Sequent appreciates CARB's effort to provide clarity, relying on tax-filing constructs that were designed for fiscal purposes risks sweeping in entities that have no physical, operational, or emissions-related nexus to the State. Using the tax filing constructs that CARB has proposed, Sequent would trigger disclosure requirements because its wholesale transactions of natural gas to the citygates exceeds the "sales" thresholds set forth in California Revenue and Taxation Code section 231010(b)(2). Yet, Sequent is not 'at home' in California, has no facilities, assets, or personnel in California, sells only at wholesale market delivery points, and derives a de minimis share of its total revenue from California. Regulating entities like Sequent that operate exclusively outside of California, based solely on incidental wholesale transactions completed in interstate commerce, risks creating extraterritorial effects that are excessive in relation to the local benefits, raising dormant commerce clause and personal jurisdiction concerns.

California's Revenue & Taxation Code definition of "doing business" was developed to allocate tax liability, not to identify which entities have a meaningful environmental or operational nexus with the state. This tax nexus is poorly calibrated with the purpose of California's climate disclosure laws and is legally fragile under due-process minimum contacts principles. Both the climate disclosure laws and CARB's proposed regulations improperly seek

to regulate behavior that occurs beyond the state's borders by relying on two variables: a revenue threshold determined by total revenue (within and without of California's borders) and a tax filing nexus rather than an operational nexus to the state. Essentially, absent a de minimis exemption or exemption for wholesale natural gas transactions, and based upon CARB's minimal tax nexus definition of "doing business in California," CARB's regulations would force Sequent to make climate disclosures and file climate related financial reports, not an insignificant burden, based almost entirely on commercial activity that occurs outside of the state of California. In sum, this regulation places an undue burden on Sequent's commercial activity occurring outside of California's boundaries. This is a precarious legal position for CARB. Program applicability and enforcement should rely on in-state operational nexus, not on tax principles or other standards unrelated to an operational or environmental nexus.

Sequent respectfully requests CARB not to finalize the tax code definition of "doing business in California." Instead, CARB should craft its own definition, tailored by its role as an environmental regulator and for a program that is focused on environmental disclosures. A CARB-developed definition would provide the agency the ability to adapt the regulation to the unique and likely evolving needs of the climate disclosure program instead of being bound by lists or thresholds developed by other government agencies that are focused on fiscal, revenue, and tax-related priorities. Further, if the tax code or definition changes, that could significantly disrupt how CARB conducts this program. In short, for environmental disclosure programs, applicability must hinge on an entity's in-state operational footprint and environmental relevance, not on tax-apportionment mechanics unrelated to climate risk or jurisdictional fairness.

4. The Definition of "Doing Business in California" Should Include a Two-Year "Look Back" Period and Exclude Wholesale Sales of Natural Gas.

In the proposed rule, CARB added flexibility to the definition of "Covered entity" and "Reporting entity," key applicability-related terms for the climate disclosure laws and regulations. The proposed regulations allow for entities to evaluate the two most recent fiscal years when considering the revenue thresholds that determine applicability. Specifically, CARB states that entities "must meet the revenue threshold for two consecutive years," providing flexibility for entities that can have potentially large revenue changes that can occur from selling property or corporate assets. Sequent supports the two year "look back" period for the applicability thresholds but urges CARB to extend this to the definition of "Doing business in California."

CARB is planning to adopt part of the definition of "Doing business in California" from the California Revenue and Tax Code Section 23101(b)(2), which includes a minimum sales threshold of $735,019.[2] Just as CARB has provided flexibility for calculating revenue, CARB

[2] Sequent understands this to be the 2024 inflation adjusted sales threshold for Section 23101(b)(2), as shared by CARB in the Climate Disclosure regulation workshops.

should extend that same flexibility to calculating sales since sales generated in California, like revenues in general, can also experience large changes from year to year. Just as it has proposed for calculating revenue, CARB should also include a provision that entities must exceed the minimum sales threshold for two consecutive years in order to qualify for "doing business in California."

Additionally, the proposed definition of "doing business in California" provides that "wholesale sales of electricity do not count for purposes of determining an entity's sales in California." For the reasons set forth in Section 1 above, this definition should be revised to extend that exclusion to wholesale sales of natural gas.

5. Clear, Unambiguous Regulations are Essential.

To ensure legal clarity and enforceability, CARB must establish precise and transparent rules, particularly since CARB has indicated its desire to promote consistency across California's climate-disclosure programs. Clear rules will not only support consistent and meaningful disclosures but also ensure that enforcement actions are grounded in objective, legally defensible criteria. To the extent CARB ultimately provides materiality, documentation, or assurance guidance for SB 253, we urge that such guidance be aligned with established investor-grade standards and with existing annual financial reporting cycles to avoid duplicative workstreams. This comment is offered solely to support efficient implementation of SB 253 and does not address any requirements currently stayed under SB 261.

Conclusion

Sequent supports transparency and disclosures of material risks and information. However, CARB's proposed regulations must include a reasonable definition of "doing business in California," along with specific exemptions as outlined above, to avoid unintended reporting burdens on entities that do not operate or have a physical activity within California's jurisdiction. We appreciate CARB's efforts to engage stakeholders and the opportunity to participate in the rulemaking process.

Sincerely,

Sequent Energy Management, LLC