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Board Clerk  
California Air Resources Board  
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*Submitted electronically*

**SUBJECT: San Diego Gas & Electric Company (SDG&E) Comments on CARB's Proposed 45-Day Revisions to the Cap-and-Invest Regulation**

Dear Chair Sanchez and Members of the Board:

San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to provide comments on the California Air Resources Board (CARB) proposed 45-day revisions to the Cap-and-Invest regulation, released on January 20, 2026. Since the inception of the program, SDG&E has supported the Cap-and-Trade (now Cap-and-Invest) program as a cost-effective approach to achieving economy-wide greenhouse gas (GHG) emissions reductions. As CARB seeks to align the program with California's statutory climate targets and recent legislative direction, affordability impacts to Californians must be a central focus in the agency's considerations.

We offer the following comments to help strengthen CARB's proposed regulatory package, ensure affordability, and maintain electric and gas system reliability as California transitions to a clean energy future: (I) SDG&E strongly opposes the proposed reduction in Electric Distribution Utility (EDU) allowance allocation; (II) any shift of Natural Gas Supplier (NGS) allowances to EDUs must be carefully crafted to ensure that low-income natural gas customers are not disproportionately impacted; (III) if a transfer of NGS allowances occurs, consideration should be given to an EDU's relative ability to implement in a timely manner; the cost of implementation as compared to the benefit; and the EDU's ability to provide customer credits at a cadence no less frequent than the current NGS Climate Credit; (IV) CARB should not opine on whether a volumetric distribution of the electric Climate Credit is appropriate; and (V) language modifying the eligible uses of NGS allowance proceeds should ensure that projects and programs approved under previous versions of the regulation are not at risk.

**ALLOWANCE ALLOCATIONS**

- I. SDG&E strongly opposes the proposed reduction in Electric Distribution Utility allowance allocation, which could increase electricity costs for SDG&E customers between 2027-2030.**

Electric distribution utilities are, and will continue to be, a vital partner in reducing the GHG emissions associated with the electricity consumed in our state. Further, the electric utility sector plays a necessary role in facilitating the decarbonization of the industrial, building, and transportation sectors. Matching our state's climate ambition with action will require reliable *and affordable* energy sources. High electricity costs are a deterrent to households adopting electric vehicles and appliances. Thus, immediate action is needed to protect against rising electricity costs – and the Cap-and-Invest program is already equipped to help mitigate the impact of these costs on California households via the California Climate Credit.

The Cap-and-Invest program has provided critical cost protections for utility ratepayers in the form of directly allocated allowances. The allocated allowances are sold at auction and the revenues are returned directly via a pass-through to our customers in the form of the Climate Credit. Historically, a portion of these funds were also used to support decarbonization programs, offering continued GHG emissions reduction progress at a lower cost to customers.

When CARB adopted the EDU allowance allocations for 2021-2030, a decision to set fixed, multi-year allocations was made with the context that establishing fixed numbers would help provide regulatory certainty and would encourage EDUs to reduce emissions in their portfolios at a more aggressive rate than originally planned while still retaining the benefit of the established allocation.<sup>1</sup> Unfortunately, the proposed 45-day regulatory update would significantly reduce allowance allocations for EDUs in the years leading up to 2030 – years for which a fixed allowance allocation was previously set.

For SDG&E, the proposed changes to EDU allocation would reduce allowances by 25% in 2027, and continue with a similar scale of reductions in the years that follow through 2030. These reduced allocations would result in relatively lower electric Climate Credits for return to customers, and **SDG&E estimates that the impact of the reduction in Climate Credit alone could potentially translate to monthly electric utility bill increases of up to \$3 per month between 2027 and 2030 when compared to the existing CARB regulation.**<sup>2</sup> At the same time, SDG&E customers may be experiencing higher rates due to higher pass-through GHG compliance costs resulting from expected increases in the price of allowances. The allowance allocation was initially provided to utilities with the recognition of its important role in protecting utility customers against spikes in the cost of compliance. However, the proposed reduction in EDU allocation erodes that protection and would have significant adverse impacts on electric utility customers, resulting in higher annual electric bills.

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<sup>1</sup> See p. 39 of CARB's *Final Statement of Reasons* for the Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms , August 2017; <<https://www.arb.ca.gov/regact/2016/capandtrade16/ctfinsor.pdf>>

<sup>2</sup> The \$3 per month figure is the monthly equivalent reduction in the estimated annual electric Climate Credit during each year of the respective time period.

To address this concern, SDG&E offers its support for the proposal described by the Joint Utility Group (JUG) (provided below) to preserve the current, adopted allowance allocations as listed in Table 9-4 of the existing regulation through 2030. Acknowledging that the Renewables Portfolio Standard (RPS) has since been updated to 60%, SDG&E and the JUG believe a targeted update to incorporate the current RPS is appropriate, provided it incorporates the full flexibility afforded by the RPS statute.

**A. Keep the 2027–2030 EDU Allocation Framework Intact**

As described above, CARB implemented a fixed 10-year allocation schedule based on *forecasted* costs of compliance to provide EDUs planning certainty, encourage voluntary additional GHG reductions, and protect ratepayers from Program costs. Changing the underlying forecast data, and therefore incentive structure, midstream—four years before it closes—would undercut that certainty, penalize early decarbonization actions, and raise electricity rates precisely when customers are being asked to electrify their vehicles, homes, and businesses. Increases to their electricity bills will certainly deter this electrification. The most recent electricity supply data will show that most utilities need fewer allowances for 2027-2030 than was forecasted during the when the 2021-2030 vintage was set because EDUs took additional steps to reduce their emissions, just as the set allowance allocation was intended to incentivize. Recalibrating the fixed allowance schedule at this time effectively punishes the utilities that made significant emissions reductions – undermining the program’s incentives and increasing cost pressures on electricity customers. Furthermore, any changes to the EDU allocation that puts upward pressure on electricity rates penalizes customers that made electrification investments of their own.

Reducing allowances to utilities at this time will weaken electrification momentum, risk backsliding on statewide GHG goals, and further exacerbate the state’s electricity affordability crisis.

**B. Implement an SB 100-Aligned “Effective RPS”**

The JUG acknowledges CARB’s need to update the RPS assumptions used in the EDU allocation table to estimate the cost burden attributable to Cap-and-Invest. In 2018, SB 100 increased RPS targets to 60 percent by 2030, and an average of 60 percent for each compliance period thereafter. However, California’s RPS also permits up to 25% of RPS-compliant procurement to be Portfolio Content Category (PCC) 2 or PCC 3<sup>3</sup>. These PCC 2 and PCC 3 resources are products that may carry a Cap-and-Invest compliance obligation under the Mandatory Reporting Regulation (MRR) and thus are not zero-emitting for allocation purposes. The state’s RPS mandate expressly recognizes that not all of the resources used to meet the RPS compliance obligation need to be 100% zero emitting resources.

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<sup>3</sup> Public Utilities Code § 399.16(c)(1) permits up to 25% of RPS-eligible procurement from PCC 2/3

Thus, to fully reflect the statute in the EDU allocation, the methodology should include an “Effective RPS” that aligns with the important, built-in flexibility within the RPS program’s portfolio balance requirement and appropriately account for all RPS-compliant resources. This is especially important as achieving increasingly high RPS targets has become more challenging and costly for many utilities.<sup>4</sup> To determine the Effective RPS, the nominal RPS is reduced by the value from multiplying the nominal RPS (i.e., 60% in 2030) by 25% to account for the allowed non-PCC 1 share of an EDU’s RPS compliance. For 2030, that yields a 45% Effective RPS.<sup>5</sup> Applying an Effective RPS preserves customer protections built into the RPS program while aligning with SB 100’s flexibility in procurement portfolios.

To prevent any overlap or conflict with the Effective RPS approach, the JUG supports modifying the RPS Adjustment (a true-up mechanism separate from the upfront EDU allocation) so it applies only to PCC 0 resources starting in 2027.

**Table 1. Effective RPS**

	2025	2026	2027	2028	2029	2030
CEC Interim RPS Targets <sup>11</sup>	46.0%	50.0%	52.0%	54.7%	57.3%	60.0%
Effective RPS	34.5%	37.5%	39.0%	41.0%	43.0%	45.0%

Further, SDG&E supports CARB’s recognition of the continued need for customer protections post-2030 and the agency’s intent to provide regulatory certainty beyond that date. SDG&E looks forward to continuing engagement in this area.

**II. Any shift of Natural Gas Supplier (NGS) allowances to EDUs must be carefully crafted to ensure that natural gas customers, particularly low-income customers, are not disproportionately impacted.**

AB 1207 directs CARB to “[d]esign the regulations, including distribution of emissions allowances **where appropriate**, in a manner that transitions support from gas corporations to electrical distribution utilities...on or before January 1, 2031, to minimize ratepayer impacts”.<sup>6</sup>

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<sup>4</sup> CPUC, 2025 Padilla Report “Costs and Cost Savings for the RPS Program”, June 2025: [CPUC RPS 2023 Padilla Report](#)

<sup>5</sup> 2030 60% RPS target (nominal RPS) x 25% allowable non-PCC 1 share = 15%. Subtracting 15% from 60% = 45% “Effective RPS”.

<sup>6</sup> Assembly Bill (AB) 1207, Statutes of 2025; [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202520260AB1207](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB1207).

The phrase “where appropriate” is particularly important. Although the statute instructs CARB to “consider” factors such as cost-effectiveness, affordability, and societal benefits, it also requires CARB to “[e]nsure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.” In practical terms, this means CARB may transfer support to electric utilities only to the degree that doing so does not create disproportionate burdens for low-income customers. If transferring allowances—such as transferring all NGS allowances—would result in such disproportionate impacts, then CARB should refrain from designing or implementing regulations that mandate this outcome, as doing so would conflict with the Health and Safety Code’s statutory requirements.

In 2024, California had approximately 11.4 million<sup>7</sup> gas consumers as compared to 14.2 million<sup>8</sup> electric consumers. Dividing the amount of revenue allocated for the natural gas Climate Credit across a larger pool of (electric) customers means that each individual consumer will receive less credit than they would otherwise have gotten with two separate (gas and electric) credits. **Given this, all California households that receive both a gas and electric Climate Credit today will receive less overall Climate Credit than they otherwise would have if CARB adopts the proposed transition of NGS allowances to electric utilities.** Unfortunately, the impact of that loss will be even more pronounced for low-income customers, as the Climate Credit offsets a larger proportionate share of their household energy costs.

Further, changes proposed by some stakeholders to expedite the transition of natural gas allowances to electric utilities would significantly worsen household energy bills for the majority of the state – making the concerns noted above more prevalent over a shorter period of time. AB 1207 directs CARB to design a transition of allowances by 2031 – not to complete that transition by such date. SDG&E cautions against a quick decision that could result in more harm than benefit for many Californians.

**III. If a transfer of NGS allowances is to occur, CARB should consider an EDU’s relative ability to implement in a timely manner; the cost of implementation as compared to the benefit; and the EDU’s ability to provide customer credits at a cadence no less frequent than the current NGS Climate Credit.**

SDG&E agrees with CARB’s proposal that any transferred allowances should be re-distributed only to EDUs who (1) are not also a publicly-owned NGS, and (2) have residential customers. SDG&E supports CARB’s logic in ensuring that the Climate Credit is intended to support residential customers, and agrees that it would be inequitable for publicly-owned NGS who are not themselves subject to the transfer of NG allowances to receive additional benefit on the electric side. While the text of AB 1207 limited the

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<sup>7</sup> Energy Information Administration (EIA), Table: “Number of Natural Gas Consumers,” California annual data for 2024, released February 6, 2026, [https://www.eia.gov/dnav/ng/ng\\_cons\\_num\\_dc\\_u\\_sca\\_a.htm](https://www.eia.gov/dnav/ng/ng_cons_num_dc_u_sca_a.htm).

<sup>8</sup> EIA, Summary Table T1: “2024 Total Electric Industry—Customers,” Electric Sales, Revenue, and Average Price, released October 7, 2025, [https://www.eia.gov/electricity/sales\\_revenue\\_price/pdf/table\\_1.pdf](https://www.eia.gov/electricity/sales_revenue_price/pdf/table_1.pdf).

required transition of allowances to impact only *investor-owned* gas utilities, that limitation disproportionately impacts customers served by investor-owned utilities, exacerbating affordability challenges for the very customers who are seeing the most acute impacts of increasing energy costs.

Further, SDG&E urges CARB to consider timing any transfer such that the proceeds associated with transferred allowances can be swiftly returned to customers, and at a cadence no less than once a year (as currently is provided with the NGS Climate Credit). SDG&E and the investor-owned utilities already have systems readily available to provide Climate Credits to our customers. The majority of the state's publicly owned utilities do not have such systems available and would need to expend additional funding and resources to develop the necessary IT infrastructure to deploy a bill credit, as AB 1207 requires. This process will take time to implement.

In some cases, particularly for EDUs that have a proportionally small share of statewide retail electric sales, the cost of establishing capable systems may outweigh the benefits. CARB should consider whether, in such instances, it is appropriate for these EDUs to receive additional allowances. Alternatively, a one-time "opt-out" mechanism could help ensure that the resulting implementation outcomes provide benefits to customers and do not simply add cost. AB 1207 is clear in requiring that EDUs receiving any transfer of NGS allowances must pass the benefits directly on to ratepayers via a bill credit. An EDU that is not equipped to provide a bill credit to its customers upon receiving transferred allocation should not be eligible to receive transferred funds until they have the appropriate systems in place.

### **USE OF ELECTRIC ALLOWANCE PROCEEDS**

SDG&E supports CARB's continued use of EDU allowance proceeds to provide direct, transparent, and equitable bill relief through the electric Climate Credit. The electric Climate Credit has proven to be an effective tool for returning allowance value to ratepayers, improving affordability during periods of rising electric demand and facilitating the State's long-term climate and electrification goals. Maintaining and strengthening the Climate Credit is consistent with CARB's longstanding objective to protect customers through the allocation of allowances to electric utilities. Although CARB's proposed changes to the use of EDU allowance proceeds are limited in nature, SDG&E recommends that further clarity be provided on the intent of the change to allow for continued policy debate on proposals to modify the structure of the credit.

#### **I. CARB should not opine on whether a volumetric distribution of the electric Climate Credit is appropriate.**

SDG&E notes that AB 1207 does not direct CARB or the CPUC to make any modifications to the electric Climate Credit other than to address the timing of the distributions to no more than four high-billed months and to incorporate a new 5% remittance for transmission financing. While we understand that CARB's proposed changes to the EDU use of allowance proceeds section are intended to facilitate further discussion at the California Public Utilities Commission (CPUC) related to potential improvements to the

California Climate Credit, SDG&E would support clarification in the Final Statement of Reasons that CARB's proposed changes to the Cap-and-Invest regulation (removing the prohibition on the volumetric return of the electric credit) should not be construed as implied support for a volumetric return. SDG&E continues to believe that the required statutory changes to the electric climate credit will be satisfied by the CPUC's contemplated scope for Phase 1A of its Climate Credit Order Instituting Rulemaking proceeding. However, to the extent additional or supplemental changes are potentially pursued in a subsequent phase, this would be a more appropriate forum to discuss the issue of volumetric distributions - without prejudice from CARB's actions proposed in the Cap-and-Invest regulatory update in order to allow for continued stakeholder and public agency deliberation.

### **USE OF NATURAL GAS ALLOWANCE PROCEEDS**

With respect to the eligible uses for the NGS allowance proceeds, SDG&E supports CARB's decision to continue to provide flexibility in the acceptable uses, provided they continue to offer customer benefits and contribute to reductions in GHG emissions. Like the electric Climate Credit, the natural gas Climate Credit also plays an important role in protecting gas ratepayers, particularly low-income customers. At the same time, SDG&E appreciates that, for some utilities, a portion of the NGS allowance proceeds may already be directed toward specific programs or initiatives based on previous versions of the regulation.

- I. Language modifying the eligible uses of NGS allowance proceeds should ensure that projects and programs approved under previous versions of the regulation are not at risk.**

SDG&E encourages CARB to clarify that any modification to eligible uses of the NGS proceeds should be applicable only to projects on a going-forward basis, ensuring that existing approved program budgets and offerings can remain whole for the duration of their authorized cycles.

### **CONCLUSION**

Thank you for your consideration of these comments. SDG&E looks forward to continued engagement with CARB staff and stakeholders as this important regulatory process continues. Please do not hesitate to reach out should you have any questions or wish to discuss any of the information provided in greater detail.

Sincerely,



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