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Rajinder Sahota, Deputy Executive Officer
California Air Resources Board
1001 "I" Street
Sacramento, CA 95814

RE: PG&E Comments on the Proposed Amendments to the Cap-and-Invest Regulation

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment in response to the California Air Resources Board's (CARB) release of Proposed Amendments to the Cap-and-Invest (C&I) Program for a 45-day public comment period. As the state's largest dual-fuel utility serving 16 million people throughout a 700,000 square-mile service area, PG&E's comments below center around potential impacts to our customers' bills at a time when California must prioritize energy affordability. PG&E summarizes its principal concerns and recommendations below. These key points highlight where the Proposed Amendments, as drafted, risk undermining customer protections and regulatory certainty, and identify targeted changes that would better align the Cap-and-Invest Program with the State's affordability and climate objectives.

Summary of Key Points

Electricity Sector

1. CARB's proposed amendments are inconsistent with the direction from AB 1207 and Executive Order N-5-24.
    a. The amendments sharply reduce customer bill relief by cutting PG&E's electric utility (EDU) allowance allocations by 60% in 2027–2030, withholding roughly $100 per residential customer per year, or about $2.7 billion over four years.
    b. Midstream changes to fixed EDU allocations undermine the regulatory certainty CARB intended to provide and penalize customers for faster-than-expected decarbonization.
2. Key assumptions underlying the EDU allocation proposal are flawed.
    a. Inconsistent treatment of Diablo Canyon relative to CPUC-approved load-share allocations.
    b. Backward-looking hydro and nuclear assumptions for CCAs that double-count significant PG&E resources.
3. PG&E conditionally supports the post-2030 EDU allocation framework with targeted modifications.

Natural Gas Sector

4. Transferring natural gas allowances to EDUs does not meaningfully mitigate near-term electric bill impacts in 2027–2030.
5. Natural gas allowance allocation should support an equitable transition. PG&E supports a gradual gas-to-EDU allowance transfer beginning in 2029 while reserving a fixed share of gas allowances to protect low-income customers.

Additional Topics

6. PG&E supports updated EIM accounting but EDAM inclusion should be delayed until 2027 after data validation to protect customers.
7. CARB should clarify how emissions reductions from CCUS will be credited toward compliance obligations to reduce investment uncertainty.
8. CARB should clarify reporting/verification expectations for newly covered natural gas fugitive emissions, allowing continued use of existing methodologies.
9. PG&E supports overall program design modifications such as extending program caps out to 2045 and adjusting compliance period end dates.

While PG&E understands the need to complete this rulemaking in time for a September 1, 2026, effective date, critical updates to the allowance allocation supporting our customers, such as those recommended in further detail below, must be made before PG&E can support the proposed amendments.

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1. CARB's Proposed Amendments Do Not Align with Legislative and Gubernatorial Direction

As acknowledged throughout last year's legislative session, affordable electricity is essential for achieving California's climate and clean energy goals. AB 1207 explicitly directs CARB to design the C&I Program in a manner that "continues elements of the current program that protect state utility ratepayers, encourages decarbonization of the state's economic sectors, and further enables Californians to affordably decarbonize and power their end uses."[1] One of the most effective tools CARB has for fulfilling this intent is the allocation of free allowances to electric distribution utilities (EDUs) for the benefit of their customers. Governor Newsom also recognized this in Executive Order N-5-24, directing CARB to consult with the CPUC on options to maximize the effectiveness of California's Climate Credit[2], which is funded by revenue from the sale of investor-owned utility (IOU) allowances in Cap-and-Invest auctions. EDU allocations are thus a key lever for supporting affordable electric bills, which are in turn, necessary for widescale electrification to proceed at the pace and scale required to achieve California's 2045 carbon neutrality target.

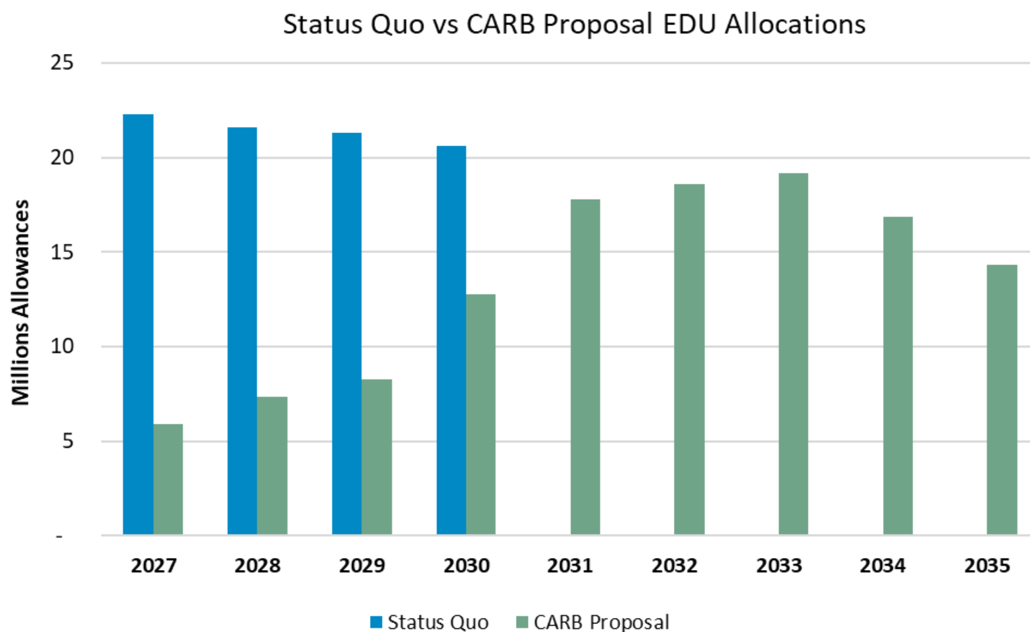
[1] Stats. 2025, ch. 117 (A.B. 1207).
[2] The electric California Climate Credit is currently returned to customers as a twice-yearly bill credit

However, instead of leveraging EDU allocations to further support electricity affordability, the 2025 Proposed Amendments to the C&I Program drastically reduce EDU allocations, in direct contrast to legislative and gubernatorial direction.

a. Bill Relief for PG&E Customers is Drastically Reduced

PG&E's electric allowance allocation decreases by 60% over 2027-2030 compared to the current Cap-and-Trade regulation, along with a markedly inconsistent annual allocation trajectory (see Chart 1). At the allowance prices assumed in the "Proposed Amendments" scenario from CARB's Standard Regulatory Impact Assessment (SRIA)[3], this proposal would abruptly lower the California Climate Credit by approximately $100 per year on average for each of PG&E's residential electric customers from 2027-2030, compared to the allocation in the current regulation (equivalent to approximately $2.7 Billion of reduced customer support during that period). This proposal, if not modified, will reduce electricity bill rebates at a time when energy affordability is a critical policy priority. Unlike State-owned allowances, which fund a broad array of programs with diffuse (if any) impact on consumer costs, IOU allocations provide direct bill relief to millions of households and businesses. Preserving these allocations is critical for supporting customers in managing their everyday bills. Designing an allocation that encourages lower electric rates also facilitates customers in their electrification journey, which is necessary for California's clean energy transition. Conversely, reducing support for electric customers relative to what they would have received in 2027-2030 (i.e. the status quo) could have the impact of delaying customer-driven electrification.

Chart 1. PG&E EDU allocation



[3] 2026 Cap-and-Invest Proposed Amendment SRIA p. 15

b. Altering "fixed" Allocations Undermines Regulatory Credibility And Disincentives Faster Decarbonization

We strongly encourage CARB to reconsider its approach to the 2027–2030 EDU allocations. Given the expectations CARB established in the 2016 rulemaking for the 2021–2030 period—and the central role of electric affordability in meeting California's climate and equity goals—we recommend that any updates to Table 9-4 (Table 9-3 in the Proposed Amendments) avoid reducing overall support for electric affordability.

In the 2016 rulemaking, CARB adopted a fixed 10-year EDU allocation to provide regulatory certainty for EDU ratepayers and to prevent reductions in support if electricity decarbonized faster than anticipated. The Proposed Amendments depart from that intent by revising EDU allocations for 2027–2030 midstream, despite CARB's acknowledgement that these revisions are not needed to meet overall allowance-removal targets: "The Proposed Amendments revised EDU allocation based on updated data using the existing methodology and are not impacted by the proposed updates to Program budgets, which impact state-owned allowances."[4]

Nothing in the 2016 rulemaking suggested CARB would revisit the 2021–2030 allocations; rather, CARB emphasized stability and predictability.[5] The 2016 rulemaking engendered important reliance interests on the part of PG&E and its customers in levels established by that rulemaking. In light of these reliance interests, we encourage CARB to reconsider its latest position. *See, e.g.*, *FCC v. Fox,* 556 U.S. 502, 515 (2009). While the 2026 Initial Statement of Reasons (ISOR) notes that CARB, in 2018, responded to commenters by stating that EDU allocations "might" be revisited in a future rulemaking[6], that hypothetical statement does not diminish the reliance created by the 2016 decision or justify material mid-period changes.

If CARB determines that reopening the EDU allocation is unavoidable, PG&E supports a focused update limited to the two specifically referenced elements of the calculation from the 2018 statements (increased Renewable Portfolio Standard (RPS) target and upward load growth), consistent with the recommendations in the Joint Utility Group comment letter. We also support the JUG's proposed modifications to the RPS Adjustment to avoid potential double counting when applying an updated "Effective RPS".

2. CARB is Relying on Unreasonable Assumptions Underlying the Proposed Changes

While we oppose other updates to the EDU allocation table due to their impacts on customer affordability and for conflicting with CARB's well-reasoned policy rationales for a

[4] See 2026 Cap-and-Invest Proposed Amendments Initial Statement of Reasons, p. 50
[5] See 2016 Cap-and-Trade Amendments Final Statement of Reasons, p. 39
[6] "In the 2018 Final Statement of Reasons (CARB 2018b), staff indicated plans to reevaluate post-2020 allocation to EDUs, including reevaluating allocation levels to incorporate the increased Renewable Portfolio Standard (RPS) requirement of 60% of retail sales in 2030, as mandated by SB 100 (De León, Chapter 312, Statutes of 2018), and the most recent information related to increased load due to electrification of the transportation sector pursuant to direction from Board Resolution 17-21 (CARB 2017a)." 2026 ISOR, p. 50

fixed EDU allocation in the 2016 rulemaking, we in particular highlight two unreasonable assumptions included in the calculation spreadsheet underlying the proposed changes to Table 9 – 4 that should be fixed if CARB continues down the path of its proposal; these relate to Diablo Canyon Power Plant extended operations and Community Choice Aggregator (CCA) hydro and nuclear resources.

a. PG&E Disagrees with Diablo Canyon Assumptions

CARB's proposal includes all the GHG-free generation from Diablo Canyon extended operations in PG&E's EDU allocation tab. PG&E believes CARB assumed this because Diablo Canyon generation appears this way in PG&E's S2 filing. While PG&E's S2 filing shows full volumes from Diablo Canyon, this is not reflective of the volumes which are ultimately allocated to PG&E Bundled Service Customers. The S2 filing requires load serving entities to report generation volumes in full from Utility-Owned resources. However, this treatment is inconsistent with who is paying for and who benefits from Diablo Canyon during extended operations. In particular, in D. 23-12-036, the CPUC required allocation of GHG-free energy from Diablo Canyon extended operations, the methodology of which was memorialized in Appendix P of PG&E's Bundled Procurement Plan and provides a clear precedent. The CPUC-approved methodology allocates GHG-free energy from Diablo Canyon extended operations to the three IOUs based on load share. If CARB updates the resource forecast data in the EDU allocation spreadsheet, CARB should use the same approach (i.e., allocate GHG-free energy from Diablo Canyon extended operations to the three IOU EDUs using load share). For ease of implementation, CARB could use the same CEC IEPR form (1.1c) it already used in the allowance allocation spreadsheet to determine each EDU's retail electricity sales for 2027-2030 for purposes of allocating GHG-free energy from Diablo Canyon extended operations.

b. PG&E Disagrees with CCA Hydro and Nuclear Resource Assumptions

CARB also includes for the first time GHG-free generation from CCAs based on historical data reported to the California Energy Commission (CEC) on the Power Content Label. CARB's proposed approach is unreasonable. Assuming future resources will be the same as past resources is overly simplified in this case as CCA historical data reflects historical contracting practices rather than ownership of underlying hydro and nuclear assets. Future resource mixes can change significantly based on a wide range of factors, including costs, procurement strategy, compliance requirements, and loads. Forward-looking plans are necessary if CARB is going to include this category in Appendix D-2. In addition, Appendix D-2 includes substantial double counting of PG&E nuclear and large hydro resources. This occurs because CARB's approach mixes two different sources of nuclear and large hydro data (i.e., generation from PG&E owned resources from PG&E's forward-looking S-2 filing and generation from CCAs from backward-looking CEC Power Content Labels). During the timeframe of the Power Content Labels used by CARB, PG&E allocated GHG-free attributes from its nuclear and large hydro resources to many CCAs, who then are able to include these resources when reporting to the CEC on the Power

Content Label. As a result, a substantial share of the large hydro and nuclear output assumed in Appendix D-2 from the CCAs is the same PG&E large hydro and nuclear generation that is already included in PG&E's S-2 filing. While the individual resources underlying the Power Content Label are not listed on the CEC website, we believe this more granular information is available from the CEC, and would require careful cross-checking to remove double counted resources. These are substantial problems, and we believe the best remedy would be for CARB to remove CCA resources from Appendix D-2 and instead follow its historical practice of exclusively using IOU large hydro and nuclear resource forecasts to represent this category for IOU EDUs.

3. **PG&E Conditionally Supports The Post-2030 EDU Allocation Framework With Targeted Modifications.**

PG&E conditionally supports CARB's proposed EDU allocation framework for 2031–2035 if it incorporates two critical elements: (1) Effective RPS (as outlined in the Joint Utility Group comment letter); and (2) use of the demand/supply outlooks from the 2024 IEPR, with a path to utility-provided updates for significant, substantiated load growth. The post-2030 framework proposed by CARB, with the modifications outlined above, would be appropriately grounded in California's clean energy statutes and would help support electricity affordability.

4. **Transferring Natural Gas Allowances To EDUs Does Not Meaningfully Mitigate Near-Term Electric Bill Impacts**

PG&E has evaluated the idea of transferring natural gas allowances to EDUs, given the State's interest in supporting electrification and moving away from natural gas. Such a transfer does not make up for the reductions to PG&E's 2027-2030 EDU allocation in CARB's Proposed Amendments. This would remain true even if the transfer fully occurred prior to 2031. For this reason and those discussed in the Natural Gas Allocation section below, PG&E does not consider the transfer of natural gas allowances a sufficient remedy to the substantial cuts to the EDU allocation compared to the status quo.

5. **Natural Gas Allocation Should Support an Equitable Natural Gas System Transition**

PG&E broadly shares the State's objective of ensuring that the natural gas allowance value is allocated in a manner that supports a cost-effective and equitable transition to a decarbonized energy system. Accordingly, PG&E supports CARB's proposal to *gradually* phase in the Gas-to-EDU allowance transfer starting in 2029, as this approach will help avoid customer rate shocks and provide time for customers to shift to electric appliances. A sudden, or substantially accelerated gas allowance transfer by 2030 would particularly harm dual-fuel PG&E customers as their annual combined climate credit for both electricity and gas would be lower. This is due

to the fact that AB 1207 stipulates that the natural gas allowances must be reallocated to all EDUs (including publicly-owned utilities) and there are more electric customers than natural gas customers.

Additionally, PG&E recommends that a fixed number of allowances be withheld by natural gas suppliers for the purpose of supporting low-income customers through the gas system transition. The percentage-based transition schedule would still apply and begin in 2029 as proposed, but the transfer would be capped at 70% in 2034 and beyond (see **Table A**). The dedicated allowance value could be deployed via climate credit to provide continued bill relief for low-income customers, or it could be utilized to reduce upfront electrification costs. The CPUC would ultimately be the venue for the decision on how to utilize that allowance value to best support low-income households. This proposal is shared amongst the natural gas IOUs, as stated jointly in the investor-owned natural gas utilities letter.

Table A. Suggested Revision to Proposed Table 9-6A, with Adjusted Annual Percentages

Table 9-6A: Annual Percentage of Investor-Owned Natural Gas Supplier Allocation Transitioned to Electrical Distribution Utilities for 2029 and Subsequent Years

Year	2029	2030	2031	2032	2033	2034	2035	2036	2037 and beyond
Percentage	20%	30%	40%	50%	60%	70%	70%	70%	70%

A fixed withholding would support a managed transition of the gas system. As electrification reduces throughput on the gas distribution network, remaining fixed costs will be borne by a shrinking customer base, creating upward gas rate pressure on those that are slow to leave the gas system or who cannot afford the upfront costs to electrify. A predictable allowance reserve allows PG&E to proactively target electrification in a manner that aligns with gas system planning and moderates cost shifts to remaining customers. By pairing emissions reductions with deliberate system planning and customer protections, a 30 percent set-aside advances the State's climate objectives while maintaining affordability and operational stability during the transition period.

6. CAISO Market Outstanding Emissions: EIM Updates and EDAM Inclusion

PG&E supports CARB's proposed updates to the outstanding emissions calculation for the Western Energy Imbalance Market (EIM) as it improves accounting accuracy and reduces the risk of overstating California compliance for imports and increasing customer costs unnecessarily. However, PG&E strongly recommends a delay to the inclusion of the Extended Day-Ahead Market (EDAM) into Cap-and-Invest until 2027, with the 2026 EDAM-related outstanding emissions being trued-up after the EDAM data can be validated. California Independent System Operator (CAISO) market implementations have historically required

iterative corrections. Without a tested error-correction mechanism, there is a heightened risk of mis-accounting that could translate into incorrect EDU compliance obligations and unwarranted customer costs that cannot be recovered due to the lack of such a mechanism. We support the JUG's recommendation to defer EDAM inclusion until (1) EDAM operations commence, (2) data pathways are validated, and (3) a formal error-correction process is in place.

7. CARB Should Provide Greater Certainty for CCUS Projects

PG&E strongly supports the inclusion of Carbon Capture, Utilization, and Storage (CCUS) technologies within the Cap-and-Invest Program. CCUS is a critical tool to achieve California's climate goals as outlined in CARB's 2022 Scoping Plan and will be particularly helpful for industrial processes that require high heat and face technological barriers to electrification. We appreciate CARB's ongoing recognition, including in the ISOR, of the important role that CCUS will need to play as part of the C&I program moving forward.

However, we believe that companies that are actively deploying CCUS projects or considering them need greater clarity from CARB on how emissions reductions from CCUS will be accounted for in relation to their compliance obligations. A comprehensive regulatory structure is essential to reduce market uncertainty and help drive investments in CCUS projects in a timely manner. Time is of the essence, as CCUS projects must break ground before 2033 in order to qualify for the generous federal carbon capture tax credit, 45Q.

For these reasons, we respectfully request that CARB update the proposed regulation in a timely manner to include specific and comprehensive regulatory provisions that enable greenhouse gas emissions reductions that result from CCUS to be fully accounted for as part of an entity's reduction in a compliance obligation under the program in this rulemaking.

8. PG&E Requests Clarification for Natural Gas Fugitive Emissions Verification

CARB's Proposed Amendments include revisions to the categories of emissions from the natural gas system that are exempt for purposes of C&I compliance. PG&E largely agrees with Staff's assessment in the ISOR that the inclusion of transmission blowdowns and compressor station venting moving forward will add relatively minimal emissions to our overall natural gas compliance obligation. However, PG&E's data for these emission categories are calculated based on best available data or engineering estimates to some degree, rather than direct continuous flow measurement, similar to other categories that are exempt for this reason. While PG&E provides transmission blowdown emissions to the EPA, the EPA's reporting requirements on data quality are very different than those necessary for emissions that are subject to a C&I compliance obligation. PG&E requests clarification and guidance from CARB that transmission blowdown and compressor station venting emissions will still be subject to the same verification and reporting requirements as prior years, allowing PG&E to continue using existing

methodologies and data quality standards for verification of these newly covered emission categories.

9. Overall Cap-and-Invest Program Design

PG&E acknowledges CARB's proposal to extend the program's allowance caps out to 2045 and supports CARB extending the yearly allowance budgets out to 2035. We believe this strikes the right balance between providing forward-looking regulatory certainty while acknowledging the need to revisit allowance allocation prior to the 2035-2045 timeframe given the considerably greater uncertainty of what the program will need to reflect in the last decade leading up to the State's carbon neutrality goal.

PG&E is broadly supportive of CARB's compliance period proposals to align with the years in which statutory emissions targets have been set. If CARB changes the lengths of the compliance periods, PG&E prefers 2- and 3-year compliance periods, rather than 4-year (or longer) compliance periods, for inventory management and administration purposes.

Conclusion

PG&E looks forward to continuing collaboration with CARB staff and public stakeholders on potential amendments to the C&I Program that will best support an affordable, reliable, safe and resilient energy system.

Sincerely,

/s/
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