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March 9, 2026

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

VIA E-MAIL

Re: Comments of Southern California Edison Company on the Proposed Amendments to the California Cap-and-Invest Regulation

Dear Ms. Sahota,

On January 13, 2026, the California Air Resources Board (CARB) posted its 2026 Amendments to the Cap-and-Invest (formerly Cap-and-Trade) Regulation (C&I proposed amendments) for public comment. In the bulletin announcing the posting, CARB noted that the regulation would be updated "to reflect the direction and process in AB 1207." Assembly Bill (AB) 1207 extends the program previously known as the Cap-and-Trade Program through 2045 and gives additional directions to CARB.[1] Southern California Edison Company (SCE) provides its response to the C&I proposed amendments below.

I. State and Legislative Mandates Direct CARB to Prioritize Electric Customer Affordability as a Core Objective of its Regulations

As an overarching matter, state and legislative mandates require that the CARB's primary objective in amending its Cap-and-Invest program's allowance revenue allocation strategy is to promote and prioritize electric utility customer affordability. To that end, SCE respectfully requests that CARB reconsider some of its proposed amendments to further mitigate the cost of Cap-and-Invest compliance and promote electric customer affordability.

[1] California Air Resources Board. (2026, January 12). Public Posting of Amendments to the Cap-and-Invest Program and Mandatory Greenhouse Gas Emissions Reporting. *[GovDelivery bulletin]*. https://content.govdelivery.com/accounts/CARB/bulletins/40400d6

In recent years, California has moved from general affordability goals to more explicit statutory mandates to improve electricity affordability and mitigate customer bill impacts associated with the clean energy transition. For example, AB 205 (2022)[2] required an income-graduated fixed charge and bill relief for low-income customers. This mandate was subsequently implemented through the California Public Utilities Commission (CPUC) Decision (D.)24-05-028, establishing tiered fixed charges and reducing volumetric rates to lower marginal electricity prices.[3]

State mandates have also directed agencies to consider using the Climate Credit as a tool to promote utility customer affordability. Governor Newsom in 2024 issued Executive Order N-5-24 declaring it "essential that electric service remains affordable, reliable, and safe for all Californians during our clean energy transition" and calling out the California Climate Credit as a tool that can be used in providing affordability.[4] The order directed the CPUC and CARB to explore "options to maximize the effectiveness of California's Climate Credit,"[5] recognizing that returning Cap-and Invest revenues to customers can offset rising electricity costs and reduce upward pressure on rates. The CPUC's response included an assessment of how the Climate Credit could be redistributed to customers that need it the most.[6]

In 2025, the Legislature enacted AB 1207 requiring CARB to consider affordability when adopting or amending regulations under the reauthorized Cap-and-Invest Program[7] and linking program design choices to minimize ratepayer impacts while meeting emissions reduction goals,[8] thus reflecting a determination that climate policy and customer affordability should advance together.

The statutes, executive orders, and mandates are clear that affordability is an important objective in the transition to clean energy, and that the Climate Credit should be utilized as a tool to promote affordability in furtherance of these objectives. Importantly, the Cap-and-Invest

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[2] California Legislature. (2022). Assembly Bill No. 205 (2021–2022 Reg. Sess.) (Energy), available at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB205

[3] CPUC Decision 24-05-028 (addressing Assembly Bill 205 requirements for electric utilities in Rulemaking 22-07-005). https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M531/K686/531686019.PDF

[4] Newsom, G. (2024, October 30). *Executive Order N-5-24: Addressing rising electricity costs and protecting ratepayers during California's clean energy transition*. Office of Governor Gavin Newsom. https://www.gov.ca.gov/wp-content/uploads/2024/10/energy-EO-10-30-24.pdf

[5] *Id*.

[6] California Public Utilities Commission. (2025, February 18). *CPUC response to Executive Order N-5-24*. https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/reports/cpuc-response-to-executive-order-n-5-24.pdf

[7] Health & Safety Code § 38562 (b)(7) (amended by AB 1207 to direct CARB to "[c]onsider the effect of these regulations on affordability, cost effectiveness, minimization of leakage in California, and achieving the requirements of Sections 38562.2 and 38566 and the purposes of this division.")

[8] Health & Safety Code § 38562 (b)(1)(B)(i) (amended by AB 1207 to direct 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, as defined in Section 95802 of Title 17 of the California Code of Regulations, on or before January 1, 2031, to minimize ratepayer impacts and achieve the purposes of this division.")

program can play a critical role in supporting affordability through the Climate Credit, and in advancing electrification. When electricity prices are more affordable and predictable, customers are more likely to invest in electric technologies that reduce emissions over the long term. In this way, Cap-and-Invest can help address near-term affordability challenges while simultaneously removing a key barrier to electrification and emissions reduction.

CARB's proposed amendments, however, when viewed holistically, do not go far enough to advance these affordability objectives for investor-owned utility (IOU) customers. Instead, the proposed amendments would effectively reduce bill support, despite the IOUs' customers incurring the overwhelming cost of early climate action and the IOU customers' continuing commitment to carbon-reducing technologies and renewable energy. SCE thus requests that CARB reevaluate the proposed Cap-and-Invest amendments through the lens of electric customer affordability, as the Legislature intended. SCE also requests that CARB reconsider aspects of its proposed regulation to ensure that the program can effectively reduce ratepayer impacts and support the State's electrification goals.

Specifically, SCE recommends that CARB make the following changes to the proposed amendments to preserve existing levels of Electric Distribution Utilities (EDU) allowances necessary to support electric affordability:

- Adopt the Joint Utility Group's (JUG) proposal for CARB to use the effective Renewable Portfolio Standard (RPS) in the EDU allowance allocation methodology;
- Use the 2024 Integrated Energy Policy Report (IEPR) data, instead of 2025 IEPR data, in alignment with other critical state energy plans such as California Independent System Operator's (CAISO's) Transmission Planning Process and the CPUC's Integrated Resources Plan.
- Avoid the introduction of the Extended Day Ahead Market (EDAM) into the Outstanding Emissions calculation until further data can be obtained to support the proposed EDAM methodology.
- In addition to the technical changes above, CARB should re-allocate state-owned allowances to EDUs above forecasted levels to further support electric customer affordability and encourage electrification.

II. Proposals to Advance Electric Customer Affordability by Maximizing EDU Allowances

As discussed below, CARB should adopt proposals that maximize the number of allowances given to EDUs. First, CARB should adopt the JUG's effective RPS proposal. Second, CARB should leverage 2024 IEPR data as a starting point instead of 2025, in alignment with other critical state energy plans. Third, CARB should delay incorporating EDAM in the Outstanding Emissions calculation. These three, fact-based, technical fixes are not mutually exclusive and, in

fact, complement one another by minimizing the reductions in EDU allowances and maximizing the revenue available to return to electric customers through the Climate Credit.

A. Adopt the JUG Proposal for an Effective RPS

CARB determines the EDU allowance allocation based on several factors, including imposing a 5% deduction from the RPS target used to calculate the EDU allowances. CARB has previously noted that the "assumed amount of zero-emission electricity used to fulfill RPS requirements is *reduced by five-percent to reflect non-zero emission electricity which is used to firm and shape zero-emission RPS electricity* [emphasis added]" and further that this reduction "comes from the maximum percentage (15 percent) of allowed firmed and shaped power allowed in the RPS program (Senate Bill 350, Statutes of 2015)."[9] Senate Bill 350 modified Public Utilities Code §399.16(c)(1) to permit up to 25% of RPS-eligible procurement from Product Content Categories (PCC) 2 or 3. PCC 2 and PCC 3 products retain a Cap-and-Invest compliance obligation under the Mandatory Reporting Regulation (MRR) and are not zero-emitting for allocation purposes.[10]

The electric utilities do not know why CARB chose 5% out of the 15%, or how CARB concluded the maximum to be 15% when Senate Bill 350 allows up to 25%. The RPS program was designed this way to promote cost containment, and we believe the CARB regulation should recognize and mirror these RPS program provisions. Given the discrepancy between the proposed regulations and the existing RPS program, the EDU allowance allocation methodology in the proposed amendments does not provide EDUs sufficient allocations to cover the full cost burden of non-zero emissions power associated with the RPS compliance. The disparity will worsen over time because, as a utility's portfolio gets cleaner leading into 2045, the affordability provisions incorporated in the RPS program will become more critical to containing costs.

The solution is for CARB to adopt the JUG's recommendation to decrease the annual RPS targets by 25% in recognition that up to 25% of the total RPS-eligible procurement can come from renewable resources that are not treated as zero-emission under CARB's Cap-and-Invest program. Since these resources would have a Cap-and-Invest program compliance obligation, the EDU allocation methodology should decrease the assumed percentage of zero-emission RPS electricity by 25%. This 25% proportion, when applied to the 60% RPS mandate by 2030, would yield a 45% "Effective RPS" for 2030.

B. CARB Should Use the 2024 IEPR instead of the 2025 IEPR if Updating the EDU Allowance Allocation Methodology.

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[9] California Air Resources Board. (2017, April 13). *Second notice of public availability of modified text and availability of additional documents and/or information* (Section M. Modifications to Section 95892: Allocation to electrical distribution utilities for the protection of electricity ratepayers). https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2016/capandtrade16/2nd15daynot.pdf

[10] SB 350 (Stats. 2015, ch. 547), § 21 (amending Pub. Util. Code § 399.16(c)(1)).

While SCE agrees with the JUG that maintaining reliance on the original 2015 IEPR data for 2027-2030 is most beneficial for the Climate Credit, CARB's proposal to use the 2024 IEPR data as the foundation for EDU allocations is appropriate because the IOUs conform their planning processes to the 2024 IEPR.[11] Conversely, it would not be appropriate to use the 2025 IEPR data given that it would be inconsistent with the forecasts that utilities are currently using for resource planning. Additionally, the electric sector is subject to numerous planning processes that are interlinked and interdependent. The IOUs are currently operating under state plans, such as the CAISO's Transmission Planning Process and the CPUC's Integrated Resources Plan, that are using the 2024 IEPR. We believe it is appropriate for CARB to align the IEPR data used with these other core planning processes to ensure that the allocation methodology maintains the same assumptions and inputs that are driving investments on the grid and power purchases in our business at this time.

C. Delay Adding the Extended Day Ahead Market to the Calculation of Outstanding Emissions

The MRR and the Cap-and-Invest Initial Statement of Reasons (ISORs) signal CARB's intent to incorporate the EDAM into the calculation of outstanding emissions from the CAISO markets. For example, in both the MRR ISOR and the Cap-and-Invest ISOR, CARB notes that "[i]n December of 2023, FERC approved the relevant portions of CAISO's EDAM tariff (FERC 2023) setting the stage for *an expected EDAM to launch in 2026*. In this rulemaking, the Proposed Amendments updates the Regulation and MRR to reflect EDAM and the changes and improvements that are being planned for the [Western Energy Imbalance Market (WEIM)]. The proposed changes ensure coverage of all imported electricity emissions and help ensure CARB is appropriately addressing GHG emissions leakage in these markets [emphasis added]."[12]

It is premature for CARB to begin accounting for the EDAM given that EDAM has yet to be implemented and data on its operations is not yet available. There is therefore a lack of a factual record to make reasonable decisions on how to address the potential for these emissions. Acting prematurely could reduce the number of allowances for IOU EDUs, harming customers by reducing the revenue available for the Climate Credit.

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[11] California Energy Commission. (2026, January 23). *Single forecast set agreement*. https://efiling.energy.ca.gov/GetDocument.aspx?tn=268288&DocumentContentId=105461

[12] California Air Resources Board. (2026). *Staff report: Initial statement of reasons for proposed amendments to the California Cap-and-Invest regulation* (p. 57). https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_isor.pdf; California Air Resources Board. (2026). *Staff report: Initial statement of reasons for the proposed amendments to the regulation for the mandatory reporting of greenhouse gas emissions* (pp. 21–22). https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/mrr/isor.pdf

Under the current regulation, CARB's Executive Officer directly retires the equivalent amount of outstanding emissions from the WEIM from the EDU allowances used for Climate Credit.[13] In both the MRR and the Cap-and-Invest ISORs, CARB proposes to: 1) deduct the equivalent amount of outstanding emissions from the CAISO Markets, which now includes the EDAM and the WEIM; and 2) to expand the calculation of outstanding emissions to include both the EDAM and the WEIM.[14] If the impact of EDAM is improperly quantified in this methodology, which cannot be known at this time due to lack of EDAM data, this could create the negative and unintended consequence of unnecessarily reducing the Climate Credit Californians could receive.

SCE recommends that CARB does not include the EDAM in the calculation of outstanding emissions in this rulemaking, which is slated to be voted on in May 2026 (the same month that the EDAM goes live). Instead, it should pursue the issue through a later rulemaking in which stakeholders will have a better sense of the scale of these emissions and can engage in an informed discussion about how to cover emissions in the program while keeping electric affordability and the benefits of regional markets in mind.

III. CARB Should Consider Additional Reductions in State-Owned Allowances to Support the Cap, Instead of Relying on Utility Allowance Reductions

Reductions in utility allowance allocations alone account for nearly 60%[15] of the total reduction in allowances targeted under the proposed cap, while the remaining reductions are taken from future auctions of state-owned allowances used for the Greenhouse Gas Reduction Fund (GGRF).

Even if CARB adopts SCE's proposals to modify the EDU allowance allocation methodology, the result would significantly close, but not completely erase, the near-term drop in EDU allowance levels for 2027-2030 created by the proposed amendments. To avoid that reduction in the Climate Credit from the proposed amendments, and in furtherance of objectives to promote electric affordability, CARB should consider a direct transfer of state-owned allowances to EDUs

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[13] California Air Resources Board. (2021). *Regulation for the California cap on greenhouse gas emissions and market-based compliance mechanisms* (§ 95852(l)(3)) [Unofficial electronic version]. https://ww2.arb.ca.gov/sites/default/files/2021-02/ct_reg_unofficial.pdf

[14] California Air Resources Board. (2026). Staff report: Initial statement of reasons for proposed amendments to the California Cap and Invest regulation. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_isor.pdf; California Air Resources Board. (2026). Staff report: Initial statement of reasons for the proposed amendments to the regulation for the mandatory reporting of greenhouse gas emissions. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/mrr/isor.pdf; California Air Resources Board. (2026). *Appendix A-1: Proposed regulation order—Proposed amendments to the regulation for the California cap on greenhouse gas emissions and market-based compliance mechanisms*. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_app%20a-1.pdf; California Air Resources Board. (2026). *Appendix A-1: Proposed regulation order—Proposed amendments to the regulation for the mandatory reporting of greenhouse gas emissions*. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/mrr/app_a-1.pdf.

[15] The 2027-2030 EDU allowance reduction is about 69 million allowances, as compared to a total allowance budget reduction of 118 million allowances.

to minimize electric customer impacts. This would advance the state's affordability goals. SCE notes that similar cap-and-invest programs in other jurisdictions have already started allocating additional funds above forecasted amounts for programs aimed at reducing customer bills.[16]

CARB can strategically direct the use of incremental utility allowances to maximize the effectiveness of the Climate Credit, for example, by providing additional Climate Credit to support California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance (FERA) customers. If CARB were to add 10% more in allocations to SCE's account than presently forecasted levels in 2027 for the benefit of CARE and FERA customers only, SCE estimates that this would result in an incremental reduction in the average residential CARE customer bill, from 9% with a status quo return, up to 12% if increased.

Alternatively, incremental utility allowances could be used to provide affordability benefits to all ratepayers, thereby offsetting some of the costs of Public Purpose Programs (PPP) on utility bills and promoting electrification through lower customer electric bills.

IV. CARB Should Reassess the Projected Allowance Valuation Resulting from its Proposed Amendments

Given that the projected value of Cap-and-Invest allowances provides the foundation for allocation strategies, in furtherance of promoting affordability, SCE believes it is important that CARB provide clarifying edits in its statement of the economic benefits of its projected valuation for the net increase in utility revenue arising from the C&I proposed amendments.[17] The amount of allowances CARB proposes to disseminate to IOU EDUs is predicated on a fundamental assumption about allowance prices[18] that historically has not been observed in the market. SCE recommends that CARB adopt the following redline edits to its statement of economic benefits in its ISOR[19] on page 298 to provide transparency about its estimate:

[16] New Jersey and New York have both used cap-and-trade proceeds to directly mitigate utility bill increases. New Jersey has deployed Regional Greenhouse Gas Initiative (RGGI) revenues for automatic, utility-administered bill credits, providing universal and targeted relief to offset electricity rate increases while retaining regulatory control over fund use. New York has similarly directed RGGI proceeds to ratepayer-funded programs and bill relief, including funding affordability programs and authorizing the use of excess RGGI revenues to reduce ratepayer collections during periods of rising utility costs.

[17] As described in CARB's Cap-and-Invest Initial Statement of Reasons (ISOR), under economic benefits, CARB lists "$9.7 billion in estimated increased utility allowance auction revenue through 2046" on p. 298. *See* California Air Resources Board. (2026). *Staff report: Initial statement of reasons for proposed amendments to the California Cap-and-Invest regulation*. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_isor.pdf

[18] CARB's assumption of projected weighted average allowance price at $68/metric ton is listed on p. 320 of the Cap-and-Invest ISOR.

[19] California Air Resources Board. (2026). *Staff report: Initial statement of reasons for proposed amendments to the California Cap-and-Invest regulation*.
https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_isor.pdf

$9.7 billion in estimated increased utility allowance auction revenue through 2046, based on assumptions that allowance prices settle at $68/metric ton in each year from 2027-2045.

Over time, the Cap-and-Invest market mechanism reduces the number of allowances available to be allocated and sold. While the impact on each EDU varies, EDUs lose on average 27% of their allowance allocation in the 2027-2030 period under the C&I proposed amendments as compared to current regulation. Under the C&I proposed amendments to the regulation, SCE loses 14% of its EDU allowances for that same period.[20]

The amount of the revenue the electric Climate Credit generates is a function of the number of IOU EDU allowances available and the price of these allowances at auction. In theory, a declining number of allowances in supply should drive up demand, producing higher prices as supply diminishes. Historically, however, that has not proven to be true. The realized carbon price historically has been closer to the market's price floor than either of the price containment tiers or the price ceiling.[21] Notably, CARB suggested that its proposed amendments to Cap-and-Invest would lead to a $9.7 billion net increase in utility revenue, premised on an assumption that GHG prices would land at the mid-point between the price floor and the first Advanced Price Containment Reserve, or $68/metric ton.[22]

While Climate Credit is currently returned to customers as a bill credit, and not through a volumetric return on rates, decreasing allocations will have a negative effect on electricity affordability. In fact, the proposed amendments to the EDU allocation would mean SCE customers lose approximately $290 to $440 million dollars in Climate Credit between 2027-2030, which translates to an approximately $7 to $11 reduction in each Climate Credit distribution per customer.

V. SCE Supports the Proposed Framework to Transition Natural Gas Allowances

SCE supports CARB's proposed framework for the transition of natural gas utility allocations to electric distribution utility allowances pursuant to AB 1207. SCE recommends that CARB update its regulation to reflect in the proposed framework consideration of the timelines, procedures, and costs associated with the utilities' implementation of this transition to mitigate impacts on affordability.

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[20] This estimate accounts for the proposed transition of allocations from natural gas utilities (NG) to EDUs.

[21] California Air Resources Board. (2026, February). California cap-and-invest program: summary of California-Quebec joint auction settlement prices and results. https://ww2.arb.ca.gov/sites/default/files/2020-08/results_summary.pdf

[22] As described in CARB's ISOR, under economic benefits, CARB lists "$9.7 billion in estimated increased utility allowance auction revenue through 2046" on p. 298 and provides a table listing assumptions of projected weighted average allowance price on p. 320. *See* California Air Resources Board. (2026). *Staff report: Initial statement of reasons for proposed amendments to the California Cap-and-Invest regulation*. https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_isor.pdf

VI. Technical Clarifications to the Proposed Regulation

SCE noticed a technical error in the post-2030 EDU allocation calculations. According to SB100 and SB1020, a certain percentage of retail sales come from clean resources. However, in CARB's formula for years 2031-2035, in the '2027-2035 Allocation' worksheet, there are two instances where the clean target is being multiplied by an EDU's energy to serve load. To align with state law, we request that CARB change these two references to an EDU's retail sales in alignment with state law.[23]

The proposed EDU allocation methodology uses historical Power Content Label data with forecasted S-2 data, which leads to inaccuracies in the EDU allowance allocation. Over the last few years, including 2021 to 2023, SCE has offered load-serving entities (LSEs) (e.g., Community Choice Aggregators (CCAs) and Electric Service Providers (ESPs)) in its service area the option to receive GHG-free energy from SCE's large hydro and nuclear resources. The transferred GHG-free energy can be claimed on the LSE's Power Content Label. However, in SCE's S-2 data, SCE's large hydro and nuclear supply is fully claimed by SCE. This leads to double-counting of the same resources in CARB's proposed EDU allocation methodology. As an example, the average 2027-2029 nuclear energy in CARB's EDU allocation workbook is about 28.8 million MWhs. However, the average historical production (2021-2025) of Diablo Canyon and California's share of Palo Verde is only about 26.3 million MWhs. The difference is likely driven by the double-counting issue noted earlier. CARB may be able to use non-public information to determine the 2027-2030 large hydro and nuclear supply to address this matter. To ensure that these resources are properly accounted for, SCE recommends that CARB allow utilities to review changes to the methodology and EDU allowance allocations in these areas.

SCE appreciates CARB's consideration of its comments on the Cap-and-Invest Rulemaking.

Sincerely,

s/ Adam R. Smith
Adam R. Smith
Director, SCE Regulatory Relations

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[23] For year 2031-2035, the formula in the '2027-2035 Allocation' worksheet multiply the 'Maximum RPS and zero-carbon energy' by an EDU's 'Energy to Serve Load.' However, to align with SB100 and SB1020, the 'Maximum RPS and zero-carbon energy' should be multiplied by an EDU's 'Retail Sales.' The two instances where this occurs are in the first and last if statements in the condition part.