Gas Utility Group (GUG) (Fariya Ali)

See attached file

March 9, 2026

Rajinder Sahota
Deputy Executive Officer for Climate and Research
California Air Resources Board
1001 I Street – P.O. Box 2815
Sacramento, CA 95812

Subject: Gas Utility Group Comments on CARB's January 2026 Proposed Amendments to the Cap-and-Invest Regulation (formerly Cap-and-Trade)

Dear Ms. Sahota:

These comments are submitted on behalf of investor-owned natural gas utilities (IOUs)—Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Pacific Gas and Electric Company (PG&E), and Southwest Gas Corporation—and the publicly owned natural gas distribution utility serving the City of Vernon. Collectively, we refer to these utilities in this letter as the Gas Utility Group (GUG or Utilities). The GUG participates in California's Cap-and-Invest (C&I) Program as natural gas suppliers (NGS) on behalf of our customers; these comments are provided in the NGS context.

We appreciate the opportunity to comment on CARB's Proposed Amendments to the Cap-and-Invest Regulation (January 2026). We recognize that the program is a central instrument for achieving the State's climate goals, and we support refinements that advance decarbonization while maintaining affordability, equity, and regulatory certainty for our customers.

I. <u>Natural gas allocation is critical for supporting customers through the State's decarbonization transition</u>

As noted in Health & Safety Code § 38501(b)(4) (as amended by AB 1207), CARB is directed to "…extend the market based compliance mechanism… in a manner that effectively reduces greenhouse gas emissions; **minimizes any**

adverse impacts on state consumers, businesses, and the economy; and continues elements of the current program that *protect state utility ratepayers*, encourages decarbonization… and further enables Californians to **affordably** decarbonize and power their end uses" [emphasis added].

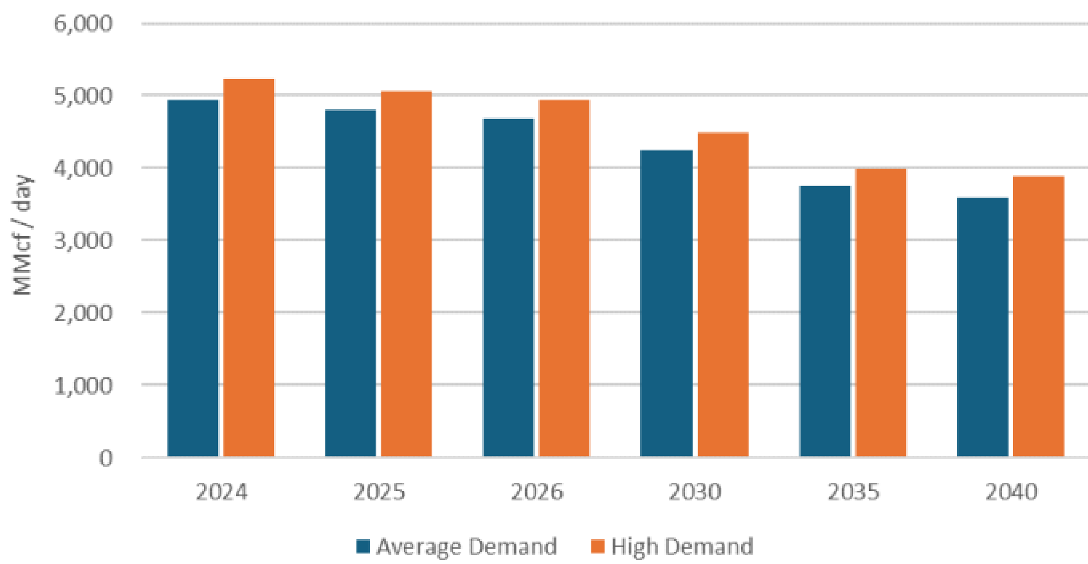
For natural gas customers, C&I compliance costs pass through to bills, which means the design of NGS allocation and consignment rules have a direct impact on utility bill affordability. In accordance with the statutory direction to protect ratepayers, NGS allowance value does not benefit utilities—its value flows to customers by mitigating C&I compliance costs passed through to customers, providing non-volumetric bill relief, and funding greenhouse-gas-reducing customer programs.

II. Customer Protections Must Continue Given Ongoing Natural Gas Use

Both CARB's 2022 Scoping Plan Update (SPU) and gas-sector planning materials recognize that residential and commercial natural gas use remains material through 2030, with decarbonization occurring across multiple vectors—including electrification where feasible and the growing role of clean fuels—on differing timelines across regions and customer segments. The 2024 California Gas Report presents a comprehensive outlook for natural gas requirements and supplies for California through 2040[1]. While the report acknowledges a reduction in natural gas consumption, the expected pace of reduction does not align with reductions in allowances as allocated with the Cap Adjustment Factor (CAF). Under the Average Demand case, natural gas declines at about 2.0 percent per year. Figure 1 shows the natural gas demand for an average demand and high demand year.

[1] The 2024 California Gas Report is the most recent report available with forecasted gas consumption. See https://www.socalgas.com/sites/default/files/2024-08/2024-California-Gas-Report-Final.pdf

FIGURE 1 – CALIFORNIA GAS DEMAND OUTLOOK



NGS allocation is not only critical for mitigating the compliance cost burden for NG customers through this transition (especially those without near-term alternatives to NG consumption), the revenue from consigned and auctioned allowances can also help accelerate the investments needed in renewable energy and clean fuels – the latter of which is critical for the decarbonization of hard to electrify sectors of the economy. An appropriately designed manufacturing decarbonization incentive can also assist industries through this transition and the GUG supports continued collaboration between the targeted industries and CARB to finalize an effective incentive.

III. The Importance of Regulatory Certainty

The GUG strongly supports regulatory certainty to enable prudent planning and avoid rate shock. Within this context, we support continuation of the current (CAF) through 2030 and the existing consignment schedule. Even with these guardrails, **increasing CAF stringency and higher consignment will still raise NGS compliance costs.** NGS allowances have historically mitigated compliance costs, but moving forward, customers will become more exposed to passthrough costs of the program.

IV. Requests for Clarification on Allowance-Value Rules

The proposed regulation places new restrictions on how NGSs can use allowance consignment revenue by eliminating uses for “Other GHG Emission Reduction Activities” and excluding energy-efficient building retrofits for “new equipment that combusts natural gas or other fossil fuels." Such restrictions should only apply to any revenue implementation prospectively. Any revenues set aside for biomass and renewable natural gas projects or energy efficiency projects for combustion of natural gas that have been approved or are currently under formal consideration by the California Public Utilities Commission (CPUC) or POU Governing Boards should not disturb the existing programs. CARB should clarify this in the regulation and Final Statement of Reasons. The GUG recommends the following language for Section 95893(d)(3): "*Nothing in this section should be construed to impact a natural gas supplier's ability to implement allowance-value expenditures that were approved, funded, or contractually committed prior to the effective date of this regulation under the rules in place at that time, including programs authorized by the CPUC or the governing board of a publicly owned utility.*"

<u>Conclusion</u>

The GUG appreciates CARB staff's extensive work to update the Cap-and-Invest Regulation and supports a continued focus on **affordability, equity, and regulatory certainty** as California advances toward its climate goals. We look forward to continued collaboration to finalize a durable rule package that maintains customer protections while supporting near- and long-term emissions reductions.

Respectfully submitted,
The Gas Utility Group