San Diego Gas & Electric Company (SDG&E) (Sarah Taheri)

Please find San Diego Gas & Electric Company's comments on the proposed 15-day amendments to Cap-and-Invest regulation attached. Thank you.

Sarah M. Taheri
Regulatory Affairs Manager

925 L Street, Ste. 650
Sacramento, CA 95815

cell: 916.708.7409
email: staheri@sdge.com

May 4, 2026

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

Submitted electronically

SUBJECT: San Diego Gas & Electric Company (SDG&E) Comments on CARB's Proposed 15-Day Revisions to the Cap-and-Invest Regulation

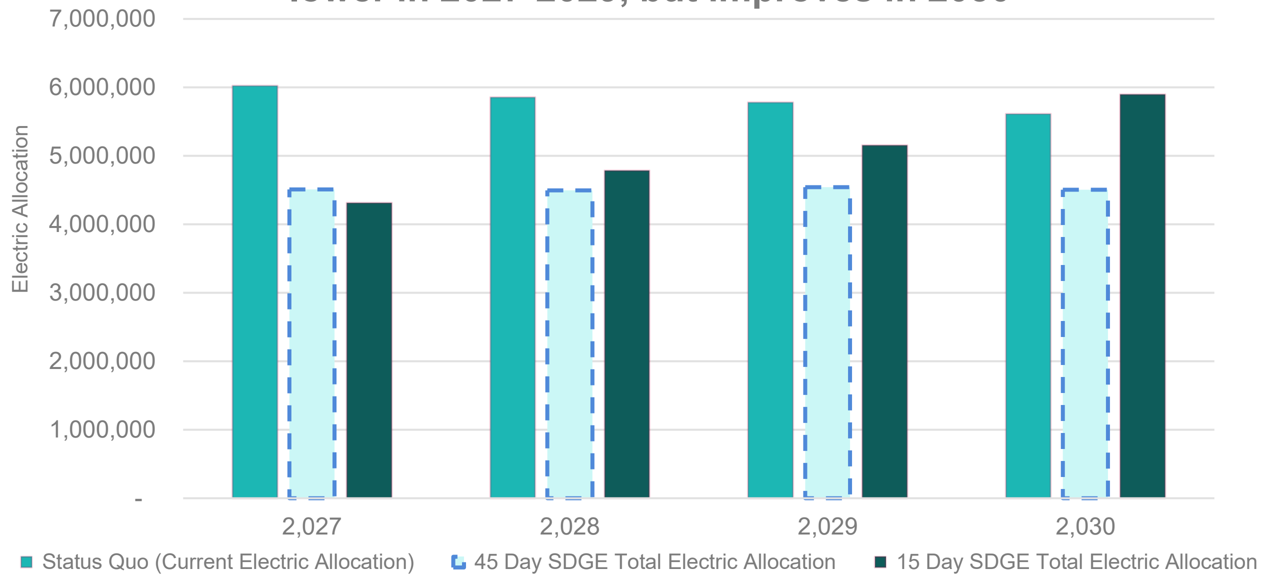
Dear Ms. Sahota:

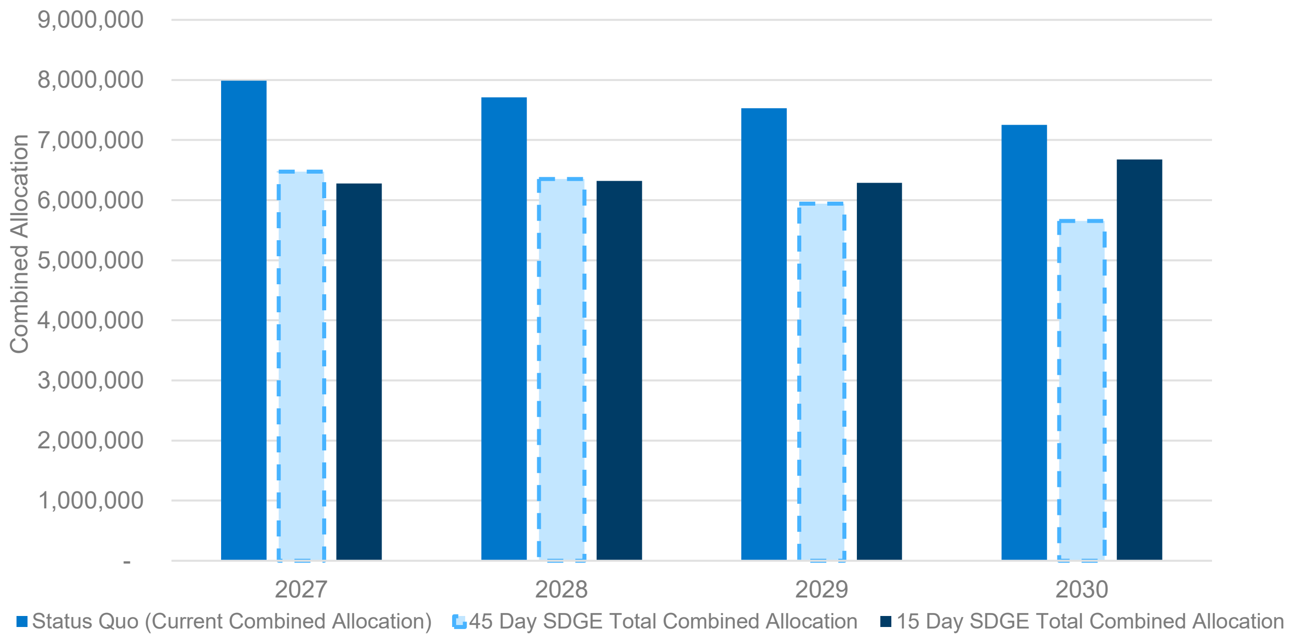
San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to comment on CARB's proposed 15-day revisions to the Cap-and-Invest regulation released on April 14, 2026. SDG&E has long supported the program because it has provided a cost-effective, economy-wide approach to reducing GHG emissions while incorporating cost containment tools that help protect utility customers and enable affordable decarbonization. As California households face mounting affordability pressures, continued focus on consumer protections will be essential as the program evolves.

The California Air Resources Board's (CARB) decisions in this rulemaking will directly influence the pace and affordability of decarbonization across the state. While we recognize the complexity of the task before the board, conditions have changed significantly since the program's inception. Achieving the state's 2030 and 2045 climate goals depends on widespread electrification of vehicles, buildings, and industry, which in turn hinges on affordable electricity. The Legislature and Governor have underscored this priority, including through AB 1207's directive to protect ratepayers and prioritize energy affordability. Unfortunately, the proposed changes move in the opposite direction by reducing critical consumer support at a time of historically high electricity rates and increasing leakage risk for industrial customers that rely on affordable energy.

The changes proposed to electric and natural gas allocations leave SDG&E customers worse off than they would be based on existing regulation. The charts below show the anticipated impact of the proposed regulations on SDG&E's allowance allocation – which translates directly to SDG&E customers' Climate Credits. Based on our estimations holding carbon prices constant and as compared to our customers' current benefits:

- SDG&E's all-electric customers will see a lower Climate Credit in the 2027-2029 period, despite the transition of natural gas allowances to electric utilities.
- SDG&E's dual-fuel customers will see a lower Climate Credit each year between 2027-2030.


Compared to status quo, SDG&E's electric allocation is lower in 2027-2029, but improves in 2030
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
-
Electric Allocation
2,027
2,028
2,029
2,030
Status Quo (Current Electric Allocation)
45 Day SDGE Total Electric Allocation
15 Day SDGE Total Electric Allocation
*The annual allocations reflect the combined impact of proposed changes to EDU Allocations as specified in Table 9-3 of the proposed regulations and incorporating estimates of the transferred NG allowances.


Compared to status quo, SDG&E's combined electric and natural gas allocation is lower between 2027-2030, which will translate to lower Climate Credits
9,000,000
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
-
Combined Allocation
2027
2028
2029
2030
Status Quo (Current Combined Allocation)
45 Day SDGE Total Combined Allocation
15 Day SDGE Total Combined Allocation
* Illustrates the cumulative impact of changes to electric and NG allocations, including impacts of the NG transition.
** Compared to 45-day proposal, the 15-day language is worse for 2027, approx. neutral for 2028, and improved for 2029 and 2030.

The Climate Credit provides important and unique value by delivering immediate, transparent benefits to customers while advancing emissions-reduction objectives. These credits provide near-term bill relief that customers can see and understand, reinforcing public confidence in climate programs and ensuring a timely return of program value. This immediacy is especially important for maintaining affordability and equity during the transition to lower-carbon energy systems, particularly for residential and small business customers.

As compared to program investments funded by the Greenhouse Gas Reduction Fund (GGRF), the Climate Credit addresses short-term customer impacts now, while longer-term GGRF programs build durable infrastructure and market capacity. From a utility perspective, this balanced approach supports CARB's goals by pairing immediate customer value with long-term emissions reductions, ensuring climate policy remains both effective *and publicly durable*.

I. Electric Distribution Utility (EDU) Allocations

CARB's currently effective EDU allocation schedule was established in regulation through 2030. As SDG&E and other EDUs have noted previously, changing the underlying forecast data partway through the compliance period, just a few years before it concludes, erodes regulatory certainty and makes electrification more costly for customers than it otherwise would have been just as they are deciding whether to electrify their vehicles, homes, and businesses. Beyond this concern with the overall approach to and directionality of the changes to the EDU allocation, SDG&E offers two specific points on the methodologies proposed.

A. SDG&E strongly <u>opposes</u> the socialization of a reduction to allowances associated with Diablo Canyon Power Plant (DCPP) and urges CARB to modify its approach before the regulation is implemented.

SDG&E strongly opposes the proposed changes to the EDU allocation methodology that would spread across all IOU customers an adjustment tied to PG&E's DCPP extension.

Historically, SDG&E customers have not received power from DCPP; hence, associated generation is not incorporated in SDG&E's currently effective allowance allocation established in Table 9-4 of the existing regulation nor any previous version of the Cap-and-Invest regulation. In the current regulation, the entirety of the replacement power for DCPP resource generation is assumed to be part of PG&E's procurement plan and therefore is reflected as allowances allocated solely to PG&E.

CARB's proposed 45-day change reconciled this assumption (that DCPP would be replaced with emitting generation) with the reality that replacement resources must be zero-emitting. It then reduces allowance allocations based on the assumption that DCPP operations will result in fewer emitting resources being utilized. This resulted in the removal of several million allowances from PG&E's electric allocation. However, the removal of those allowances should be viewed as a correction to an assumption that never materialized. Yet, the 15-day proposal includes a problematic proposal that would

lessen the burden for PG&E by requiring SDG&E and other investor-owned utility customers to bear costs associated with this correction.

Put plainly, the 15-day language proposes to reduce allowances from a theoretical pool of DCPP-related allowances within SDG&E's allocation—one that never existed. Further, the relative magnitude of even just SDG&E's "share" of DCPP is so significant that it has a disproportionately large effect on SDG&E's allocation (*i.e.*, the impact of this change, in isolation, is a ~15-20%[1] reduction to SDG&E's allocation in a given year).

Socializing the DCPP correction across IOUs would only be a reasonable approach if all IOUs had received a portion of the DCPP replacement resource allowances, but those allowances were never socialized. This creates a fundamentally unreasonable and inequitable outcome: SDG&E ratepayers end up shouldering a loss of allowances that was never theirs to absorb yet receive none of the benefits (in this context, previously allocated allowances for replacement resources).

Socializing the cost of this change to IOU customers is not sharing a greenhouse gas emissions reduction benefit, as the CPUC decision and state law require. This proposal would do the opposite, *penalizing* SDG&E customers by reducing the cost protections they would otherwise receive via the electric Climate Credit. The proposal makes electricity less affordable without any associated incremental benefits from the project (no delivered power and no incremental financial/monetary benefit from the clean attributes). This proposal would effectively double-charge SDG&E customers, who are already paying for DCPP via Public Purpose Program charges on their bills.

The resulting significant reduction in the Climate Credit would be experienced by our customers as an increase in their energy burden, sending the wrong signal during a time when customers are making critical decisions around electrification.

At minimum, if CARB advances with a socialized DCPP impact despite these significant concerns, a corresponding "true-up" to balance for the historical mismatch in treatment, where allowances were previously allocated to a single utility for DCPP-replacement power, must be considered. This like-for-like approach is necessary to provide equal treatment of both cost and benefit of the DCPP extension through 2030.

B. SDG&E supports changes to the EDU allocation methodology to align the "effective" Renewables Portfolio Standard (RPS) assumptions with state law.

As was discussed in previous comments, SDG&E and the Joint Utility Group (JUG) encouraged a targeted update of the underlying assumptions in the EDU allowance

[1] Calculated based on estimations for SDG&E's share of DCPP, as described in the proposed regulations, and as compared to CARB's 45-day proposal.

allocation methodology to incorporate the increased RPS targets to 60% by 2030. CARB's proposed changes acknowledge that state RPS statute allows for up to 25% of RPS-compliant procurement to consist of resources that may carry a Cap-and-Invest compliance obligation under the Mandatory Reporting Regulation (MRR) and thus are not zero-emitting for allocation purposes. SDG&E supports this change as an appropriate update to align with existing law. It creates a positive impact on the allowance allocation for EDUs, helping to counteract other pressures that reduce the allocation. It does not, however, offset those impacts entirely.

II. Natural Gas Supplier Allocations

As was discussed at length in SDG&E, SoCalGas, and various gas utility group comments, and as reflected in the chart above, the implementation of AB 1207's proposed transition of NGS allowances to EDUs would negatively impact affordability for California's dual-fuel households. CARB appropriately highlights that 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 a diluted, lower credit than they would otherwise have gotten with two separate (gas and electric) credits under a status quo scenario. 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. 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. Unfortunately, the 15-day language proposes an expedited transition of Natural Gas Supplier (NGS) allowances to EDUs, heightening affordability concerns for the majority of California households. SDG&E continues to caution against a quick decision that could result in more harm than benefit for many Californians.

However, SDG&E also acknowledges a few components of the transition's design that will be important to preserve should CARB advance with this proposal. Specifically, we support CARB's proposal to cap the transfer of NGS allowances to 70% in 2031. As post 2030 allocation discussions advance, we urge CARB to retain the 70% cap, providing continued support for low-income gas customers into future years. We also support CARB's structuring of the transition as leaving the current NGS allocation consignment schedule unaffected. While the amount of allowances transferred is based on the NGS' total allocation, we support the provisions that would preserve the ability of an NGS to continue utilizing a small portion of allowances for compliance through 2030 – this design can help insulate gas customers against market price spikes in the near term as the anticipated compliance obligations for NGS will soon be nearly unmitigated with such rapid and substantial reductions to NG allowance allocations resulting from the transition.

III. Post-2030 Program Cap and Allocations

CARB proposes to defer to a future rulemaking the determination of allowance allocations for EDUs and other sectors via limiting prescribed Cap Adjustment Factors only through 2030. SDG&E agrees that a robust process is needed to ensure that these program

design mechanisms are appropriately calibrated. While the extension of the program through 2045 provides some level of market certainty, a more clear understanding of the cap decline and proportion of allowances available to various industries will be needed to support a healthy Cap-and-Invest market and allow compliance entities to plan for future needs.

CARB should begin work on post-2030 allowance allocation issues as soon as possible. Many business decisions—such as long-term capital investments, contracts, and compliance strategies—extend well beyond 2030. The lack of clarity about future allocation rules makes it harder to plan responsibly today. While we agree that any changes should go through a thorough and well-supported process, providing early direction or outlining potential approaches would give regulated entities much-needed certainty. Starting this conversation now would support stable markets, smoother compliance planning, and stronger long-term performance of the program overall.

In considering post-2030 market design issues, SDG&E urges CARB to ensure that an appropriate level of protections for energy consumers continues. The utility allowance allocations are critical for mitigating cost increases for electric consumers, an action that will be imperative in the 2030-2045 timeline as deep decarbonization activity occurs across economic sectors.

IV. Conclusion

Thank you for the opportunity to engage in this important process. A well-structured Cap-and-Invest regulation is critical for the ongoing success of the program and, more generally, the state's climate policies. SDG&E appreciates CARB's efforts to find balance in a challenging landscape and encourages a continued focus on ensuring the program continues to provide immediate and transparent benefits for Californians.

Sincerely,

Sarah M. Taheri
Regulatory Affairs Manager