



May 8, 2024

Rajinder Sahota  
Deputy Executive Officer for Climate and Research  
California Air Resources Board  
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Sacramento, CA 95812

**Subject: SoCalGas Comments on the April 23, 2024 Workshop on Potential Amendments to the Cap-and-Trade Regulation**

Dear Deputy Executive Officer Sahota:

SoCalGas appreciates the opportunity to provide comments on the California Air Resources Board's (CARB) April 23, 2024, Workshop on Potential Amendments to the Cap-and-Trade Program. SoCalGas supports the Program's mission to encourage long-term investments in decarbonization and applauds CARB's outreach to engage stakeholders on potential offset protocol changes and policy updates aimed at reducing allowance market manipulation.

SoCalGas's comments highlight the following: 1) Enhanced control measures can significantly bolster transparency regarding activities that have the potential to influence market integrity; 2) CARB should provide Corporate Association Groups disclosure requirement exemptions for individuals from regulatory agencies; 3) Current exemptions from group holding limits are wholly appropriate for utilities and should remain unchanged to align with existing affiliate compliance regulations; 4) The definition of "selection authority" for this regulation should be clarified to capture only the desired targets; 5) Compliance offsets are an important cost containment feature.

**I. Enhanced control measures can significantly bolster transparency regarding activities that have the potential to influence market integrity.**

CARB is conducting a comprehensive review of the Cap-and-Trade market regulations to bolster market efficiency and safeguard against coordinated behaviors that may compromise market integrity. SoCalGas acknowledges the importance of this review and emphasizes the critical role that robust market regulations play in smooth operation of the market. The primary objective of a carbon allowance market is to curb greenhouse gas emissions by imposing a cap on the total emissions permissible by covered entities. This market-based approach offers flexibility, allowing covered entities to engage in the buying, selling, or trading of allowances, thereby creating economic incentives for emissions reduction. This mechanism facilitates emission reductions at

manageable cost to the economy by encouraging the adoption of cleaner energy sources or technologies.

While voluntary Cap-and-Trade entities contribute to market liquidity and provide essential market signals, some of these institutions are inclined to accumulate and retain allowances for profit generation, anticipating price surges. Such hoarding practices can detrimentally affect the Cap-and-Trade market by exacerbating scarcity and driving prices upwards. As the market braces for the anticipated removal of approximately 265 million allowances, enhanced transparency regarding the activities of voluntary entities is imperative for CARB to strike the appropriate balance between liquidity and speculation.

Measures such as holding limits, purchase restrictions, revised regulations for Corporate Association Groups, and enhanced oversight of Commodity Pool Operators (CPO) and Commodity Trading Advisors (CTA) represent potential avenues for supporting transparency and aligning the allowance market with its fundamental objective. Imposing speculative holding limits on entities with common ownership, such as CPOs and CTAs, could mitigate the escalation of scarcity in the market.

## **II. CARB should provide Corporate Association Groups disclosure requirement exemptions for individuals from regulatory agencies.**

At the workshop, CARB requested feedback on disclosing anyone with knowledge of or access to market position information for a Corporate Association Group (CAG). Currently disclosure applies just to Cap-and-Trade Consultants/Advisors and employees with knowledge of market position. Additional clarification may be helpful so that the expansion of this generally sound provision does not result in unintended consequences for utilities.

Every month, SoCalGas meets via videoconference with the California Public Utilities Commission (CPUC) to discuss Cap-and-Trade compliance. These discussions focus on SoCalGas's progress toward its compliance with its Cap-and-Trade obligations. While the CPUC is always notified that this information is confidential, SoCalGas shares it with the CPUC pursuant to 17 CCR § 95914(c)(2)(D), which allows SoCalGas to release to "an agency that has regulatory jurisdiction over privately owned utilities in the State of California of information regarding compliance instrument cost and acquisition strategy and other disclosures specifically required or authorized by the regulatory agency pursuant to any of its applicable rules, orders, or decisions." Pursuant to this provision, SoCalGas has occasionally disclosed similar information to the Securities and Exchange Commission (SEC) auditor, as required by the Dodd Frank Act, in instances when an audit may ask about financial controls regarding the purchase of compliance instruments.

SoCalGas is concerned about the proposed expansion of reporting obligations to include "any individual" with knowledge of or access to market position information. CARB noted at the workshop that exemptions could be made if the consultant/advisor does not have decision making authority or legally binding authority over any entity's market position or provides consulting services only to covered entities. Specifically, SoCalGas wants to ensure that CARB's proposed rules will exclude listing the CPUC individuals that participate in these monthly videoconferences.

Similarly, SoCalGas requests clarification that it can exclude listing the names of the SEC auditors when or if their audit plan under Dodd-Frank includes the purchase of cap-and-trade compliance instruments. SoCalGas does not believe CPUC or SEC staff pose risks to the market integrity of the Cap-and-Trade Program, and that disclosure of CPUC or SEC staff has little to no value and regards it as likely that the CPUC and SEC will agree. Furthermore, SoCalGas has no authority over limiting access by these individuals who work for agencies that have direct regulatory oversight of our company.

**III. Current exemptions from group holding limits are wholly appropriate for utilities and should remain unchanged to align with existing affiliate compliance regulations.**

At the workshop, CARB raised the issue of holding limits. SoCalGas appreciates that the holding limit for a given entity may change because of changes to the allowance budget and how the holding limit formula is calculated. But we would like to again raise the issue of corporate affiliates that share a parent company.<sup>1</sup> SoCalGas, San Diego Gas & Electric Company (SDG&E), and Sempra Gas & Power Marketing (SGPM) are affiliates that share a parent company: Sempra. They are also separate cap-and-trade covered entities. Affiliate transaction rules enforced by CPUC and FERC prohibit these companies from sharing resources and information, including the joint or coordinated procurement of allowances and offsets. As set forth in 17 CCR Section 95833(c)(1), any “registered entity subject to affiliate compliance rules promulgated by state or federal agencies shall not be required to disclose information or take other action that violates those rules.” (Emphasis added.) These affiliates are exempt from group holding limits normally imposed on entities in a corporate association. While we appreciate CARB’s concern for potential market manipulations, SoCalGas, SDG&E, and SGPM are prohibited from sharing any sensitive non-public market information. If consolidated holding limits were imposed on these companies, they would violate the affiliate transaction rules.

Implementing more restrictive holding limits on non-compliance entities involved in the purchase of allowances may be more appropriate. Otherwise, there is potential for certain financial institutions to purchase and hold allowances for speculative purposes. As the overall allowances released into the market decrease, these entities could acquire an excessive portion of the allowance market, leading to a potentially undesirable scenario for pricing.

**IV. The definition of “selection authority” for this regulation should be clarified to capture only the desired targets.**

At the workshop, CARB suggested establishing a new requirement for a registered entity to disclose entities or individuals with selection authority over the registered entity’s director/officer, investment manager or investment advisor, or controlling agent, and establish a CAG among registered entities that share a common entity with selection authority.

SoCalGas seeks clarification as to what would qualify as a “selection authority.” Shareholders operating through a Board of Directors have ultimate authority over the corporation. However, if CARB deems that any individual stockholder has selection authority, would the company need to

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<sup>1</sup> Please see our comments filed last December. <https://ww2.arb.ca.gov/form/public-comments/submissions/7301>

locate and disclose all those individuals and entities? Would that also extend to naming all shareholders of corporate parents of covered entities? SoCalGas already provides CARB with information about our corporate structure, so it is unclear why such additional reporting would be necessary.

**V. Compliance offsets are an important cost containment feature.**

SoCalGas supports the compliance offset component of the Cap-and-Trade Program. Efforts discussed at the workshop to evolve the program and update process requirements are sensible. The proposed upgrades to the Ozone Depleting Substance Refrigerants Protocol are an excellent step. Refrigerants have potent global warming potential and must be managed. CARB should continue to evaluate additional opportunities that would expand offset protocols in a way that achieves measurable GHG emissions reductions. As CARB considers potential changes to the program to align with other linked jurisdictions, it may benefit from considering the benefits and potential impacts of linked compliance offset programs. Considering that GHG emissions are a global issue that warm the planet and that their impact is not limited by state lines or international borders, any reductions should be welcomed regardless of location or where they are implemented. Of course, SoCalGas acknowledges the importance of considering statutory provisions designed so that Californians receive direct environmental benefits from these projects.

**Conclusion**

SoCalGas appreciates the opportunity to provide comments and participate as a stakeholder regarding amendments to the Cap-and-Trade Program. SoCalGas is committed to a decarbonized energy system that is affordable for all Californians. We look forward to continued engagement in CARB's regulatory process.

Respectfully,

*/s/ Kevin Barker*

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