Cap-and-Invest Program
Summary of 2015-2024 Natural Gas Supplier Use of Allocated Allowance Value

Purpose

This report summarizes how natural gas suppliers (NG suppliers) used the value of allowances allocated to them by the California Air Resources Board (CARB) under the Cap-and-Invest Program (formerly Cap-and-Trade Program, or Program) from 2015-2024. The value of these allocated allowances is referred to as "allocated allowance value" or, if the allowances have been consigned to auction and sold, "allocated allowance auction proceeds" or "auction proceeds."[1]

Background

Under the Cap-and-Invest Regulation (title 17, California Code of Regulations, sections 95801 *et seq.*) (Regulation),[2] NG suppliers face a compliance obligation for each ton of greenhouse gas (GHG) emissions released from the combustion of the natural gas supplied to their customers, less any natural gas delivered to facilities that are covered by the Program. To protect utility ratepayers from this Program cost while maintaining the Program incentive to reduce natural gas use, CARB allocates free allowances to NG suppliers. Pursuant to the Regulation, these allowances must be used for the benefit of natural gas ratepayers, consistent with the goals of the California Global Warming Solutions Act of 2006 (Assembly Bill 32, Nuñez, Chapter 488, Statutes of 2006, AB 32). NG suppliers were first covered by the Program in 2015, and the first NG supplier allocations were from the 2015 allowance budget year (i.e., vintage 2015 allowances). Through 2024, NG suppliers received $8.1billion in value from freely allocated allowances and provided $3.7 billion to ratepayers in bill credits and other GHG reductions programs, including $3.5 billion in residential credits.

For 2024, allowances allocated to NG suppliers were approximately 12% of the total Program allowance budget. Per section 95893(a) of the Regulation, the number of allowances annually allocated to each NG supplier is based on the NG supplier's 2011 total

[1] Proceeds resulting from the auction of allowances allocated to NG suppliers are distinct from the auction proceeds received by the State from the auction of State-owned allowances, which are deposited into the Greenhouse Gas Reduction Fund (GGRF) pursuant to section 16428.8 of the California Government Code. For more information on GGRF expenditures, see: *California Climate Investments webpage.*

[2] *Cap-and-Invest Regulation (unofficial copy)*.

sales of natural gas, less any natural gas sold to facilities that are covered by the Program, and declines each year in proportion to the Cap Adjustment Factor in Table 9-2 of the Regulation.

CARB allocates allowances to two types of NG suppliers—investor-owned utilities (IOUs) and publicly owned utilities (POUs)—that together provide most natural gas supplied in California. IOUs are the largest NG suppliers in the State and are subject to oversight by the California Public Utilities Commission (CPUC), which also directs how the IOUs use their allocated allowance auction proceeds consistent with the Regulation. POUs are much smaller than IOUs and are owned and operated by city governments, which determine how to use their allocated allowance value. Both IOUs and POUs must spend their auction proceeds in accordance with the requirements in the Regulation.

The Regulation requires all NG suppliers to consign a minimum percentage of their allocated allowances from each vintage year to the four quarterly Program auctions held during that calendar year. The minimum consignment requirement was 25% for vintage 2015 allocated allowances and increases by 5% each year, as specified in Tables 9-5 and 9-6 of the Regulation. The minimum consignment requirement was 70% for vintage 2024 allocated allowances and will reach 100% for vintage 2030 allocated allowances. As required by section 95893(d)(3) of the Regulation, NG suppliers must either use the resulting auction proceeds for programs to reduce GHG emissions or return the proceeds to ratepayers as non-volumetric credits. For IOUs, the percentage of allowances consigned to auction is approximately equal to the percentage of Program compliance costs that IOUs pass through to their customers in rates. Allowances that IOUs do not consign to auction are used directly for Program compliance, reducing their Program costs, and thus reducing the costs passed through to customers.

CARB Reporting Requirements and This Summary Report

The Regulation requires each NG supplier to report to CARB by June 30 of each year (or the first business day thereafter if June 30 is not a business day) on its use of allocated allowance value during the prior calendar year. The NG supplier must describe how allocated allowance value was used during the calendar year and how those uses were consistent with the requirements of the Regulation.

The “IOU Use of 2015-2024 Allocated Allowance Value” section of this report summarizes the individual IOU use of allocated allowance value reports submitted to CARB. Through 2024, about 54% of the allowances allocated to IOUs have been deposited directly for compliance. The remaining allowances allocated to IOUs were consigned to auction, and most of the auction proceeds have been returned to residential ratepayers in the form of annual on-bill California Climate Credits.

The “POU Use of 2015-2024 Allocated Allowance Value” section of this document summarizes the individual POU use of allowance value reports submitted to CARB. Through 2024, about 48% of the allowances allocated to POUs have been deposited directly for compliance. The remaining allowances allocated to POUs were consigned to auction, and approximately two-thirds of the auction proceeds were unspent as of January 1, 2025.

IOU Use of 2015-2024 Allocated Allowance Value

There are four natural gas suppliers in California that are investor-owned utilities (investor-owned NG suppliers, or IOUs) with a compliance obligation under the Program: Southern California Gas Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southwest Gas Corporation. Together, the four IOUs account for almost all retail natural gas sales in California, and they receive about 98% of the allowances allocated to NG suppliers. The total value of vintage 2024 allowances that CARB allocated to IOUs was approximately $1.2 billion.[3]

IOU use of allocated allowance auction proceeds is largely directed by CPUC consistent with requirements of the Regulation. Per CPUC Decision 18-03-017,[4] auction proceeds from vintage 2015 through 2017 allocated allowances, less a small amount used for administration and outreach expenses, were netted against Program compliance costs for those years. Starting in 2018, this CPUC decision directed all IOU auction proceeds to be distributed as annual credits for residential ratepayers. The amount of auction proceeds available for these credits was then reduced during 2020 through 2023 so that a portion of proceeds can be used to support building decarbonization programs, as required by Senate Bill (SB) 1477 (Stern, Chapter 378, Statutes of 2018). Three additional CPUC decisions then directed proceeds in 2022 and 2023 to other GHG reduction programs.[5] Through 2024, approximately half of the proceeds reserved for these CPUC-directed GHG reduction programs have been expended.

Figure 1 shows the cumulative use of allocated allowance value by all IOUs during 2015-2024. The information presented in Figure 1 is based on the IOU annual reports to CARB. Each category of allowance value use shown in Figure 1 is described later in this report. CARB has compiled Figure 1 data, annual allocated allowance auction proceeds, and specific reported uses of allocated allowance value in a publicly available *spreadsheet*.

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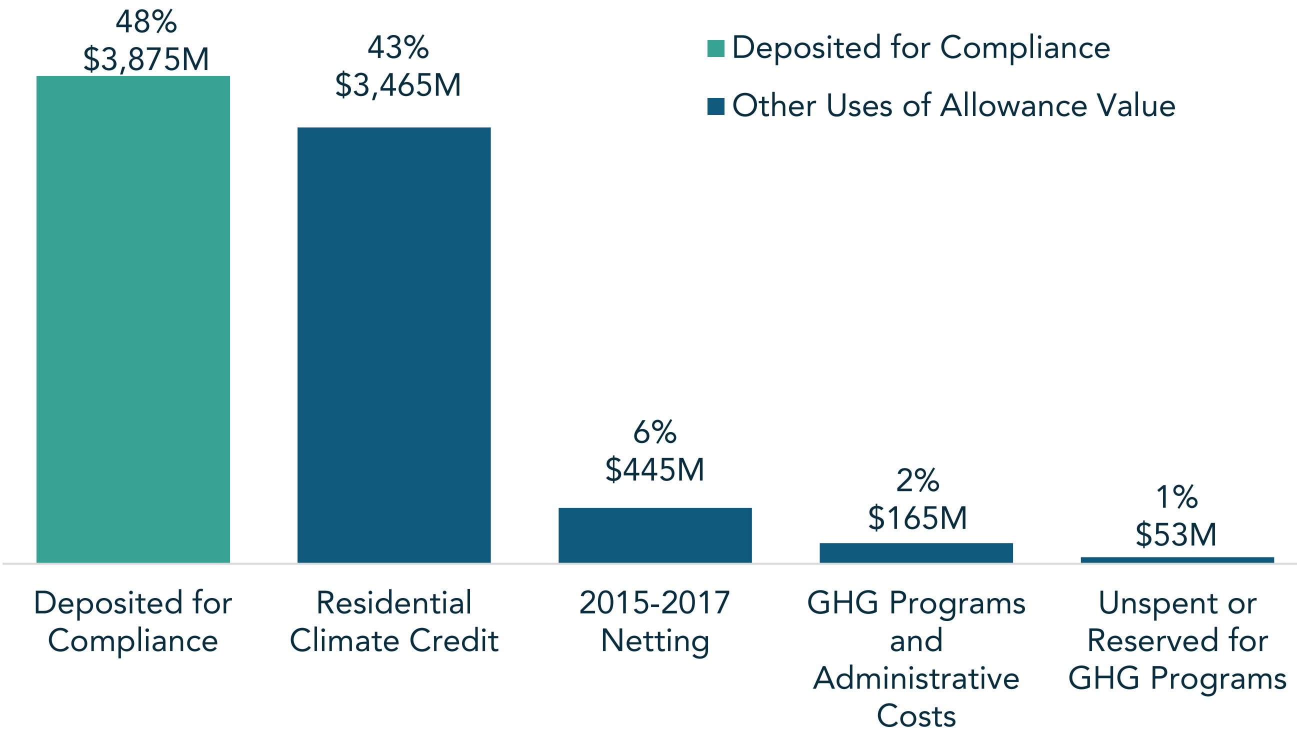
[3] The calculation of total allowance value assumes an allowance deposited for compliance is worth $35.23 in 2024 (the average of the settlement prices at the four auctions held in 2024) and relies on auction proceeds amounts reported by the IOUs to CARB in the NGS use of allowance value reports.

[4] Decision Modifying Decision 15-10-032, D.18-03-017 (March 2018). *CPUC Decision 18-03-017.*

[5] *Decision (D). 20-12-031* (Dec. 2020) reserves $5 million of quarterly auction proceeds from 2022 through 2023 (for a total of $40 million) to fund monetary incentives for biomethane projects to interconnect to the IOU natural gas pipeline system. *D. 22-02-025* (Feb. 2022) reserves $40 million of 2022 auction proceeds to develop pilot projects for the conversion of waste biomass to bio-synthetic natural gas for pipeline injection. *D. 22-04-036* (April 2022) reserves $40 million of 2023 auction proceeds to fund incentives for heat pump water heaters distributed through the Self-Generation Incentive Program.

Figure 1: NGS IOU Use of 2015-2024 Allocated Allowance Value ($8.0 billion).[6]



Through 2024, investor-owned NG suppliers have received approximately $8.0 billion in allocated allowance value over the history of the Program, which either has been spent on eligible activities or remains unspent and is reserved for spending on specific programs in future years. Figure 1 shows that of the total vintage 2015-2024 allowance value that has been received or reserved, 48% was used directly for Program compliance and 6% was netted against 2015-2017 Program costs. About 43% was returned to residential households as annual California Climate Credits. Less than 1% remains unspent, most of which is reserved for spending on GHG reduction activities in future years. Approximately 2% has been used for either administrative and outreach costs or GHG reduction activities, including building electrification incentives distributed through the BUILD and TECH programs.

Allowances Deposited for Program Compliance

In Decision 15-10-032,[7] CPUC directed all investor-owned NG suppliers to comply with the minimum consignment established by CARB, but granted NG IOUs the flexibility to consign

[6] The amount of allocated allowance value presented in this figure includes interest accrued on unspent auction proceeds.

[7] Decision Adopting Procedures Necessary for Natural Gas Corporations to Comply with the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Trade Program), D.15-10-032 (October 2015). *CPUC Decision 15-10-032*.

more than the minimum percentage if it would be beneficial to their customers (section 95893(b), Table 9-5). Each NG supplier surrenders these allowances to CARB to partially fulfill its compliance obligation under the Program, thereby reducing its Program compliance costs, which are recovered from ratepayers. The maximum percentage of allowances allocated to IOUs that are deposited for compliance decreases by 5% each year, declining from 75% in 2015 to 30% in 2024.

2015-2017 Auction Proceeds Netted Against 2015-2017 Program Compliance Costs

In 2018, CPUC Decision 18-03-017 directed each IOU to net the auction proceeds it had received from the sale of vintage 2015-2017 allocated allowances against the costs it incurred in purchasing allowances to meet Program compliance obligations for covered emissions during 2015-2017. After this netting, the remaining balance of auction proceeds for each IOU was applied to its 2018 Residential California Climate Credits.

Residential California Climate Credit

CPUC Decision 18-03-017 directed most IOU auction proceeds from 2018 and following years to be used for annual credits to residential ratepayers. These credits are referred to as California Climate Credits to mirror the semi-annual credits electric IOU ratepayers have received since 2014. These annual credits first appeared on customer bills in either October 2018 or April 2019 (depending on the IOU) and subsequently have been distributed each April, except for 2023 where the credit was distributed in February or March, depending on customers' billing cycles.[8]

The California Climate Credit provides ratepayers with partial relief from the Program compliance costs that are passed through in natural gas rates. For each IOU, all auction proceeds not used for the other purposes listed below (i.e., administration, outreach, and GHG reduction programs) are divided equally among that IOU's residential customers and returned to each residential customer as a flat on-bill credit. Since this credit is not tied to the volume of energy consumed, it helps offset Program costs without blunting the carbon price signal passed through in natural gas rates.

GHG Reduction Programs

Building Decarbonization

SB 1477 directs a portion of IOU auction proceeds to fund two building decarbonization programs: the Building Initiative for Low-Emissions Development (BUILD) Program and the Technology and Equipment for Clean Heating (TECH) Initiative. BUILD focuses on increasing electrification in new buildings, and TECH aims to electrify space and water heating, especially in existing buildings. Both programs benefit ratepayers and reduce GHG

[8] More information is available on the *CPUC California Climate Credit webpage*. The modified schedule for distributing the 2023 Climate Credit was adopted pursuant to *CPUC Decision 23-02-014*.

emissions by transitioning California homes away from fossil natural gas and toward low-carbon electricity.

The programs are defined by SB 1477 and directed by CPUC Decision 20-03-027.[9] SB 1477 requires that, for each budget year starting July 1, 2019, and ending June 30, 2023, $50 million of combined IOU auction proceeds be set aside to fund BUILD and TECH. Each IOU contributes its share of auction proceeds to these programs in proportion to its share of total IOU allocated allowances. The total of $200 million reserved for these programs represents about 5% of total IOU auction proceeds through 2024. Through the end of the 2024 calendar year, the IOUs have spent $123 million on BUILD and TECH incentives and administrative, outreach, and education costs. $82 million of auction proceeds remains unspent and is reserved for future BUILD and TECH program expenditures.

Separately, CPUC decision (D.) *22-04-036* (April 2022) reserved $40 million of 2023 auction proceeds to fund incentives for heat pump water heaters distributed through the Self-Generation Incentive Program. Through the end of the 2024 calendar year, 69% of these IOU auction proceeds have been expended.

Renewable Natural Gas Initiatives

CPUC Decision *20-12-031* (December 2020) reserved $40 million of IOU auction proceeds from 2022 and 2023 ($20 million each year) to provide monetary incentives for biomethane projects to interconnect to the IOU natural gas pipeline system. These biomethane projects replace fossil natural gas in the IOU distribution network and can provide a low-carbon fuel alternative for a variety of end-uses. Through the end of the 2024 calendar year, $9.8 million of IOU auction proceeds has been spent on biomethane pipeline interconnection incentives.

Separately, CPUC *D. 22-02-025* (Feb. 2022) reserved $40 million of 2022 auction proceeds to develop pilot projects for the conversion of waste biomass to bio-synthetic natural gas for pipeline injection. Through the end of the 2024 calendar year, these pilot projects have not been approved, and the IOU auction proceeds remain unspent.[10]

Administration, Outreach, and Education

Administrative, outreach, and education costs include necessary costs to administer and promote the California Climate Credits and other allowed uses of auction proceeds that benefit ratepayers. The BUILD and TECH programs have also included a small amount of

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[9] Decision Establishing Building Decarbonization Pilot Programs, (D.) 20-03-027 (March 2020). *CPUC Decision 20-03-027*.

[10] CPUC has directed the IOUs to return the BIO-SNG pilot project funds, including accrued interest, to ratepayers when suitable projects could not be identified (see *CPUC Decision 24-12-032* and *CPUC Decision 25-05-023*). Pursuant to *CPUC Decision 25-05-023*, effective January 1, 2026, Pacific Gas and Electric Company is required to return $16.936 million of auction proceeds, including interest, to ratepayers through the 2026 California Climate Credit.

educational spending related to building electrification. Around 0.6% of total IOU auction proceeds expenditures have been for administrative, outreach, and education costs during 2015-2024.

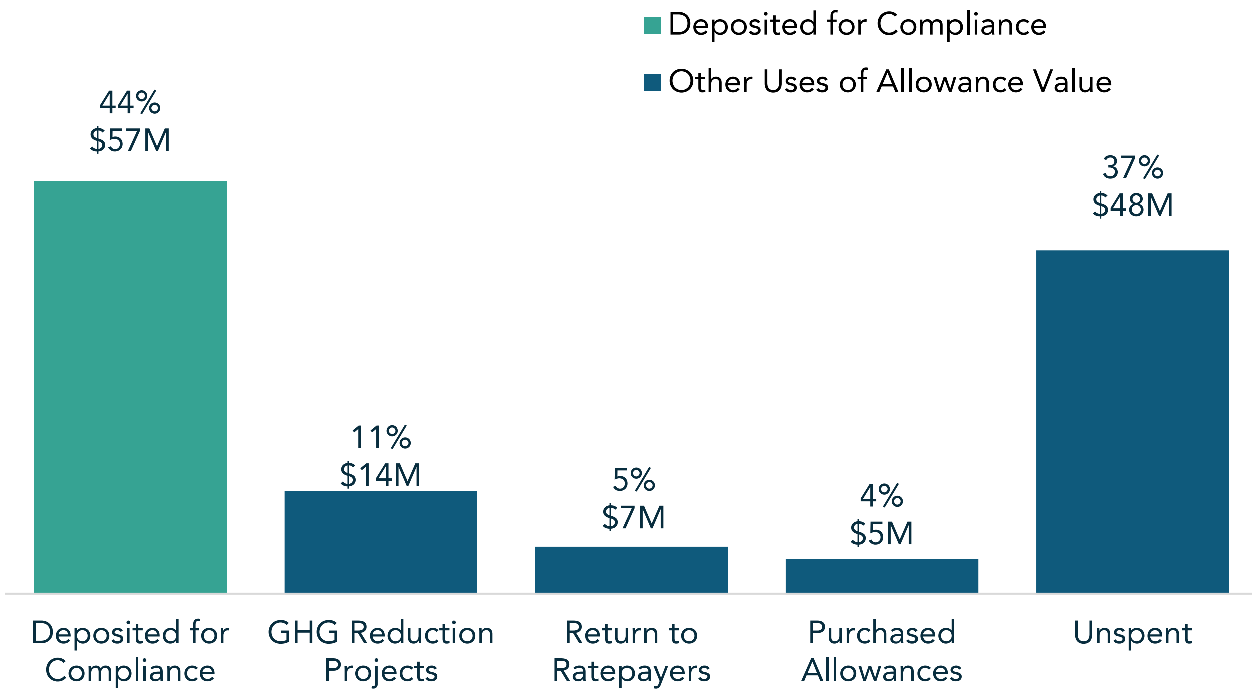
POU Use of 2015-2022 Allocated Allowance Value

There are three publicly owned natural gas suppliers in California: City of Long Beach, City of Palo Alto, and City of Vernon. POUs supply a small fraction of the total natural gas consumed in the State, and they receive about 2% of the allowances allocated to all NG suppliers. The total value of vintage 2024 allowances that CARB allocated to POUs was approximately $22 million.

Allowances allocated to POUs can be either deposited for compliance or sold at auction, however a minimum percentage must be consigned to auction each year as specified in Tables 9-5 and 9-6 of the Regulation. As with the IOUs, the Regulation requires that the use of these allowances must benefit ratepayers, consistent with the goals of AB 32. POUs are overseen by their local governing boards and are not subject to CPUC jurisdiction or the requirements of SB 1477.

Figure 2 shows the cumulative use of allocated allowance value by all POUs from 2015-2024. The information presented in Figure 2 is based on the individual POU annual reports submitted to CARB. CARB has compiled Figure 2 data, annual allocated allowance auction proceeds, and specific reported uses of allocated allowance value in a publicly available *spreadsheet*.

Figure 2: NGS POU Use of 2015-2024 Allocated Allowance Value ($131 million).[11]



POUs have received approximately $131 million in allocated allowance value over the history of the Program. Figure 2 shows that of the vintage 2015-2024 allowance value allocated to POUs, 44% was used directly for Program compliance, 4% was used to purchase allowances in 2016 (which is no longer an allowable use of auction proceeds), 11% was used for GHG reduction projects, 5% was used for non-volumetric return to residential ratepayers, and 37% remains unspent as of January 1, 2025. GHG reduction projects have included installing LED streetlights, building energy efficiency retrofits, solar energy projects, battery storage, industrial efficiency activities, residential energy efficiency outreach, and installing electric vehicle charging stations. If a POU does not spend proceeds on eligible activities before the rolling 10-year deadline set in section 95893(d)(8) of the Regulation, it must return the proceeds to ratepayers in a non-volumetric manner.

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[11] The amount of allocated allowance value presented in this figure includes interest accrued on unspent auction proceeds. Administrative and outreach costs are included within other activities rather than shown separately because they were not required to be reported separately to CARB until reporting for the 2018 data year. Details on administrative and outreach costs can be found in the accompanying *spreadsheet*.