

Cap-and-Invest Program Workshop

OCTOBER 29, 2025



Workshop Logistics

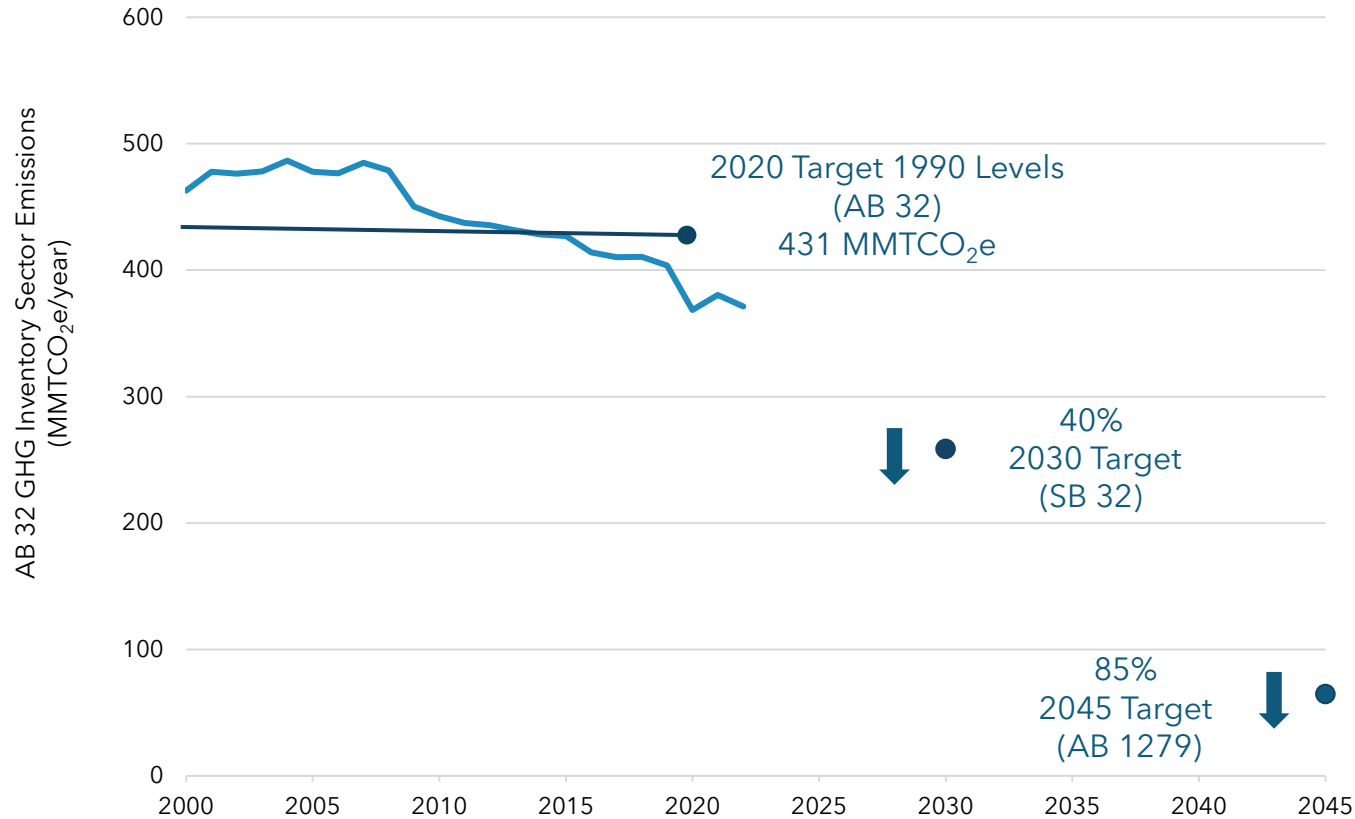
- Workshop materials and comment docket available at Cap-and-Trade Meetings and Workshops webpage
 - <https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program/cap-and-trade-meetings-workshops>
- Written feedback may be submitted to comment docket open through November 12 at 11:59 p.m. Pacific Time
- Public comment period after staff presentation
 1. Use the “Raise Hand” function in the toolbar at bottom of your screen
 2. When staff call your name, please “Unmute” and introduce yourself
 3. Commenters will be given 2 minutes; no ceding time to others



Agenda

- AB 1207 (Irwin) and SB 840 (Limón): What's next for Cap-and-Invest?
- Development of allowance budget scenarios
- Allowance removals for offset use
- Mitigating emissions leakage
- Utility allocation transition
- Public comment period
- Next steps

California GHG Reduction Targets: *Achieved AB 32 Target in 2014*



ACHIEVING
CARBON
NEUTRALITY
BY **2045**

GHGs included in statute: Carbon dioxide (CO₂), Methane (CH₄), Nitrous oxide (N₂O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulfur hexafluoride (SF₆), Nitrogen trifluoride (NF₃).

Climate Damages

Climate impacts once thought decades away are happening now. Recent reports detail some of the impacts to California:

- A 2024 national report ranked CA the worst state for natural disasters fueled by a changing climate, with expected annual losses totaling over \$16B statewide
- Home insurance is harder and more expensive to get. Seven of California's largest property insurers, State Farm, Allstate, Farmers, USAA, Travelers, Chubb, and Nationwide, recently limited new homeowner policies in the Golden State – raising questions about the stability of the California home insurance market
- During an 11-year period, exposure to wildfire smoke caused more than 50,000 deaths in California and more than \$400 billion in economic impacts
- During seven extreme heat events over the past decade, California experienced \$7.7 billion in losses

Legislative Context for Cap-and-Invest Program Updates

Context for Program Updates (1 of 4)

- **AB 32** (Nunez, Chapter 32, Statutes of 2006): Set the 2020 GHG emissions reduction target (return to 1990 levels) and authorized market-based mechanisms such as the Cap-and-Trade Program (now Cap-and-Invest Program)
- **SB 32** (Pavley, Chapter 249, Statutes of 2016): Set the 2030 GHG emissions reduction target – 40% below 1990 levels
- **AB 398** (Garcia, Chapter 135, Statutes of 2017): Extended Program through 2030 and made technical changes to the Program
- **AB 1279** (Muratsuchi, Chapter 337, Statutes of 2022): Set the 2045 climate targets – 85% below 1990 levels and achieve carbon neutrality

Context for Program Updates (2 of 4)

- **AB 1207** (Irwin, Chapter 117, Statutes of 2025; *passed by supermajority in Senate and Assembly*): Extends Cap-and-Invest through 2045, makes technical changes to the Program, and directs CARB to update regulations
- **SB 840** (Limón, Chapter 121, Statutes of 2025; *passed by supermajority in Senate and Assembly*): Directs review of existing compliance offset protocols, review of potential new protocols, and sets new appropriation rules for Greenhouse Gas Reduction Fund (GGRF) proceeds
- Both bills require additional technical work and opportunities for oversight by the Legislature

Context for Program Updates (3 of 4)

Additional requirements for CARB in 2025 legislation:

- AB 1207
 - Present to relevant subcommittees on rulemaking materials and GGRF expenditures
 - Report annually on EDU use of allocated allowance value
 - Consider developing new offset protocols, including carbon dioxide removal (CDR)
- SB 840
 - Conduct a study of the Compliance Offsets Program by December 2026, including the contribution of offset projects toward California's climate goals
 - Update all offset protocols by January 2029 to reflect best available science, and re-evaluate protocols for potential updates every five years thereafter
 - CARB will need additional resources to implement these provisions beginning with the 2026-2027 fiscal year

Context for Program Updates (4 of 4)

- **2022 Scoping Plan Update:** Analyzed GHG emissions trajectories needed to meet the 2030 and 2045 climate targets
- **Updated AB 32 GHG Emissions Inventory:** Technical adjustments to align emissions from all sectors with third-party verified data resulted in necessary technical updates to Program allowance budgets
- **Evolving Federal Climate Policy:** Reduced federal efforts to address GHG emissions or to provide financial support for decarbonization underscores the need for California leadership in reducing GHG emissions while considering affordability and minimizing emissions leakage
 - EPA's proposed repeal of GHG reporting regulations **DOES NOT** impact CARB's requirements under the Mandatory Reporting Regulation (MRR)
- CARB has been in an informal process of amending the regulation, with public meetings to discuss regulatory concepts in 2023 and 2024

MRR and EPA Part 98

- CARB is aware of EPA's proposal to remove GHG emissions reporting requirements for most source categories under 40 CFR Part 98
- MRR references EPA 40 CFR Part 98 in two broad areas: (1) reporting methods, and (2) emission factor calculations for imported electricity
 1. MRR references previous Part 98 versions, which are incorporated by reference, and these incorporated versions are not impacted by EPA action
 2. MRR §95111 relies on Part 98 GHG emissions data for emission factor calculations *where available*. CARB staff can also use fuel consumption and net electricity generation data from Form EIA 923, which is still being reported, for emission factor calculations. Staff are considering minor edits to §95111(b)(2) to clarify how emission factors are calculated when both EPA and EIA data are not available.

Program Updates to Align with Legislation and Climate Targets

- **Reflect AB 1207 direction:**

- Assess potential changes to Program considering affordability
- Retire allowances from annual budgets corresponding with compliance offset use
- Reassess methods to minimize industrial emissions leakage
- On, or before, January 1, 2031, transition free allowance allocation from natural gas suppliers (NGS) to electrical distribution utilities (EDUs) and ensure that publicly owned utilities (POU) distribute value of transferred NGS allowances as a credit to their ratepayers

- **Update allowance budgets for 2027-2045:**

- Reflect technical GHG inventory updates and recent Scoping Plan
- Align with legislative GHG emissions reduction targets for 2030 and 2045

CARB must review potential updates to Program provisions in the context of the overall Program.

Cumulative impacts are evaluated in the context of climate targets, overall affordability, Program stability, cost-effectiveness, and the need for a steadily increasing price signal for investment in clean energy and technology.

Development of Allowance Budget Scenarios

Program History: Setting Allowance Budgets

- Initial year allowance budgets set during 2010 Rulemaking
 - 2013 and 2015 budgets were set at the level of emissions projected to be covered by the Program in those initial years
- 2020 budget set during 2010 Rulemaking
 - Calculated by multiplying the AB 32 statewide target for 2020 (return to 1990 levels) by the percent of emissions from the GHG Emissions Inventory estimated to be covered by the Program (77.5%)
 - Interim budgets set as a linear decline from initial year budget to 2020 budget
- 2030 budget set during 2016 Rulemaking (similar to 2010 Rulemaking)
 - Calculated as 77.5% of statewide SB 32 target (40% reduction relative to 1990 levels by 2030)
 - Interim budgets set as a linear decline from 2020 budget to 2030 budget

Staff evaluated a range of allowance budget scenarios through 2030 and the post-2030 Program.

The process to develop potential allowance budgets builds upon budget evaluations in the 2010 and 2016 rulemakings and legislative direction.

CARB must balance multiple factors when considering Program updates

- Program must align with state climate targets
- Consider consumer affordability, cost-effectiveness, and technological feasibility
- Minimize the risk of emissions leakage
- Enable a smooth transition to the post-2030 Program
- Maintain cost-containment mechanisms to protect against price volatility
- Avoid disproportionate impacts on low-income communities

Current timeline to complete rulemaking in 2026 means allowance removals cannot be from the 2026 budget and must be from 2027 and later budget years.

Potential Allowance Budgets Through 2030

- **GHG Inventory Adjustment:** Updates made in the 2022 GHG Inventory identified a downward adjustment that would have impacted allowance budgets adopted in the 2016 Cap-and-Invest Rulemaking; accounting for this change requires removing 118.3 million allowances through 2030 from the existing allowance budgets
- Current staff proposal includes removing approximately 118 million for the GHG Inventory adjustment through 2030 to minimize compliance disruption and potential impacts to consumer affordability
- AB 1207 affirms setting allowance budgets in line with GHG emissions targets

Potential Allowance Budgets Post-2030

- **2045 end-point:** 30.3 million allowances, derived from the AB 1279 85% reduction target and estimated future proportion of total State emissions in covered sectors from the Scoping Plan and MRR
- Smooth decline from 2030 budget to 2045 budget, including gradual removal of additional allowances aligned with cumulative budgets analyzed in prior workshops
- No removal of allowances in the Allowance Price Containment Reserve (APCR) or Price Ceiling accounts; deposit a small amount of post-2030 annual budgets into APCR Tier 1 to bolster cost-containment

AB 1207 Provision: Allowance Removals for Offset Use

AB 1207 Provision: Allowance Removals for Offset Use

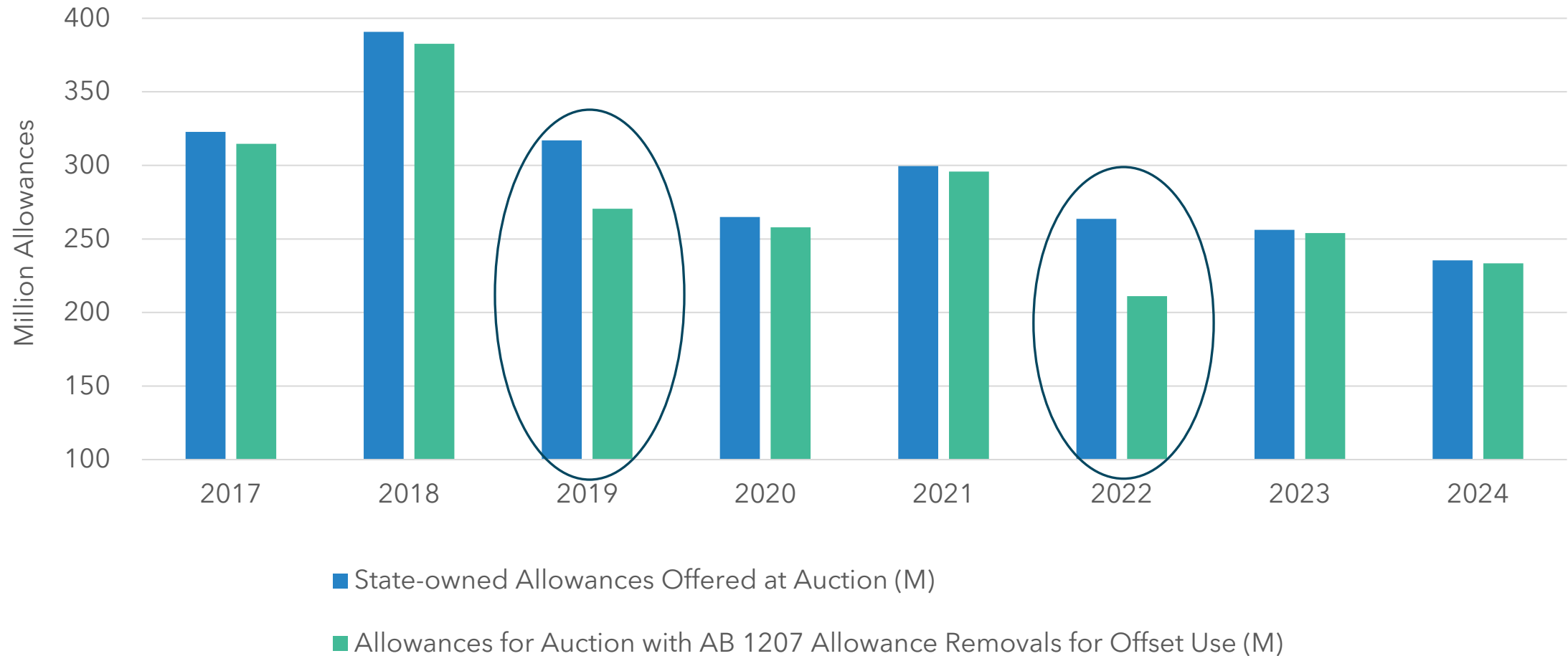
- **HSC 38562(c)(2)(E)(iii):** *“A number of allowances equal to the total number of offset credits used for compliance obligations in the prior year shall be removed from the next year’s annual allowance budget and retired.”*
- **Potential Outcome:** Offset retirements spike after a full compliance period, as covered entities fulfill the full compliance obligation for one year plus 70% of the compliance obligation for two additional years. Corresponding allowance removals for offset use in the subsequent year could lead to predictable variability in auction allowance supply.
- **Historic Approach:** In prior rulemakings, allowances were proactively transferred to the APCR to account for offsets “under the cap” assuming that offsets use was maximized

Publicly Available Information on Offset Use

Year	Compliance Period	Offset Use (M)	Usage Limit	Compliance Event Type (November 1 after the emissions year)
2016	2	8.1	8%	Annual - 30% of 2015 covered emissions
2017	2	8.1	8%	Annual - 30% of 2016 covered emissions
2018	3	46.5	8%	CP2 Triennial - 100% of 2017 + 70% of 2015-2016
2019	3	7.0	8%	Annual - 30% of 2018 covered emissions
2020	3	3.7	8%	Annual - 30% of 2019 covered emissions
2021	4	52.6	4%	CP3 Triennial - 100% of 2020 + 70% of 2018-2019
2022	4	2.2	4%	Annual - 30% of 2021 covered emissions
2023	4	2.0	4%	Annual - 30% of 2022 covered emissions
2024	5	22.0	4%	CP4 Triennial - 100% of 2023 + 70% of 2021-2022

Key Takeaway: Offset use for compliance increases in the year following the last year of a compliance period as covered entities fulfill multi-year compliance obligations

Example: Applying Allowance Removals for Historic Offset Use (1 of 2)



Example: Applying Allowance Removals for Historic Offset Use (2 of 2)

Year	Compliance Period	Historic Offset Use (M)	Corresponding Allowance Removal (M)	Change to State Auction proceeds (assumes avg. settlement price)
2016	2	8.1	n/a	n/a
2017	2	8.1	8.1	-\$116 M
2018	3	46.5	8.1	-\$121 M
2019	3	7.0	46.5	-\$783 M
2020	3	3.7	7.0	-\$120 M
2021	4	52.6	3.7	-\$83 M
2022	4	2.2	52.6	-\$1,495 M
2023	4	2.0	2.2	-\$74 M
2024	5	22.0	2.0	-\$72 M

Key Takeaway: Auction proceeds are reduced in the year after a full compliance period compliance event (relative to the years after an annual compliance event) when removing allowances corresponding to offset usage

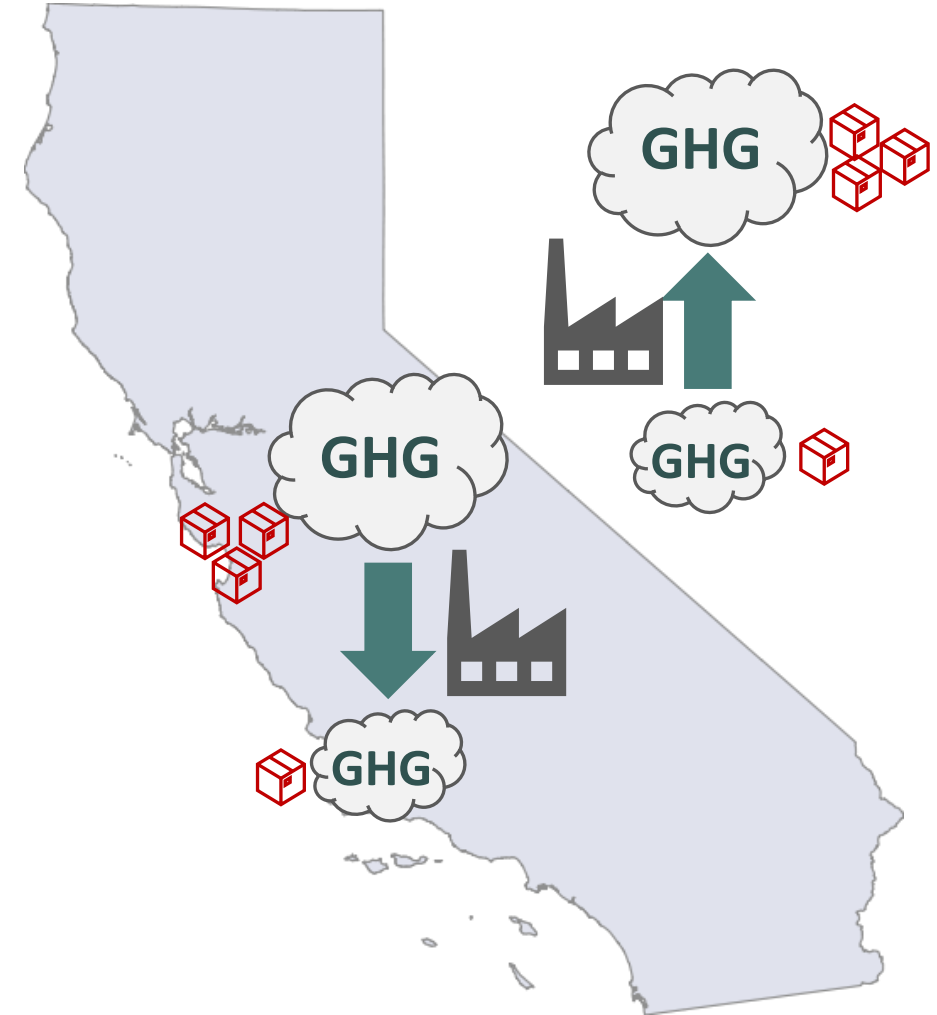
AB 1207 Provision: Removals for Offset Use – Requested Feedback

- Does the predictable variability in allowances available for auction under this provision pose concerns?
- Are there alternative implementation suggestions for this provision that minimize predictable variability for auctions?
 - Please consider using the publicly available historical data to demonstrate how any potential mechanism would compare to the existing approach CARB has taken

Minimizing Emissions Leakage

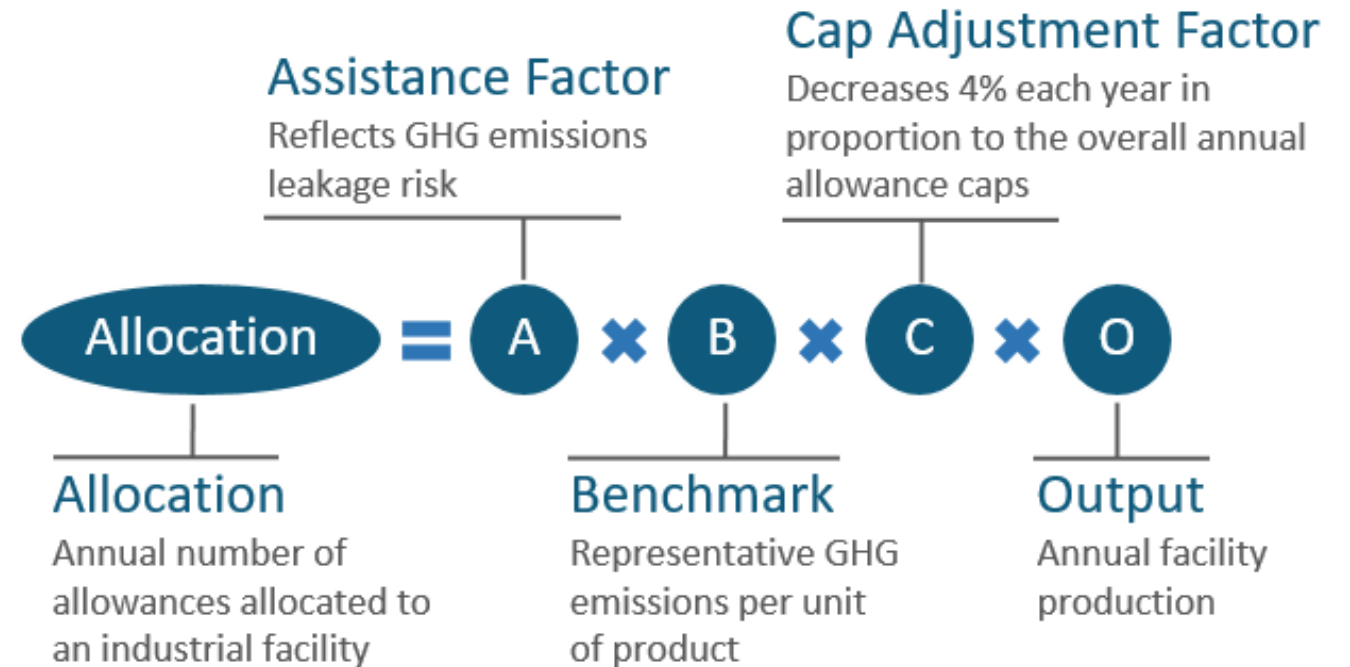
Background on Emissions Leakage

- Leakage is a reduction in emissions of greenhouse gases within the State that results in an increase in emissions of greenhouse gases outside the State
- AB 32 requires CARB to minimize emissions leakage
- Key tools:
 - Emission Intensive and Trade Exposed (EITE) industry: Free allowance allocation
 - Electricity Imports: Strict reporting and verification requirements, Resource Shuffling prohibitions, and allowance retirements for EIM Outstanding Emissions



Industrial Allowance Allocation

- Most industrial allocation is calculated using the output-based method
- Assistance Factor (AF) is set at 100% for all sectors through 2030
- For most facilities, allocation declines annually per the Cap Adjustment Factor (CAF), which declines in proportion to the overall annual budgets
- Some facilities receive an Alternate Cap Adjustment Factor (Alt-CAF), which declines at half the annual rate of the standard CAF



Industrial Allowance Allocation: Sectors

Sector	Number of Facilities (2023)
Petroleum Refining and Hydrogen Production	23
Crude Petroleum and Natural Gas Extraction	23
Cement, Lime, Gypsum, and Clay Product Manufacturing	12
Fruit and Vegetable Canning	13
Other Food Manufacturing	12
Dairy Product Manufacturing	8
Glass Manufacturing	8
Metal Processing and Manufacturing	6
Chemical, Biological, and Pharmaceutical Manufacturing	8
Misc. Industrial Facilities, Legacy Contract Generators, and Waste-to-Energy Facilities	18

Emissions Leakage: Electricity Sector

- First delivers of electricity onto the California electricity grid are responsible for the compliance obligations associated with the delivered electricity
 - Importers and in-state generators are treated the same
- The Regulation prohibits Resource Shuffling, and includes some safe harbors for activities that are not Resource Shuffling
- Allowances are retired equal to EIM Outstanding Emissions to account for leakage under the Western Energy Imbalance Market (WEIM)

AB 398 Requirements

- AB 398 requires CARB to report to the Legislature by December 31, 2025:
 - Progress toward meeting the GHG emissions reduction targets and the emissions leakage risk posed by the Cap-and-Trade Regulation
 - Recommendations to the Legislature on necessary statutory changes to the program to reduce leakage while maintaining the state's ability to reach its targets

Electricity Sector Leakage Study

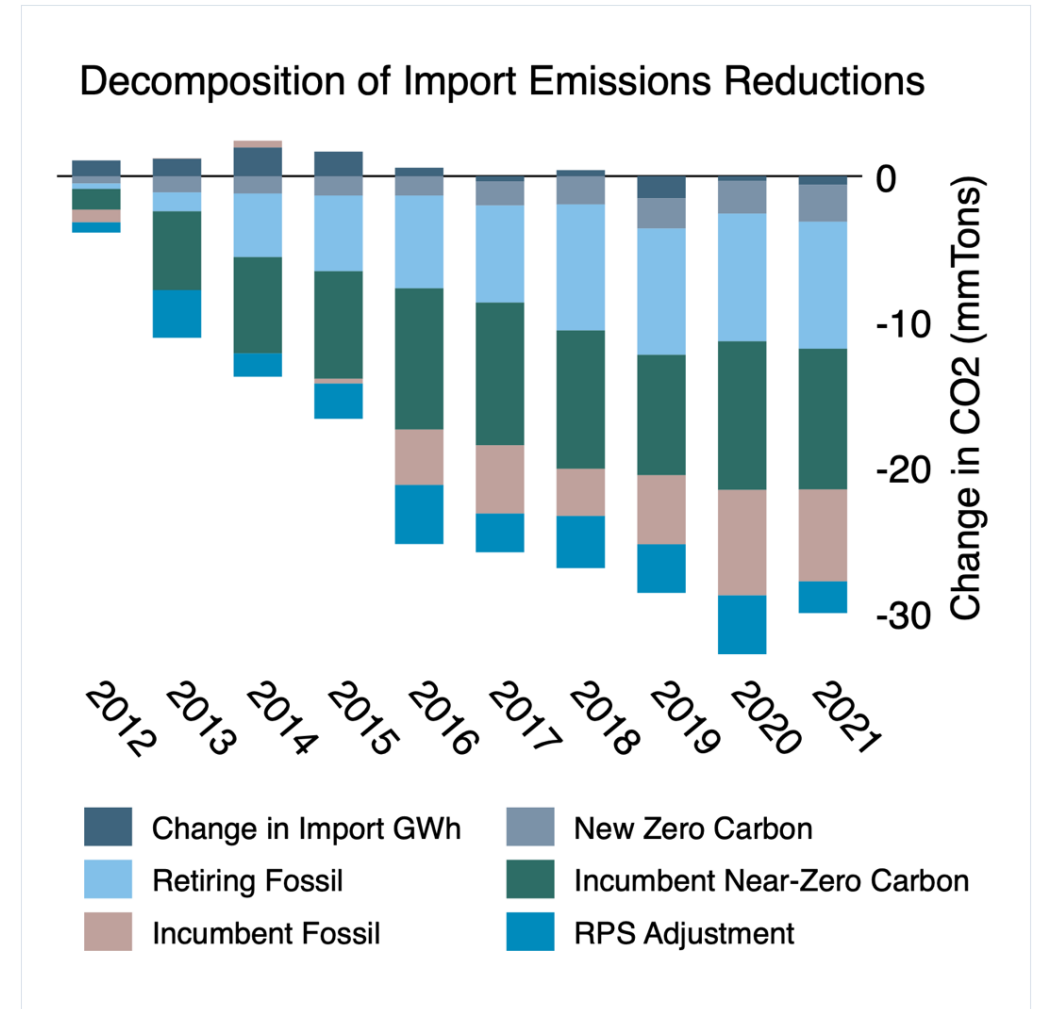
- A retrospective study to Evaluate Electricity Sector Emissions Leakage in the Cap-and-Invest Program
- The study evaluated Program inception through 2021
- Developed a marginal emissions rate approach to estimate emissions leakage

Key Findings:

- No evidence of Resource Shuffling per the Regulation
- Some emissions leakage is occurring but not necessarily due to the Program
- Procurement of out-of-State large hydroelectric generation has been a driver emissions leakage

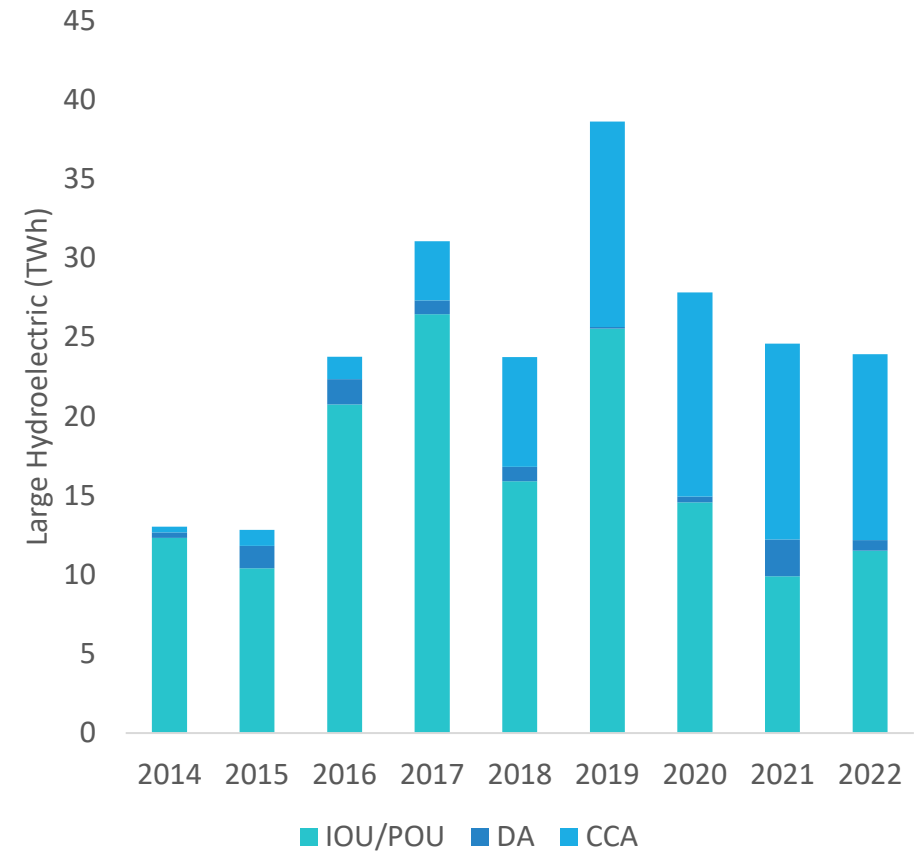
Electricity Sector Leakage Study: Results (1 of 2)

- There was a reduction in GHG emissions associated with electricity imports of ~29 MMTCO₂e in 2021 relative to 2011
- About half of the emissions reductions were from:
 - Retiring coal generation
 - New renewable generation
- The study identified several types of potential emissions leakage with varying levels of risk



Electricity Sector Leakage Study: Results (2 of 2)

- Largest source of leakage risk traced to increasing imports was found to be from pre-existing hydroelectric sources
- Imports from large hydroelectric generation have increased substantially, despite overall production remaining steady or decreasing
- Increasing large hydroelectric procurement by Community Choice Aggregators (CCA) displaced fossil fuel procurement by IOUs in this period
 - Trend appears historic and may not reflect future procurement
 - Trend may be driven by factors other than the Program
- No evidence of Resource Shuffling per the Regulation



Industrial Leakage Assessment (1 of 2)

- Contractors analyzed leakage risks for emissions-intensive trade-expose (EITE) industrial sectors in CA under different carbon pricing, leakage mitigation, and technology adoption scenarios in 2030 and 2045
- **Key findings:** assuming ongoing economic growth, energy efficiency improvements, and constant economic behavior:
 - Current output-based allocation is effective at addressing EITE leakage risk
 - Border carbon adjustments can mitigate leakage and reduce non-California EITE emissions
 - Targeted EITE electrification subsidies could be an effective tool for EITE sectors with electrification potential
 - Incentivizing research and development that lowers costs for advanced zero- or low-carbon technology could be particularly effective in mitigating leakage for hard to decarbonize sectors

Industrial Leakage Assessment (2 of 2)

- CARB staff updated its 2010 Leakage Risk Assessment for covered industrial sectors using the same methodology and more recent data (2022)
 - Emission Intensity and Trade Exposure metrics
 - Leakage risk classifications remain largely consistent with the initial assessment
- **Limitations:** Historic data can't capture future economic shifts and change
 - Barriers to decarbonizing industrial manufacturing (e.g., loss of federal funding)
 - ETS development in other jurisdictions
 - International trade shocks (e.g., tariffs)

Leakage Risk	Emissions Intensity	Trade Exposure
High	High	High Medium Low
	Medium	High
Medium	Medium	Medium Low
	Low	High Medium
Low	Low	Low
	Very Low	High Medium Low

Industrial Leakage Mitigation in Other Emissions Trading Systems

Jurisdiction	Current Policies	Current Discounting Factors
California	- Output-based allocation - Credits for purchased electricity	Assistance factor: 100% through to 2030 Cap adjustment factor: declines with the cap through 2031
Washington	Output-based allocation	Benchmark adjustment factor: 100% (2023-2026), 97% (2027-2030)
Québec	- Output-based allocation - Some allocation is consigned to auction, and revenues must be used for emission reduction projects by EITE facilities	Baseline adjustment factor: 1 percent point annual reduction Cap decline factor: 2.34% annual reduction Leakage adjustment factor: 0% - 1.36% annual reduction
European Union	- Output-based allocation - Output-based allocation will be discontinued by 2030 for low-risk sectors - CBAM is being applied to imports of high-risk sectors	Leakage assistance factor: For high-risk sectors under CBAM, free allocation will be gradually scaled down from 97.5% in 2026 to 51.5% in 2030 Benchmark adjustment factor: 0.2% - 1.6% annual reduction, depending on how quickly sectors improve emission intensities, updated planned for 2026-2030
South Korea	- Output-based allocation - Grandparenting allocation based on base year emission	Leakage assistance factor: 100% for high-risk sectors; 90% for non-EITE sectors Benchmark adjustment to align with long-term climate targets is under discussion

Industrial Allocation in Other Emissions Trading Systems

Jurisdiction	2023 Industrial Covered Emissions	2023 Free Industrial Allowance Allocation	Ratio of Industrial Allocation to Industrial Covered Emissions (%)
California	54,876,876	32,921,049	60%
Washington	9,182,283	9,162,037	~100%
Québec	19,734,923	19,543,087	99%
European Union	628,571,429	528,000,000	84%
United Kingdom	50,900,178	36,856,294	72%

- The percentage reflects allocation, emissions, and emissions abatement responses
- All ETS provide free allocation, and some have a mix of leakage strategies
 - EU: Future allocation levels are decreasing with the implementation of a carbon border adjustment mechanism
 - QC: Future allocation levels are decreasing, and some allocation is now consigned to auction for emission reduction projects by EITE facilities

Manufacturing Decarbonization Incentive: Problem Statement

- Uncertain economic pressures, including tariffs
- Loss of federal funding for industrial decarbonization projects
- The manufacturing sector can be difficult to decarbonize due to:
 - High heat requirements
 - High abatement costs for some processes
- Targeted support could assist in decarbonizing manufacturing and minimize leakage by supporting efficient production in California and jobs



Manufacturing Decarbonization Incentive: Overview

- Incentivizing decarbonization projects can lower compliance costs and emissions leakage risk while supporting GHG reductions
- Québec's Cap-and-Trade System includes a mechanism to use a portion of industrial allowances to fund facility decarbonization projects
- Eligible California facilities could potentially be provided an incentive when demonstrating investments in eligible decarbonization activities
 - Eligible activities could include capital expenditures for electrification projects or onsite renewables, and ongoing costs for procuring electricity or other low-carbon fuels, such as RNG, for those projects
 - Eligibility could be determined through an upfront application to CARB and regular reporting on project implementation

AB 1207: Changes to Industrial Allocation

HSC 38562(c)(2):

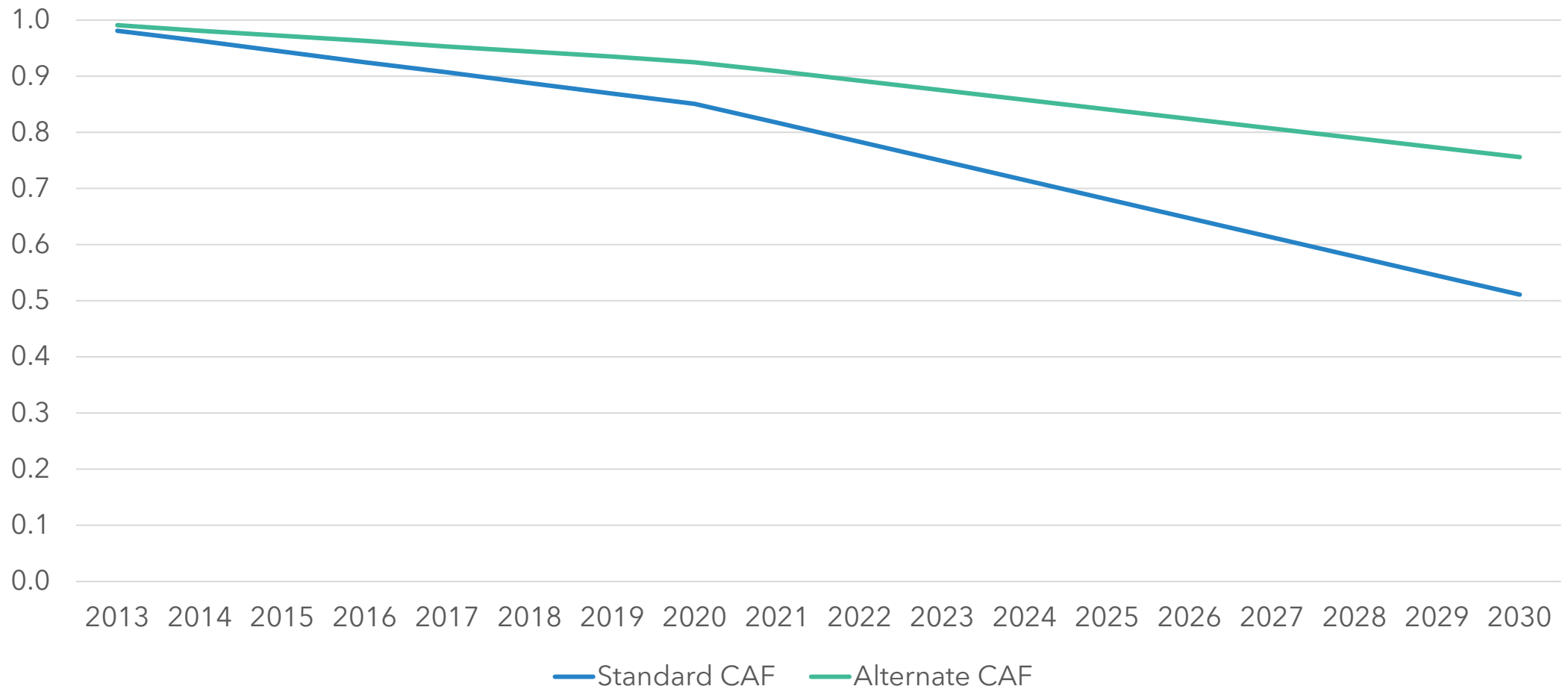
“... In adopting a regulation applicable from January 1, 2021, to December 31, ~~2030~~, 2045, inclusive, pursuant to this subdivision, the state board shall do all of the following:

- (G) Set industry assistance factors for allowance allocation commencing in 2021 *through 2030* at the levels applicable in the compliance period of 2015 to 2017, inclusive. ~~The state board shall apply a declining cap adjustment factor to the industry allocation equivalent to the overall statewide emissions declining cap using the methodology from the compliance period of 2015 to 2017, inclusive. Commencing January 1, 2031, the state board shall distribute industrial sector allowances in a manner that minimizes emissions leakage risk to cost-effectively achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division.”~~

Implementing Legislative Direction:

- Assistance Factors for leakage risk must be maintained at 100% through 2030
- The decline in cap adjustment factors (CAFs) is not required to be proportional to the decline in annual allowance budgets
- CARB has additional flexibility in designing an industrial allowance allocation methodology that cost-effectively minimizes emissions leakage risk

Standard CAF vs Alternate CAF: 2013-2030 in the Current Regulation



AB 1207 Implementation Concepts

Question: How to update industrial allocation be updated in the context of modified annual allowance budgets (118M removed through 2030)?

- **Concept 1:** Adopt a new CAF and Alt-CAF schedule proportional to the proposed allowance budgets (historic approach)
- **Concept 2:** Maintain the CAF and Alt-CAF schedule in the current Regulation, which would increase emissions leakage protection relative to modified overall annual allowance budgets

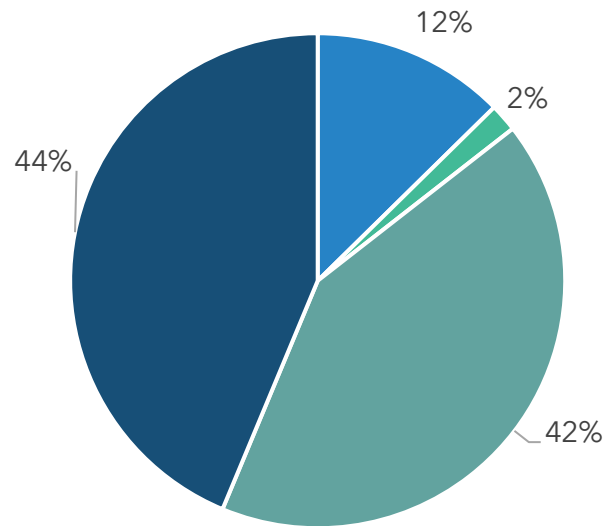
Industrial Allocation Concept Comparison (1)

Allocation Concept	2027-2030 Estimated Industrial Allocation* (M)	Allowances Transferred from Auction to Industrial Allocation, Relative to Baseline (M)	2027-2030 Remaining State- owned Allowances for Auction (M)
Baseline: Current allowance budgets (no inventory adjustment), CAF and Alt-CAF through 2030	111.5	n/a	385.7
Concept 1: New budgets (118M removed) with Proportional Updated CAF and Alt-CAF	97.7	-13.8	377.8
Concept 2: New budgets (118M removed) with Current Regulation CAF and Alt-CAF	111.5	0	364.0

*Assumes that industrial production remains constant at 2024 levels

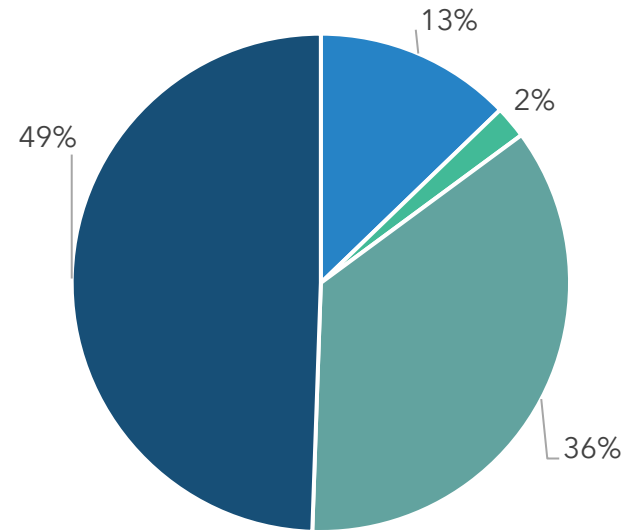
Industrial Allocation Concept Comparison (2)

Baseline (Current Regulation),
2027-2030



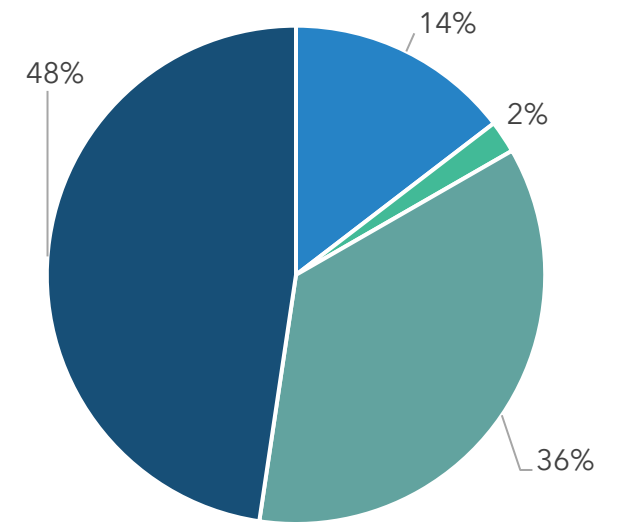
- Industrial Allocation (M)
- Allowance Price Containment Reserve (M)
- Utility and Other Allocation (M)
- State-Owned Allowances for Auction (M)

Concept 1 (New Budgets, Proportional
CAFs), 2027-2030



- Industrial Allocation (M)
- Allowance Price Containment Reserve (M)
- Utility and Other Allocation (M)
- State-Owned Allowances for Auction (M)

Concept 2 (New Budgets, Current CAFs),
2027-2030



- Industrial Allocation (M)
- Allowance Price Containment Reserve (M)
- Utility and Other Allocation (M)
- State-Owned Allowances for Auction (M)

Industrial Allowance Allocation: Requested Feedback

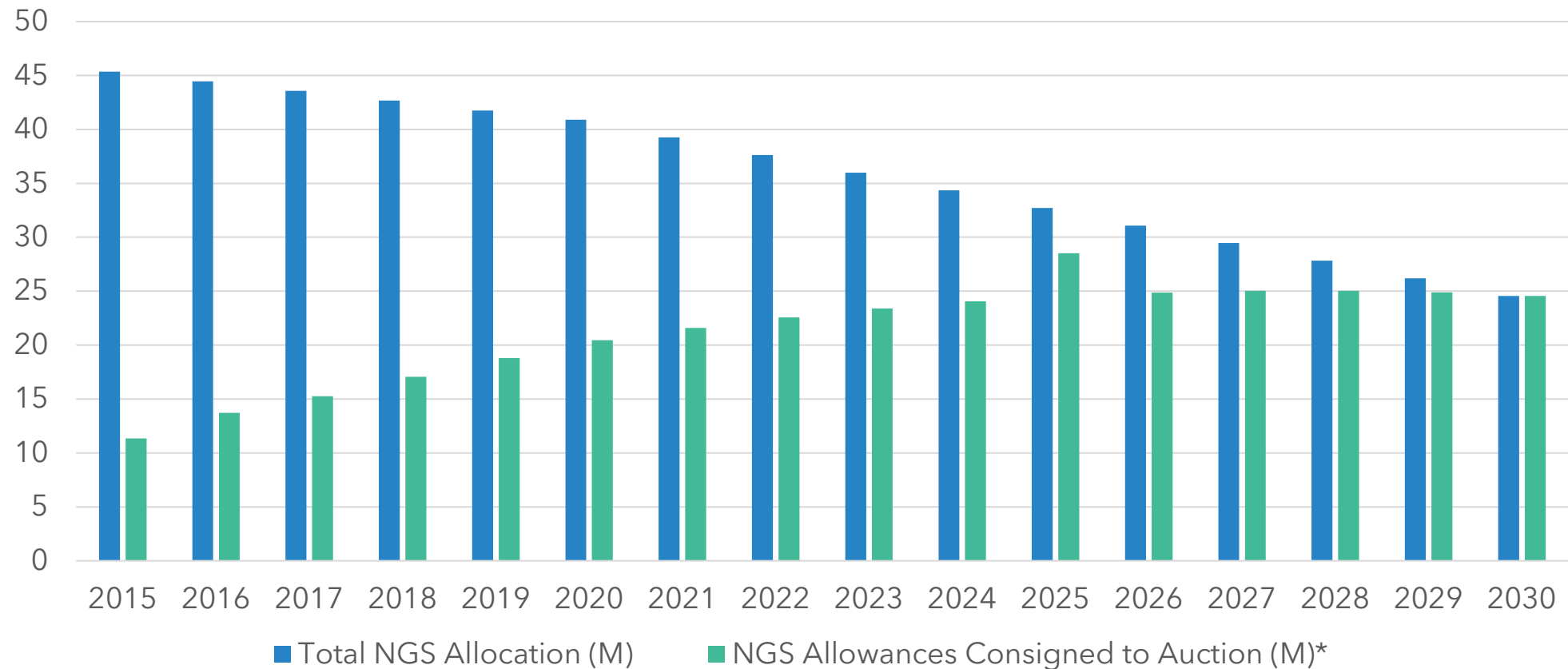
- With the adjusted allowance budgets, what level of industrial allocation is necessary to protect against emissions leakage?
- Given the loss of federal funding, should CARB use the Cap-and-Invest Program to increase support for industrial decarbonization projects that reduce GHG emissions and protect against leakage in California?
 - If so, what sectors and facility investments should be eligible for this support under Cap-and-Invest?
 - What approach should CARB take to designing and implementing such an approach?

Utility Allocation Transition

IOU Utility Allocation: Current Regulation

- CARB allocates free allowances to electrical distribution utilities (EDU) and natural gas suppliers (NGS) for the protection and benefit of ratepayers
- NGS allocation is based on 2011 covered emissions and declines each year in proportion to the overall budgets
 - Investor-owned utilities (IOUs) receive around 98% of NGS allocation
 - The majority of NGS IOU proceeds are returned as a residential California Climate Credit
- NGS are required to consign a minimum percentage of their allocated allowances to auction, increasing 5% per year to 100% in 2030

NGS Allocation and Consignment: 2015-2030 Under Current Regulation



* NGS are required to consign a portion of their allocated allowances to auction. The minimum required consignment percent increases 5% per year and reaches 100% in 2030.

Climate Credit Process: Roles and Oversight

- CARB determines and oversees:
 - The number of allowances allocated to each IOU
 - Overall allowable uses of allocated allowance value in alignment with Legislative direction
 - Requirements for annual use of allocated allowance value reporting
- California Public Utilities Commission (CPUC) determines and oversees:
 - The eligibility and methods for how IOU auction proceeds are distributed to residential customers, small businesses, EITE facilities, and eligible clean energy and energy efficiency programs, including:
 - The number and value of climate credits
 - Approving on-bill and off-bill outreach messaging
 - Eligible amounts of administrative and outreach costs

IOU Use of Auction Proceeds: Climate Credits

- **California Climate Credit** – on bill credit to NGS IOU residential ratepayers
- **California Climate Credit** – on bill credit to EDU IOU residential ratepayers
- **Small Business California Climate Credit** – on bill credit to EDU IOU small business ratepayers
- **California Industrial Assistance** – on bill credit to EDU IOU ratepayers in eligible emissions-intensive trade-exposed industries, including:
 - EITE facilities covered by Cap-and-Invest
 - Other EITE facilities (not covered by Cap-and-Invest)

AB 1207 Requirements: Utility Allocation and the California Climate Credit

HSC 38562(b)(1)(B)(i) *requires CARB to transition free allowance allocation from natural gas corporations to electrical distribution utilities on or before Jan. 1, 2031*

- Gas corporations are defined in PUC Section 222 as **investor-owned utilities**
- Electrical distribution utilities are defined in the Cap-and-Trade Regulation as **investor-owned utilities, local publicly owned electric utilities (POUs), and electrical cooperatives (COOPs)**

PUC 748.5.5(a) *requires local publicly owned electric utilities (POUs) to provide a credit in an amount equal to the total value of that additional allocation directly to ratepayers*

- Local publicly owned electric utility is defined in PUC Section 224.3 as **municipal utilities, public utility districts, and irrigation districts**
- Definition does not include COOPs

NGS and EDU Service Territories

Natural Gas Suppliers (7)



Electrical Distribution Utilities (54)



Source: California Energy Commission ([EDU](#), [NGS](#))

EDU POU and COOP Use of Allocation

- EDU POUs and COOPs have historically used allocated allowance proceeds on renewable energy projects and purchases, energy efficiency projects, and transportation electrification
- Several EDU POUs have provided climate credits
- Allowance allocation is currently provided to 48 EDU POUs and COOPs
 - Largest: LADWP allocated over 9 million allowances in 2026
 - Smallest: Eastside allocated 573 allowances in 2026
- Some EDUs have no residential ratepayers, such as the Port of Stockton and the Port of Oakland
- POUs that receive additional allowances from NGS allocation would need to provide on-bill residential climate credits

Feedback Requested

- How should NGS POUUs be treated when considering the allowance allocation changes directed by AB 1207?
- When should the transition of NGS allocation to EDUs begin?
- At what pace should the transition of allocation from NGS to EDUs occur?
- How should the additional allocation transferred from NGS be divided among EDUs?
- Should EDUs without residential customers be provided additional allocation?
- How should electrical COOPs and Federal Power Marketing Administrators be treated?
- What other elements, if any, should CARB consider in implementing these requirements?

Next Steps

Goal is to provide regulatory certainty as soon as possible

- Inform near and long-term planning by regulated entities
- Maintain momentum in clean energy and technology
- Allow for linkage analyses to progress for potential linkage with Washington program

Tentative schedule

- Goal is April 2026 Board consideration of proposed amendments
- September 1, 2026: Amended Regulation in effect for vintage 2027 allowance allocation

Questions and Feedback Session

- Public Comment Instructions



1. Use the "Raise Hand" function in the toolbar at bottom of your screen
 2. When staff call your name, please "Unmute" yourself and proceed to introduce yourself
 3. Commenters will be given 2 minutes; no ceding time to others
- Submit written feedback online through November 12 at 11:59 p.m. Pacific Time
 - Link to submit written feedback available at Cap-and-Trade Meetings and Workshops webpage:
 - <https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program/cap-and-trade-meetings-workshops>

Additional Program Evaluations

- Cap-and-Invest FAQ & Local Air Pollution
<https://ww2.arb.ca.gov/resources/documents/faq-cap-and-trade-program>
- Allowance Supply Evaluation
[https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/Allowance%20Report Reso18 51.pdf](https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/Allowance%20Report%20Reso18%2051.pdf)
- Recent Forest Offset Program Review
<https://ww2.arb.ca.gov/sites/default/files/2022-11/nc-CARBslides20221130.pdf>
- Cap-and-Invest Website
<https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program>

Next Steps

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