

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to
Improve the California Climate
Credit.

FILED
PUBLIC UTILITIES COMMISSION
JULY 24, 2025
SAN FRANCISCO, CA
RULEMAKING 25-07-013

**ORDER INSTITUTING RULEMAKING TO
IMPROVE THE CALIFORNIA CLIMATE CREDIT**

Summary

This rulemaking is initiated to consider ways to improve the effectiveness of the California Climate Credit for supporting customer affordability and implementation of the California Industry Assistance to minimize leakage of emissions. Parties may file comments on the preliminary scope and schedule established in this rulemaking according to the schedule set forth in Section 5 below.

1. Background

The California Cap-and-Trade Program requires power plants, fuel providers, and large industrial facilities that emit greenhouse gases to retire allowances or a limited quantity of offsets equal to their greenhouse gas emissions. Sale of compliance allowances generates proceeds that are used to benefit Californians. Investor-owned utilities are allocated allowances annually under the Cap-and-Trade Program, which must be sold each year at quarterly California Air Resources Board (CARB) auctions.

In accordance with Public Utilities (Pub. Util.) Code Section 748.5, proceeds from the electric allocated allowances are used to benefit residential, small business, emission-intensive trade-exposed (EITE) customers and fund certain clean energy and efficiency programs. Per Commission decisions in Rulemaking (R.) 11-03-012 and R.20-05-002, the California Climate Credit (Climate Credit) is delivered as a twice-per-year lump-sum bill credit automatically provided to all bundled and unbundled residential electric customers and certain qualifying small business electric customers. Qualifying EITE industrial customers receive California Industry Assistance annually from the same Cap-and-Trade Program funds.

Natural gas investor-owned utilities are not subject to Pub. Util. Code Section 748.5; Commission decisions in R.14-03-003 determined that all proceeds not used for programs should be distributed annually and split equally among all residential customers as a Climate Credit on gas bills once per year.

Since 2014, customers of California electric and gas investor-owned utilities have received over \$17.8 billion dollars of bill assistance through the Cap-and-Trade Program. In 2025, the electric residential Climate Credit will total \$1.41 billion (a weighted average of \$120 per customer and a range of \$70-\$519 per customer), with another \$122 million for small businesses and \$104 million for EITE industrial customers. In 2025, residential gas customers will receive a total of \$994 million (a weighted average of \$76 per customer and a range of \$54-\$87 per customer). Proceeds will continue to be available to electric and natural gas customers through at least 2030 but fluctuate from year to year depending on auction proceeds; the legislature is currently considering extension of the Cap-

and-Trade Program past 2030 which could extend these ratepayer benefits even further.

This rulemaking will explore potential approaches to maximize the effectiveness of Cap-and-Trade Program proceeds for supporting customer affordability.

1.1. Eligibility for the Climate Credit

Pub. Util. Code Section 748.5 lists the types of customers eligible for receiving distribution of Cap-and-Trade Program proceeds, and the Commission has defined eligibility among those customers in previous decisions. Adjusting eligibility criteria can increase the impact of the bill assistance provided by the credits. For example, Resolution E-5339 limited small business customer eligibility for the Climate Credit to electric customers with less than 100 individually eligible accounts, providing a larger annual credit for eligible customers.

Another approach would be to limit eligibility to certain customer groups. The Commission's Report Responding to Executive Order N-5-24 published in February 2025 proposed options such as, for example, limiting eligibility for the electric Climate Credit to customers enrolled in the California Alternate Rates for Energy (CARE) or Family Electric Rate Assistance Program (FERA) programs, or to customers in hot climate zones.

1.2. Distributing Climate Credit Funds

Currently, residential and qualifying small business electric customers receive the Climate Credit twice per year in a lump sum amount per customer

account each April and October. Residential gas customers receive the Climate Credit once per year as a lump sum per-account amount each April.

The Commission could adjust the number of distributions or time-of-year of distributions to increase the effectiveness of the electric or natural gas Climate Credit for addressing affordability issues. Alternatively, the electric Climate Credit could be allocated on the basis of usage, reducing the volumetric rate for electricity. This approach could potentially accelerate decarbonization of homes and businesses by making electrification more appealing to ratepayers and could reduce month-to-month bill volatility. Additional options for distributing proceeds could also be considered, such as increasing the portion of residential Climate Credit funds distributed to CARE and FERA customers. Any change to the distribution of Climate Credit funds should be consistent with CARB's Cap-and-Trade regulations.

1.3. Education and Outreach about the Climate Credit

The Climate Credit is a direct way California households and businesses benefit from the Cap-and-Trade Program. Education and outreach costs are paid for out of the Climate Credit, reducing financial benefits to customers. Since 2013, administrative, education, and outreach costs amounted to \$23.6M, or less than 0.1% of total Cap-and-Trade Program proceeds. Adding education and outreach requirements about changes to the allocation or distribution of the Climate Credit could help customers better understand their electric bills but would come at a cost to households and businesses.

1.4. California Industry Assistance

California Industry Assistance offsets a portion of the cost of the Cap-and-Trade Program built into electric prices. California-made products include the cost of greenhouse gas emissions, while imported goods from out-of-state manufacturers typically do not. CARB annually allocates allowances to industrial facilities covered by the Cap-and-Trade Program to minimize emissions leakage while preserving incentives to maintain efficient production within California. Emissions leakage can occur when production moves out-of-state, so there appears to be a reduction in California's greenhouse gas emissions, but the production and emissions have been simply relocated. Program implementation includes use of the North American Industry Classification System (NAICS) code already used by California businesses for tax and other business purposes that reflects the type of good produced.

2. Preliminary Scoping Memo

The preliminary scope of issues in this Order Instituting Rulemaking (OIR) is set forth below, in accordance with the Commission's Rules of Practice and Procedure (Rules), Rule 7.1(d).

- a. Should the Commission modify electric and natural gas Climate Credit eligibility criteria for residential and small business customers?
- b. Should the Commission modify implementation of the California Industry Assistance for EITE customers?
- c. How and when should Cap-and-Trade proceeds be distributed to eligible residential, small business, and EITE customers each year?

- d. If changes are made to the Climate Credit allocation or distribution, how should these changes be communicated to customers?

3. Opportunity for Comments

The Commission invites party comment on the Preliminary Scoping Memo and issues identified in this document. Party comments may also address:

- Whether there are additional issues that should be included in the scope of this proceeding;
- The preliminary schedule and appropriate prioritization or sequencing of topics and activities that should be handled in this proceeding leading to Commission decision(s);
- Any objections to the preliminary determinations;
- Any specific issues previously addressed or already underway in other Commission proceedings that require coordination with this rulemaking.

Commenting parties shall file comments within 60 days after the issuance date of this OIR. Reply comments shall be filed within 15 days after the final date to file comments. The Commission will use parties' comments to identify areas that need clarification and may consider the addition of specific issues or questions related to the items described in Section 2 on the scope of this proceeding.

4. Categorization and Need for Hearing

Rule 7.1(d) requires that an OIR preliminarily determine the category of the proceeding and the need for a hearing. We preliminarily determine that this proceeding is quasi-legislative as defined in Rule 1.3(g). This determination is not appealable, but shall be confirmed or changed via ruling by the assigned

Commissioner. The assigned Commissioner's determination as to category is subject to appeal pursuant to Rules 7.3 and 7.6.

We anticipate that the issues in this proceeding may be resolved through a combination of filed comments and workshop(s), and that evidentiary hearings will not be necessary. Any person who objects to the preliminary hearing determination shall state the objections in their comments on this OIR. The assigned Commissioner will determine the need for hearing in the scoping ruling issued following a prehearing conference.

5. Preliminary Schedule

The preliminary schedule for the OIR is summarized below. The schedule may be revised by the assigned Commissioner or the assigned Administrative Law Judge (ALJ) to develop an adequate record, provide due process, and conduct this proceeding in an orderly and efficient manner. Parties may comment on the preliminary schedule, in addition to identifying a need for, and date for, any additional events such as workshops.

Event	Date
Comments on OIR	60 days after OIR issuance
Reply comments on OIR	15 days after comments
Prehearing conference	Within 30 days after reply comments filed
Scoping memo and ruling	Within 60 days after reply comments filed

The assigned Commissioner or the assigned ALJ may change or modify the schedule to promote efficient and fair administration of this proceeding. Today's decision sets a due date for comments and reply comments on the OIR.

The schedule for the remainder of the proceeding will be adopted in the assigned Commissioner's Scoping Memo and Ruling.

It is the Commission's intent to complete this proceeding within 18 months of the date this decision is adopted (Section 1701.5(b)).

If there are any workshops in this proceeding, notice of such workshops will be posted on the Commission's Daily Calendar to inform the public that a decision-maker or an advisor may be present at those meetings or workshops. Parties shall check the Daily Calendar regularly for such notices.

6. Respondents

Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company, Southwest Gas Company, Liberty Utilities (CalPeco Electric), Bear Valley Electric Service, and PacifiCorp are named as respondents to this proceeding.

7. Service of OIR

We provide service to all core transport agents and to the service lists of the following proceedings:

- Rulemaking (R.) 14-03-003 (Natural Gas Utility Cost Issues Associated with Greenhouse Gas Emissions);
- R.22-07-005 (Demand Flexibility Rates);
- R.20-05-002 (Climate Credits);
- R.14-07-002 (Net Energy Metering);
- Application (A.) 24-09-014 (PG&E General Rate Case Phase 2);
- A.24-03-019 (SCE General Rate Case Phase 2);
- A.23-01-008 (SDG&E General Rate Case Phase 2);

- R.18-07-005 (Residential Disconnections);
- A.24-09-001 (Southwest Gas Company General Rate Case);
- A.24-09-010 (Liberty Utilities General Rate Case);
- A.22-08-010 (Bear Valley Electric Service General Rate Case); and
- A.22-05-006 (PacifiCorp General Rate Case).

Service of the OIR does not confer party status or place any person who has received such service on the official service list for this proceeding.

Instructions for obtaining party status or being placed on the official service list are given below.

8. Addition to Official Service List and Subscription Service

Addition to the official service list is governed by Rule 1.9(f). Upon request, any person will be added to the “Information Only” category of the official service list. Any person intending to make such a request should do so promptly in order to ensure timely electronic service of all comments and other documents and correspondence in the proceeding. (*See* Rule 1.9(f).) The request must be sent to the Process Office at process_office@cpuc.ca.gov) or letter (Process Office, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102). Please include the Docket Number of this rulemaking in the request.

Persons who file responsive comments to this OIR will automatically become parties to the proceeding (see Rule 1.4(a)(2)) and will be added to the “Parties” category of the official service list upon such filing.

In order to assure service of comments and other documents and correspondence in advance of obtaining party status, persons should promptly request addition to the “Information Only” category as described above; they will be removed from that category upon obtaining party status.

Persons may monitor the proceeding by subscribing to receive electronic copies of documents in this proceeding that are published on the Commission’s website. There is no need to be on the official service list in order to use the subscription service. Instructions for enrolling in the subscription service are available on the Commission’s website at <http://subscribecpuc.cpuc.ca.gov/>.

9. Filing and Service of Comments and Other Documents

Filing and service of comments and other documents in the proceeding are governed by the Commission’s Rules. Parties are instructed to only serve documents on the assigned Commissioner, advisors to the assigned Commissioner, and the assigned ALJ by electronic copy and not by paper copy, unless specifically instructed to do otherwise.

When serving any document, each party must ensure that it is using the current official service list on the Commission’s website.

Persons who are not parties but wish to receive electronic service of documents filed in the proceeding may contact the Process Office at process_office@cpuc.ca.gov to request addition to the “Information Only” category of the official service list pursuant to Rule 1.9(f).

The Commission encourages those who seek information-only status on the service list to consider the Commission’s subscription service as an alternative. The subscription service sends individual notifications to each

subscriber of formal e-filings tendered and accepted by the Commission. Notices sent through subscription service are less likely to be flagged by spam or other filters. Notifications can be for a specific proceeding, a range of documents and daily or weekly digests.

10. Intervenor Compensation

Intervenor compensation is permitted in this proceeding. Pursuant to Section 1804(a)(1), a customer who intends to seek an award of compensation must file and serve a notice of intent to claim compensation within 30 days after the prehearing conference. Parties new to participation in Commission proceedings may contact the Commission's Public Advisor's Office (Public Advisor) for further guidance.

11. Public Advisor

Any person interested in participating in this proceeding who is unfamiliar with the Commission's procedures or has questions about the electronic filing procedures is encouraged to obtain more information at <https://www.cpuc.ca.gov/about-cpuc/divisions/news-and-public-information-office/public-advisors-office%20> or contact the Commission's Public Advisor at 1-866-849-8390 or 1-866-836-7825 (TTY), or send an e-mail to public.advisor@cpuc.ca.gov.

O R D E R

IT IS ORDERED that:

1. This Order Instituting Rulemaking is adopted pursuant to Rule 6.1 of the Commission's Rules of Practice and Procedure.
2. The preliminary categorization is quasi-legislative.

3. The preliminary determination is that hearings are not needed.
4. The preliminary scope of issues is as stated in Section 2 of this Order Instituting Rulemaking.
5. The preliminary schedule stated in Section 5 of this Order Instituting Rulemaking is adopted.
6. Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, Southern California Gas Company, Southwest Gas Company, Liberty Utilities (CalPeco Electric), Bear Valley Electric Service, and PacifiCorp are respondents to this Order Instituting Rulemaking.
7. Any person may file comments responding to this Order Instituting Rulemaking within 60 days of the issuance date of this order. Reply comments shall be filed within 15 days after the final date to file comments.
8. The Executive Director will cause this Order Instituting Rulemaking to be served on all respondents, all core transport agents, and to the service lists of the following Commission proceedings:
 - Rulemaking (R.) 14-03-003 (Natural Gas Utility Cost Issues Associated with Greenhouse Gas Emissions);
 - R.22-07-005 (Demand Flexibility Rates);
 - R.20-05-002 (Climate Credits);
 - R.14-07-002 (Net Energy Metering);
 - Application (A.) 24-09-014 (Pacific Gas and Electric Company General Rate Case Phase 2);
 - A.24-03-019 (Southern California Edison Company General Rate Case Phase 2);
 - A.23-01-008 (San Diego Gas & Electric Company General Rate Case Phase 2);

- R.18-07-005 (Residential Disconnections);
- A.24-09-001 (Southwest Gas Company General Rate Case);
- A.24-09-010 (Liberty Utilities General Rate Case);
- A.22-08-010 (Bear Valley Electric Service General Rate Case); and
- A.22-05-006 (PacifiCorp General Rate Case).

9. Any party that expects to claim intervenor compensation for its participation in this rulemaking must file its notice of intent to claim intervenor compensation within 30 days of the prehearing conference.

This order is effective today.

Dated July 24, 2025, at San Francisco, California.

ALICE REYNOLDS
President
DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER
Commissioners