Date of Hearing: April 23, 2025

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
AB 729 (Zbur) – As Amended April 21, 2025

SUBJECT: Public utilities: climate credits

SUMMARY: Requires the California Climate Credit for electric customers to be applied to the bills of residential, small business, and emissions-intensive trade-exposed customers in August and September each year, unless otherwise directed by the California Public Utilities Commission (CPUC) as specified. Additionally, requires the natural gas California Climate Credit to be applied to residential bills in February, unless otherwise directed by the CPUC, as specified.

EXISTING LAW:

1) Establishes and vests the CPUC with regulatory jurisdiction over electrical and gas corporations. (Article XII of the California Constitution)

2) Requires that all charges demanded or received by any public utility for any product, commodity or service be just and reasonable, and that every unjust or unreasonable charge is unlawful. (Public Utilities Code § 451)

3) Declares the legislative intent that the CPUC reduce rates for electricity and natural gas to the lowest amount possible. (Public Utilities Code § 747)

4) Establishes the allocation of revenues received by electrical corporations from the direct allocation of greenhouse gas (GHG) allowances. Specifically, it directs the CPUC, except as provided to require that all such revenues—including any accrued interest—be credited directly to residential, small business, and emissions-intensive trade-exposed retail customers. This credit is commonly known as the California Climate Credit. (Public Utilities Code § 748.5)

5) Authorizes the CPUC to allocate 15% of these revenues including any accrued interest, received by an electrical corporation from the direct allocation of GHG allowances to electrical distribution utilities for clean energy and energy efficiency projects established pursuant to statute, provided they are not otherwise funded by another source. (Public Utilities Code § 748.5 (c))

6) Establishes the Cap-and-Trade Program, a market-based compliance mechanism administered by the California Air Resources Board (CARB) to enforce greenhouse gas (GHG) emissions limits and achieve specified, cost-effective reductions. Existing law requires CARB to adopt a Scoping Plan outlining strategies to meet these targets and to update the plan at least once every five years. (Health and Safety Code § 38500 et. seq.)

7) Designates CARB, via the California Global Warming Solutions Act of 2006, as the state agency responsible for monitoring and regulating sources GHGs. Requires CARB to prepare and approve a scoping plan for achieving the maximum technologically feasible and cost-effective reductions in GHG emissions and to update the scoping plan at least

once every five years. Requires CARB to conduct a series of public workshops to give interested parties an opportunity to comment on the plan and requires a portion of those workshops to be conducted in regions of the state that have the most significant exposure to air pollutants, including communities with minority populations, communities with low-income populations, or both. (Health and Safety Code § 38561)

8) Requires CARB to prepare, adopt, and update an inventory of GHG emissions from different sectors, including estimates for carbon dioxide, methane, nitrous oxide, and fluorinated gases with high global warming potential. (Public Resources Code § 39607.4)

9) Requires CARB to ensure that statewide greenhouse gas emissions are reduced to 40% below the 1990 level by 2030. (Health & Safety Code § 38566)

10) Establishes that the policy goal of the state is that eligible renewable energy resources and zero-carbon resources supply 100% of all retail sales of electricity to California end-use customers and 100% of electricity procured to serve all state agencies by December 31, 2045. (Public Utilities Code § 454.53)

FISCAL EFFECT: Unknown. This bill is keyed fiscal and will be referred to the Committee on Appropriations for its review.

CUSTOMER COST IMPACTS: This measure proposes to revise the distribution schedule of the California Climate Credit across various customer classes. By aligning the timing of the credits with periods of higher energy usage, this legislation seeks to reduce the rate impact of utility bills for customers during periods when their energy costs are likely the highest.

BACKGROUND:

California's Climate Change Strategy — California has been a policy leader in driving the national and global transition to a decarbonized electricity sector. AB 32 (Nunez, Chapter 488, Statutes of 2006), also known as the California Global Warming Solutions Act of 2006, directs CARB to develop a Scoping Plan, describing the state's strategy to reduce GHGs to 1990 levels by 2020. The legislation also requires the Scoping Plan to be updated every five years, and among other provisions, requires CARB to collaborate with other jurisdictions to identify and support the development of technologically feasible and cost-effective regional, national, and international GHG reduction programs. Subsequent legislation has established additional reductions in statewide GHG emissions—to 40% below 1990 levels by 2030[1], and 85% below 1990 levels by 2045—and achievement of carbon neutrality by 2045.[2]

Who Is Covered by Cap-and-Trade Program? — The cap-and-trade program is part of a suite of programs first authorized under AB 32 in 2006, and is designed to reduce statewide GHG emissions at the lowest cost.[3] Currently the entities covered under the cap-and-trade program

[1] SB 32 (Pavley, Chapter 249, Statutes of 2016)
[2] AB 1279 (Muratsuchi, Chapter 337, Statutes of 2022) which require statewide carbon neutrality by 2045, and an 85 percent emissions reduction from 1990 levels by that same year.
[3] LAO, "California's Cap-and-Trade Program: Frequently Asked Questions"; https://lao.ca.gov/Publications/Report/4811; Accessed April 9, 2025

within California emit significant amounts of GHG emissions— more than 25,000 metric tons[4] of carbon dioxide equivalent (CO_2e) per year. There are nearly 400 covered entities in the state,[5]including oil refineries, electricity generators and importers, and manufacturing facilities.[6] Together, they account for over 80%of California's total greenhouse gas emissions.[7] However, CARB determines (a) which types of emissions are covered under the program and (b) the emissions thresholds that generally apply to larger facilities. As a result, not all industrial emissions are subject to the program requirements. For instance, emissions from the energy used to power a dairy processing facility are covered, but methane emissions from the dairy cows themselves are not covered.[8]

Understanding Cap-and-Trade – CARB sets an annual "cap" for the total emissions allowed across all entities covered by the program that declines over time to ensure continuous emission reductions.[9] Specifically, CARB issues a limited number of emission allowances[10] —each permitting the emission of one metric ton of carbon dioxide equivalent ($MTCO_2e$)[11]—in an amount equal to the annual emissions cap. The covered entities can obtain allowances through quarterly auctions, limited free allocation (for eligible entities), or by trading with other entities in the program—this forms the "trade" component of the program.[12] The rate of cap decline can be adjusted, ramping up or down the market pressure to reduce emissions. As such, California's cap-and-trade program prioritizes compliance flexibility and cost-effectiveness over prescriptive control of where, how, or by whom emissions reductions are achieved. Although, this level of flexibility has drawn criticism over the years for insufficiently addressing local air pollution from sources covered by the cap-and-trade program it has also been recognized as one of the most cost-effective method for reducing GHG emissions.

Distribution of Allowances – As mentioned earlier, CARB issues a set number of allowances annually, in accordance with the overall emissions cap, and allocates them as follows:

- 42% to 49% of allowances—depending on the year—are sold at auction, with the proceeds deposited into the Greenhouse Gas Reduction Fund (GGRF).[13] This fund supports projects that reduce GHG emissions.[14]

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[4]CARB; "Staff Report: PUBLIC HEARING TO CONSIDER THE PROPOSED AMENDMENTS TO THE CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS"; September 2016
[5] CARB, "Cap-and-Trade Program Quick Facts."; January 2025; Accessed April 9, 2025
[6] LAO, ""California's Cap-and-Trade Program: Frequently Asked Questions"; https://lao.ca.gov/Publications/Report/4811; October 24, 2023; Accessed April 9, 2025
[7] CARB, "Cap-and-Trade Program Quick Facts." January 2025; Accessed April 9, 2025
[8] LAO, ""California's Cap-and-Trade Program: Frequently Asked Questions"; https://lao.ca.gov/Publications/Report/4811; October 24, 2023; Accessed April 9, 2025
[9] CARB; "cap-and-trade program"; https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program/about; Accessed April 9, 2025
[10] An allowance is a tradable permit to emit one metric ton of a carbon dioxide equivalent greenhouse gas emission
[11] CARB; "Cap-and-Trade Program: Allowance Distribution Factsheet"; https://ww2.arb.ca.gov/resources/documents/cap-and-trade-program-allowance-distribution-factsheet; Accessed April 9, 2025
[12] CARB; "Cap-and-Trade Program: Frequently Asked Questions"; September 1, 2022; Accessed April 16, 2025
[13] IEMAC; "2024 Annual Report"; p36; February 2025; https://calepa.ca.gov/wp-content/uploads/2025/02/2024-ANNUAL-REPORT-OF-THE-IEMAC.pdf
[14] California Climate Investments; "All Programs"; https://www.caclimateinvestments.ca.gov/all-programs

- 23% to 30% of allowances are allocated to electric utilities for ratepayer protection. Investor-owned utilities (IOUs) must sell these allowances and return the proceeds to customers in the form of the California Climate Credit. Separately, IOUs are required to purchase allowances for program compliance—such as covering emissions from natural gas-fired power plants. While the associated compliance costs are generally passed on to ratepayers, the Climate Credit is intended to help offset these impacts.[15] Publicly owned electric utilities are not required to immediately sell their allocated allowances, affording them greater flexibility in using allowances to meet compliance obligations.

- 11% to 12% of allowances are allocated to natural gas suppliers. These suppliers are required to consign a portion of their allowances and return the proceeds to ratepayers through the natural gas California Climate Credit, while the remaining allowances may be used for their own compliance obligations.[16]

- 10% to 15% of allowances are allocated to compliance entities to mitigate the risk of industrial facilities relocating out of state to avoid compliance costs—a concern known as "leakage risk;"[17] and the associated entities as "trade-exposed."

The California Climate Credits – These credits were designed to mitigate the financial impact of cap-and-trade compliance costs on customers of electric and natural gas IOUs.
The credits for electricity and natural gas are structured and distributed in similar fashion but with key differences. The value of the Residential California Climate Credit for electricity is determined by: (1) the number of GHG allowances allocated to investor-owned utilities (IOUs) by CARB, which must be consigned for sale at auction for the benefit of ratepayers; (2) the market price of each allowance sold at auction; and (3) the portion of auction proceeds set aside for administrative or programmatic purposes before the remainder is applied to utility bills in IOU service territories in the form of climate credit. Pursuant to statute, CPUC may allocate up to 15% of the proceeds from consigned allowances to support clean energy and energy efficiency projects.[18] The remaining 85% of funding is directed to: (1) Recipients of California Industry Assistance—available to Emissions-Intensive, Trade-Exposed (EITE) facilities—to help mitigate the impact of cap-and-trade-related electricity cost pass-throughs on businesses.[19] 2) Small business eligible to receive the Small Business California Climate Credit,[20] and 3) Residential customers of the IOUs as the Residential California Climate Credit.

The Residential California Climate Credit is a flat, on-bill credit—not tied to household electricity consumption[21]—distributed to all residential customers of IOUs, regardless of income level or geographic location. The credit is typically issued twice annually, in April and October.

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[15] LAO; "Assessing California's Climate Policies — Residential Electricity Rates in California"; January 2025; https://lao.ca.gov/reports/2025/4950/Residential-Electricity-Rates-010725.pdf
[16] IEMAC; "2024 Annual Report"; p38; February 2025; https://calepa.ca.gov/wp-content/uploads/2025/02/2024-ANNUAL-REPORT-OF-THE-IEMAC.pdf
[17] CARB; "Allowance Allocation"; https://ww2.arb.ca.gov/our-work/programs/cap-and-trade-program/allowance-allocation
[18] Public Utilities Code § 748.5 (c)
[19] CPUC; "Decision Adopting Customer Climate Credit Updates"; p7; August 2021; https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M402/K296/402296732.pdf
[20] CPUC; "Small Business Climate Credit"; https://www.cpuc.ca.gov/smallbusinessclimatecredit
[21] IEMAC; "2024 Annual Report"; p14; February 2025; https://calepa.ca.gov/wp-content/uploads/2025/02/2024-ANNUAL-REPORT-OF-THE-IEMAC.pdf

To evaluate whether a different distribution schedule might provide bill relief, San Diego Gas & Electric (SDG&E) conducted a pilot program from 2020 to 2022 issuing the credit in August and September, instead of the traditional April and October schedule, aligning with the months of peak electricity usage and highest utility bills in its service territory.[22] However, the CPUC found insufficient evidence to support a permanent change to the distribution schedule based on considerations of administrative simplicity, cost-effectiveness, and maintaining a consistent carbon price signal across utilities.[23] Since 2014, the California Climate Credit program has returned more than $14 billion to IOU residential customers across the state.[24]

Similar to the allocation of allowances to electric IOUs, CARB allocates GHG emission allowances to natural gas suppliers to help mitigate pass-through compliance costs. The volume of allocated allowances also declines annually, consistent with the program's emissions cap. Natural gas suppliers are required to consign an increasing portion of their allocated allowances, with the proceeds either returned to ratepayers as a climate credit or used to fund programs that reduce GHG emissions.[25] According to CARB, between 2015 and 2023, natural gas suppliers received approximately $6.9 billion in value from allocated GHG emission allowances.[26] Of this amount, roughly $2.6 billion was returned to ratepayers through bill credits and other GHG reduction programs—including approximately $2.5 billion distributed as residential California Climate Credits, [27]which are typically issued annually in April. However, there have been exceptions. In 2023, the CPUC advanced the credit to February in response to unusually high winter natural gas prices, to help offset higher utility winter bills during the peak heating season.[28]

COMMENTS:

1) *Author's Statement*. According to the author "As our communities face increasingly unaffordable living costs, ratepayers are burdened by their energy bills, which have risen at alarmingly high rates. Fortunately, revenues from the Cap-and-Trade program allow customers to receive Climate Credits on their utility bills. AB 729 requires that these credits are delivered to ratepayers during periods of the year when bills are at their highest. Electric credits will be delivered during the hottest summer months of the year while natural gas credits will be delivered during the coldest winter months. In this way, AB 729 will take a step toward addressing California's affordability crisis by ensuring that ratepayers receive reductions in their utility bills when those reductions are most impactful."

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[22] CPUC; "Decision Granting Petition For Modification Of San Diego Gas & Electric Company For The Years 2020 And 2021"; December 2019; https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M322/K058/322058306.pdf
[23] Decision 20-05-002 issued 5/7/2020; Addressing San Diego Gas & Electric Company's California Climate Credit Pilot Program
[24] Office of Governor Gavin Newsom; "Millions of Californians to receive average $71 credit on October electric bills"; October 2024
[25] CARB; "Summary of 2015-2022 Natural Gas Supplier Use of Allocated Allowance Value"; April 2024; https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/allowanceallocation/ngs_2015to2022useofvaluereport.pdf
[26] CARB; "Cap-and-Trade Program Summary of 2015-2023 Natural Gas Supplier Use of Allocated Allowance Value"; March 1 2025
[27] Ibid
[28] T&D World; "Millions of Californians Getting up to $170 'Climate Credit' on April Utility Bills." March 12, 2024; Accessed April 15, 2025

2) *California's High Utility Bills*. California's electricity rates are among the highest in the nation. Currently, the state has the second highest residential electricity rates after Hawaii, with average rates that nearly double the national average.[29] According to the Public Advocates Office (PAO), the primary drivers for electric utility cost increases in recent years include wildfire mitigation efforts, investments in transmission and distribution infrastructure, and incentives for rooftop solar provided through net energy metering.[30] Similarly, in an analysis by the CPUC, recent increases in natural gas rates were attributed primarily to rising commodity prices. These price pressures were exacerbated by gas market conditions, colder winter weather, and issues related to gas pipeline infrastructure and storage capacity.[31] Nearly 2.2 million customers of California's three largest IOUs are behind on their bills, with an average of $821 owed, with low-income households carrying a disproportionate amount.

3) *Purpose for this bill*. As stated earlier, the California Climate Credit helps offset compliance-related costs for electric and natural gas customers, reflecting the state's commitment to provide ratepayer relief under its Cap-and-Trade Program. It is distributed to electric residential customers of IOUs, regardless of income or geographic location, twice per year, typically in April and October, and to residential gas customers during April of each year. This distribution schedule was initially established by the CPUC with the intent to avoid muting energy price signals that encourage conservation during peak demand periods—summer for electricity and winter for natural gas.

   However, this measure proposes to adjust the distribution schedule of the California Climate Credit for electric customers —residential, small business, and emissions-intensive trade-exposed—to the months of August and September, when electricity usage and bills are typically highest due to extreme heat. The bill allows the CPUC to temporarily adjust this schedule during unforeseen emergencies but requires the standard August–September timeline to resume afterward. The author contends that the legislation aims to address California's affordability crisis by ensuring that ratepayers receive utility bill reductions when they are most needed and most impactful. It may also be prudent to revisit the electric Climate Credit allocation given the state's adoption of electrification as a climate strategy. As customers consume more electricity to meet their housing and transportation needs, customer bills will increase. Reallocating the electric Climate Credit to periods of high consumption may help encourage – or at least buffer the cost of – electrification.

   Similarly, the bill reallocates the California Climate Credit for residential natural gas customers to the month of February each year, unless the CPUC determines that extreme, unforeseen, and temporary circumstances warrant a different schedule. In such cases, the CPUC must resume February distribution once those conditions have passed. This timing provides sufficient lead time to apply the credit following the investor-owned utilities'

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[29] Pg.12, Legislative Analyst office, Assessing California's Climate Policies— Residential Electricity Rates in California; January 2025

[30] Slide 6, PAO slidedeck "Q4 2023 Electric Rates Report;" January 19, 2024; https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/press-room/reports-and-analyses/240119-caladvocates-q4-2023-quarterly-rate-report.pdf

[31] CPUC; "2022 California Electric and Gas Utility Costs Report: AB 67 Annual Report to the Governor and Legislature"; April 2023.

(IOUs) Annual Gas True-Up (AGT)[32] filings in December and subsequent CPUC review. The change aligns not only with established credit calculation procedures but also with a peak billing month for natural gas customers.

The flexibility granted to the CPUC—"unless the CPUC determines that extreme, unforeseen, and temporary circumstances warrant a different schedule"—is intended to ensure the agency can respond to unexpected events that may disrupt the planned distribution of the California Climate Credit under AB 729. This provision allows the CPUC to make temporary adjustments in response to emergencies or operational challenges, while preserving the overall structure and intent of the program. As noted previously, in 2023, the CPUC advanced the credit to February in response to unusually high winter natural gas prices, to help offset higher utility winter bills during the peak heating season.

4) *Related Legislation.*

AB 1342 (Soria, 2025) would require that the electric California Climate Credit be provided to residential customers in the months of June, July, August, and September. The bill would require the commission to ensure that a larger portion of those revenues be allocated as electric California Climate Credits to residential customers living in the hotter regions of the state, as provided. Status: In the Assembly Utilities & Energy Committee.

AB 942 (Calderon, 2025) would provide that, on and after July 1, 2026, an eligible customer-generator that has taken service pursuant to NEM 1.0 or 2.0 for 10 or more years is no longer entitled to take service under that contract or tariff. Would require that eligible customer-generator to take service under the then-current applicable tariff adopted by the commission after December 1, 2022, disqualify that eligible customer-generator from eligibility for the avoided cost calculator plus glide path, as specified, and would require the eligible customer-generator to pay all nonbypassable charges that are applicable to customers that are not eligible customer-generators. Status: Set for hearing on April 30, 2025, in this Committee.

5) *Prior Legislation.*

SB 32 (Pavley) requires the CARB to ensure that statewide GHG emissions are reduced to 40% below the 1990 levels by 2030. Status: Chapter 249, Statutes of 2016.

AB 693 created a Multifamily Affordable Housing Solar Roofs Program to provide financial incentives for qualified solar installations at multifamily affordable housing properties funded from investor-owned utility's (IOUs) greenhouse gas (GHG) allowances. Status: Chapter 582, Statutes of 2015.

SB 1018 (Senate Budget and Fiscal Review Committee) required that revenues from the GHG allowances be credited back to residential, small business, and emissions-intensive

[32] The Annual Gas True-Up (AGT) is a regulatory process used by California's investor-owned utilities (IOUs) to update natural gas rates each year. It ensures that actual revenues and costs from the prior period are reconciled, and forecasted costs for the upcoming period are reflected in customer rates.

trade-exposed businesses (businesses that are most at risk for moving their activities out of California because they aren't able to pass the costs on.) SB 1018 also provided that up to 15% of the GHG funds could be allocated to fund clean energy and energy efficiency programs not otherwise funded by another funding source. This bill made various changes to implement the Energy, Resources, Environmental Protection and Agriculture budget actions adopted as part of the 2012-13 Budget package.

6) *Double Referral.* This bill is double-referred; upon passage in this Committee, this bill will be referred to the Assembly Committee on Natural Resources.

REGISTERED SUPPORT / OPPOSITION:

Support

Clean Power Alliance of Southern California
Edison International and Affiliates, Including Southern California Edison

Support If Amended

Pacific Gas and Electric Company

Opposition

None on file.

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