California Carbon Forum
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March 9, 2026
Office of Regulations
California Air Resources Board
1001 I Street, Sacramento, CA 95814
captradecomments@arb.ca.gov

Re: Comment Letter on Proposed Amendments to the California Cap-and-Invest Regulation — ISOR Released January 20, 2026; Board Hearing May 28, 2026

Dear Members of the California Air Resources Board:

We submit these comments in strong support of finalizing the Cap-and-Invest amendments this spring. The Legislature's supermajority passage of AB 1207 and SB 840 in September 2025 was a historic commitment, and the market needs CARB to follow through with a final rule on schedule. Further delays would send a damaging signal to investors and covered entities alike.

We recognize the considerable analytical work reflected in the ISOR and commend staff for developing a proposal that extends program certainty through 2045, establishes post-2030 budget trajectories for the first time, strengthens market oversight rules, and advances important protections for ratepayers and industrial facilities alike. These amendments represent a strong foundation. Our comments are limited to targeted adjustments that we believe would improve near-term price credibility while remaining within the program's affordability and cost-containment guardrails.

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1. Finalize the Rules This Spring — No Further Delays

Since AB 1207 and SB 840 passed, allowance prices have remained at or near the statutory price floor. The February 2026 auctions settled at the auction reserve price, and even at the reserve price failed to sell all the available supply[1]. These outcomes reflect:

- Likely continued annual oversupply in 2026
- Uncertainty regarding 2027 supply-demand balance

[1] The February 2026 current vintage auction cleared at the auction reserve price with a bid-to-cover ratio of 1.04, while the advanced vintage auction volumes did not fully sell out.

- Market hesitancy related to the timing and distribution of proposed allowance removals; and
- Risks to GGRF revenue predictability

Approving program amendments by the May 28 Board hearing is essential to restoring regulatory certainty and reinforcing market confidence.

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2. Smooth the Allowance Reduction Curve — With a Meaningful Step-Down Beginning in 2027

Despite the program's extension through 2045, allowance pricing remains at or near the auction floor. A central driver is uncertainty regarding the distribution of allowance removals during the 2027–2030 period.

Non-compliance market participants have collectively purchased approximately 16.5% of current auction volumes from 2021–2025, according to CARB data. Non-compliance capital plays a stabilizing role by absorbing excess supply and supporting price discovery. When forward supply conditions appear structurally long or unclear, participation from this segment can moderate. For that reason, predictable and credible near-term supply management is essential to maintaining robust auction performance.

Risk of a Structurally Over-supplied 2027

If 2027 supply remains largely unchanged and removals are concentrated in 2029–2030, the program risks entering the 6th Compliance Period with continued oversupply. In that scenario:

- Auction participation could weaken further
- Current and Advanced vintage auctions may undersubscribe; and
- GGRF proceeds may become less predictable

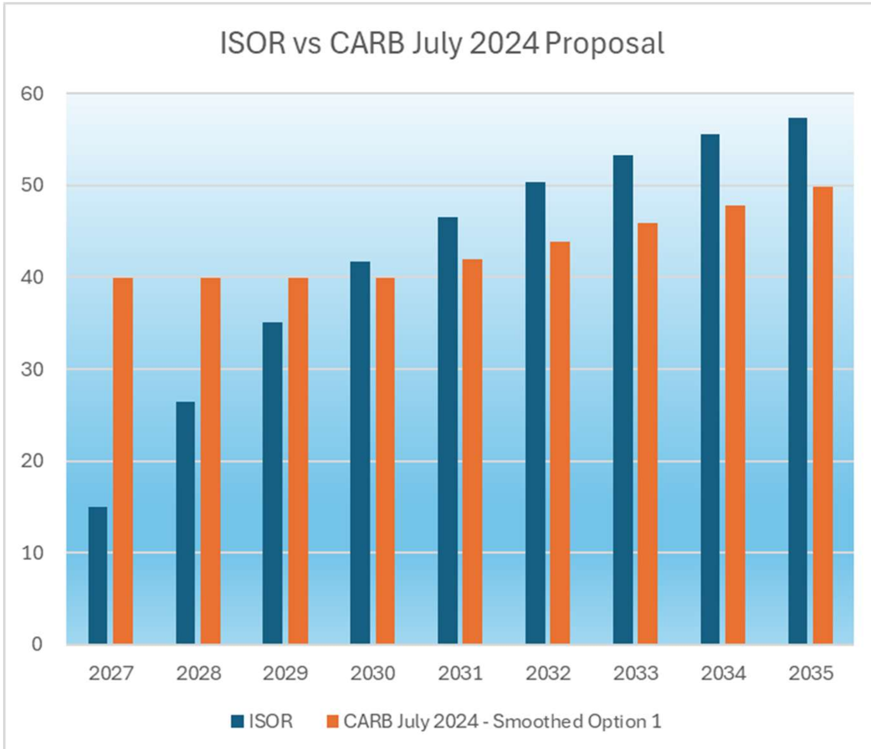
Auction undersubscription raises both market-signal concerns and budgetary implications.

A More Predictable 2027–2029 Trajectory

The ISOR reflects careful balancing of affordability, leakage prevention, and long-term climate goals. However, as proposed, 2027 is largely unchanged from prior regulations, reductions steepen through 2028–2030, and the heaviest tightening occurs next decade.

In July 2024, CARB presented a smoothed scenario that distributed reductions more evenly across the period ("Smoothed Option 1").

Figure 1. Comparison of July 2024 Proposal and ISOR Budget Trajectories (2027–2035)



The comparison illustrates that the 2026 ISOR back-loads budget removals relative to prior modeling.

To address this, we recommend adopting a smoother and more predictable budget pathway across 2027–2029 — for example, on the order of **low-to-mid 30 million allowances annually in each of 2027, 2028, and 2029**, rather than a stepped or back-loaded approach. Any near-term incremental reductions would be offset by smaller reductions in later years to keep cumulative budgets unchanged.

Such a structure would:

- Ensure a meaningful step-down beginning in 2027
- Reduce the risk of continued inventory build
- Strengthen forward price credibility
- Provide regulatory predictability for covered entities; and
- Avoid abrupt compliance cost pressures later in the decade

This approach represents a pragmatic middle ground between CARB's dual mandates:

- Aligning the program with long-term climate objectives (which would imply more aggressive tightening), and
- Maintaining affordability and stability in light of historical oversupply conditions

A more evenly distributed 2027–2029 trajectory enhances near-term credibility while remaining measured and consistent with affordability guardrails. It does not reopen the cumulative 2021–2045 emissions budget, nor does it alter cost-containment or leakage protections. Rather, it improves the timing and predictability of supply — the element most relevant to current auction performance and investor confidence.

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3. Bring Offsets Under the Cap in 2027, Not 2028

We strongly support CARB's proposed Allowance Removals for Offset Use Account as an administratively sound mechanism to implement AB 1207's requirement that offset use not inflate net allowance supply.

Our only recommendation is that CARB apply this mechanism beginning in 2027 rather than 2028. The 6th Compliance Period begins January 1, 2027, and program integrity provisions should apply from the first day of the new Compliance Period.

The administrative feasibility is straightforward. The Allowance Removals Account is already designed to pre-populate annually based on maximum potential offset usage. CARB will know the maximum Offsets that can be used for compliance during 2026 (for 2025 emissions) before it needs to set 2027 auction supply. Applying this calculation to 2027 requires no new infrastructure — only an earlier start date.

Historical usage suggests retirements in 2027 would likely be only ~10 million allowances — modest in absolute terms but meaningful as a market signal that the strengthened program architecture from the 2025 reauthorization bill is fully operational beginning in 2027.

Conclusion

Our recommendations are measured and pragmatic:

- Finalize the rule by May
- Adopt a smoother and more predictable 2027–2029 allowance trajectory, with a more impactful step-down beginning in 2027
- Begin offset retirements under the cap in 2027

These adjustments preserve the cumulative emissions budget, cost-containment mechanisms, and affordability protections. What they strengthen is the credibility of the near-term price signal — the program's primary mechanism for mobilizing private capital toward California's 2030 and 2045 climate goals.

We appreciate CARB's leadership and look forward to the May 28 hearing.

Respectfully submitted,

Ari Freisinger
Chair, California Carbon Forum
3/9/26