California Council for Environmental and Economic Balance
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May 4, 2026

Rajinder Sahota
Deputy Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments regarding Proposed 15-Day Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation

Dear Ms. Sahota,

The California Council for Environmental and Economic Balance (CCEEB) appreciates the opportunity to provide comments to the California Air Resources Board (CARB) regarding the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation ("Cap-and-Invest"). CCEEB is a coalition of business, labor, and public leaders that works together to advance strategies to achieve a sound economy and a healthy environment. Founded in 1973, CCEEB is a non-profit and non-partisan organization.

First, CCEEB would like to acknowledge CARB staff for responding to feedback received during the 45-day comment period regarding California's ongoing and worsening affordability crisis, while still maintaining a consistent policy framework of an established carbon market. Broadly speaking, the proposed 15-day amendments will result in comparatively lower near-term energy and consumer goods costs for Californians already subject to the nation's highest cost of living.

The 15-day package defers larger and longer-term questions about the post-2030 specifics of Cap-and-Invest and how regulated entities should plan for future rulemakings and compliance costs. Without longer term certainty, the leakage risk CARB seeks to mitigate with the proposed amendments will persist.

However, CCEEB recognizes that it is not practical for CARB to publish additional amendments as part of this rulemaking package given its time constraints and would like to make clear any policy recommendations in this letter are for consideration during subsequent rule proceedings or, as applicable, to be provided through implementation guidance. As such, CCEEB strongly encourages the Board to adopt these amendments at the May 28 Board Meeting and to direct staff to return to the Board in a subsequent rulemaking with further post-2031 cost-containment and leakage protection measures to provide longer-term compliance certainty to regulated entities.

Proposed Changes to Industrial Allowance Allocation: Cap Adjustment Factors and Near-Term Price-Containment

CCEEB acknowledges staff's proposal to modify the cap adjustment factor (CAF) for standard activities from 2027-2030. As noted in the modified statement of reasons (MSOR), the proposed changes are consistent with legislative direction to minimize leakage and consider the economic impacts of Cap-and-Invest on the State's manufacturing sector.

However, by deferring setting of 2031-2035 CAFs to a future rulemaking, we believe some of that leakage minimization may be undercut. As stated in the MSOR:

> *As directed in AB 398 and AB 1207, CARB staff is continuing to evaluate cap adjustment factors and additional and complementary mechanisms after 2030 to address the risk of emissions leakage related to both covered industrial emissions and products that are not currently covered by the Program. Post-2030 allocation will also be informed by updated data on leakage as available. As such, CARB is removing the CAFs for 2032-2035 that were proposed in the 45-day Amendments as well as the CAFs for 2031. This change is responsive to public comments and necessary to provide more time for CARB to analyze emissions leakage risk for covered facilities before setting post-2030 cap adjustment factors in a future rulemaking.*

While the proposed 15-day language sends a short-term signal that CARB understands industrial sector economic uncertainty, it defers further long-term action on price containment. As you know, investment decisions involve long lead times, and it is critical that CARB provide longer-term certainty about the direction, and potential cost impact, of the Cap-and-Invest program given that it has already sent strong signals to the industrial sector about the possible future direction of the program in the 45-day rule language. A foundational policy tenet of the program has always been the transparency of the market signal for business investment. These amendments do the opposite.

In our 45-day comment period letter, CCEEB encouraged CARB (consistent with legislative direction in AB 1207) to further analyze whether the current structure of the price containment reserve and price ceiling "adequately protect California consumers" and minimize leakage or if additional actions are warranted beyond the proposed addition of 1% of post-2030 allowances to the Tier 1 Reserve.

We continue to strongly recommend that CARB complete its analysis of emissions leakage risk for covered facilities and set reasonable post-2030 CAFs paired with stronger price containment mechanisms with the most accurate and up-to-date information possible. Without longer-term certainty, emissions leakage may occur regardless of future changes CARB might make to the program as the industrial sector cannot adequately plan for such changes.

Proposed Changes to and Impacts of the Manufacturing Decarbonization Incentive

CCEEB appreciates CARB's proposed changes to the Manufacturing Decarbonization Incentive (MDI) and support providing regulated entities additional clarity in the implementation of the proposal, including:

- Publishing the latest available allowance budget for each eligible category prior to each application cycle.
- Establishing transparent prioritization and proration criteria if applications exceed available allowances.
- Providing clear guidance materials and sufficient lead-time for applicants.
- Allowing existing qualified projects to be eligible for consideration.

Furthermore, CCEEB supports the fundamental premise of the MDI which incentivizes in-state investment in decarbonization without impacting the environmental integrity of the program. The MDI proposes to use a set number of current vintage allowances as incentive allowances in the new Build Up California Reserve Account to drive long-term investments in equipment, fuel switching, renewable energy generation, carbon capture and avoided process emissions. While initial CCEEB member feedback indicates the economic benefit of the MDI – given the cost-effectiveness of these projects - may only impact decision-making at the margins, *any* leakage prevention should result in lower global carbon emissions and durable in-state emission reductions occurring earlier than they otherwise would have.

Impacts on In-State Refining Capacity

Since the release of the 45-day package, disruptions to global energy supply chains have highlighted California's energy systems' unique exposure to geopolitical events. From an April 24th Fortune article[1]:

> *California must compete internationally for more expensive and increasingly scarce fuel imports from Asia. The state leans on South Korea, Singapore, Japan, India, and the Middle East for more of its oil and fuel.*

[1] https://fortune.com/2026/04/24/fuel-shortages-iran-war-spread-california-west-coast-help-years-away/

"The risk is California has to compete on price to get those barrels, and what's an already expensive market becomes really expensive," said oil forecaster Dan Pickering, founder of Pickering Energy Partners consulting and research firm.

While the rest of the country is worried about fuel prices and not physical shortages, California is a "different animal," Pickering said. "The risk in California is both its price and its availability. And because availability is tough, the price goes up even more."

Already, California's gasoline prices are 45% above the national average. The national average on April 23 for a gallon of regular unleaded was $4.03; meanwhile, it's a U.S.-leading $5.85 in California. And there's a $2 gap between diesel prices in California compared with the national average: $7.49 per gallon versus $5.47.

Simply put, the consequences of existing refinery closures are at our doorstep. While we appreciate the inclusion of the "independent merchant refinery" provision, CARB must take further, pro-active steps to minimize leakage from in-state refining and address worsening energy affordability over the mid- and longer-term.

We recommend CARB move petroleum refining and liquid hydrocarbon fuel production into the High leakage risk classification. While there would be no compliance benefit in the near-term, we believe this will send an important signal that CARB recognizes the active and ongoing leakage of in-state refining capacity.

Electric Utility Allocations

While CCEEB recognizes that there are some components of the electrical distribution utilities (EDU) allocation methodology that have improved in the 15-day language, unfortunately, the updated 2027–2030 EDU allocations remain below the status quo for the majority of California ratepayers. This outcome runs counter to AB 1207's intent to maximize affordability as fewer EDU allowances ultimately mean less Climate Credit value returned to customers to provide needed affordability relief on electric bills.

In addition, CCEEB shares concerns regarding the proposed treatment of outstanding emissions in relation to the Extended Day-Ahead Market (EDAM). CARB should delay EDAM inclusion until 2027 and true-up any 2026 EDAM-related outstanding emissions only after EDAM data can be validated. This sequencing would better protect customers from incorrect bill impacts while ensuring the integrity of the program's emissions accounting.

CCEEB acknowledges and appreciates CARB's decision to include an "effective renewable portfolio standard (RPS)" approach in the EDU allocation methodology which better reflects the operational realities and compliance flexibility embedded in the RPS statute. Though this change does not counterbalance the negative impacts of other changes to EDU allocation methodology, it provides a helpful improvement to what otherwise would be an even more significant reduction to the California Climate Credit.

Transition of Investor-Owned Utility Natural Gas Supplier Allocation to EDUs

CCEEB acknowledges and appreciates the inclusion of low-income support for residential gas customers in the 15-day changes. Preserving 30% for ongoing low-income customer support is especially important given the unfortunate acceleration of the transition schedule, which will magnify the rate shock from this change, compared to the appropriately more gradual schedule in the 45-day draft.

Technical Comments

Below are several technical comments offered during the 45-day rulemaking which were not addressed in the 15-day language. We recommend CARB consider these comments in future rule proceedings.

- 95912(i)(4): CCEEB requests that CARB clarify what occurs if entities temporarily do not have space in their holding accounts for all their allowances. Regulated entities have expressed concern that this will force entities to transfer allowances into compliance accounts before they are needed.
- 95921(b)(7): CCEEB recommends CARB remove the requirement for parties to transactions involving unpriced compliance instruments to provide screenshots and invoice records.
- 95921(f)(1)(B): Our members have expressed concern that the prohibitions on agreements with second entities are overly prohibitive.

CCEEB thanks CARB for the opportunity to comment on this rulemaking. If you have any questions, please feel free to contact Kirstin Kolpitcke, Senior Associate at kirstink@cceeb.org or me at timc@cceeb.org.

Sincerely,

Tim Carmichael
President and CEO
California Council for Environmental and Economic Balance (CCEEB)