



April 29, 2026

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

Chair Lauren Sanchez
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Members of the Board
California Air Resources Board (CARB)
1001 I Street
Sacramento, CA 95812

RE: Comments on proposed 15-Day Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation.

Dear Governor Newsom, Chair Sanchez, and CARB Board Members and Staff:

We are writing to provide comments on the 15-day modifications to the Cap-and-Invest Program. We have major concerns on the proposed reallocation of millions of dollars to the industrial sector and support proposals to address affordability for consumers.

Specifically we recommend

- 1. Retire at least 118.3 million allowances to protect cap integrity and meet 2030 and 2045 climate targets.**
- 2. Support efforts to make electricity more affordable and accelerate the transfer of fossil gas auction revenues to electric utilities.**

3. **End post-2030 free industry allocations pending updated leakage analysis and revised economic conditions**
 4. **Require regular allowance supply evaluations to strengthen accountability, transparency, and emissions outcomes under Cap-and-Invest**
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1. **Retire at least 118.3 million allowances to protect cap integrity and meet 2030 and 2045 climate targets.**

The recent 15 day notice departs significantly from the ISOR by reversing the proposal to retire 118.3 million allowances from the carbon market. The removal of a minimum of 118.3 million allowances is necessary to reach the mandated 2030 target; failure to do this removal will jeopardize CARB's ability to reach the mandated 2030 target as is clearly stated in CARB's October 25, 2025 workshop (slide 17) and webinar, and again in the ISOR on pages 34, and 327.

The proposed expansion of the Manufacturing Decarbonization Incentive (MDI) to include the formerly retired 118.3 million allowances in a special 'Build up California Reserve Account' is crucially outside the emission cap. This design change introduces an extraneous pool of compliance instruments targeted for the most polluting industries. This is a dangerous precedent which undermines the confidence and constraints for emission reductions, which are the foundation of the Cap & Invest program.

Fragmenting the carbon market into multiple pools—some governed by statutory limits and others subject to discretionary allocation—erodes market integrity and risks failure to meet the state's emissions reduction goals. It also invites further pressure from other industries seeking similar treatment, creating a slippery slope of expanding exemptions and preferential allocations.

Recent revisions also expanded eligibility for the MDI to include petroleum refiners, who were excluded under the original ISOR. This expansion comes on top of existing increased free allowance allocations secured through sustained industry lobbying, amplified by current geopolitical dynamics.

The justification for the MDI is weak in the context of current market conditions. A well-functioning cap-and-invest program should drive emissions reductions through rising carbon prices that make carbon abatement investments more cost-effective than purchasing allowances. However, California's carbon market has been persistently oversupplied with allowances, with prices frequently at or near the floor. Neither the ISOR nor the 15-day modifications adequately address this structural imbalance. Independent analyses suggest that removing 150–180 million allowances would

strengthen the market, increase prices, boost GGRF revenues, and deliver net benefits exceeding \$860 million to lower- and middle-income households. In contrast, the proposed changes increase no-cost allocations to industry without guaranteed consumer benefits¹.

These additional allocations prioritize cost containment for industry over affordability for consumers, continuing a long-standing trend. Between 2013 and 2024, California's carbon trading programs directed approximately \$27.8 billion to oil companies and biofuel producers, as documented in "Clearing the Zero Emission Path."² Expanding financial support to these sectors is inconsistent with the state's affordability and equity goals and undercuts our ability to meet state climate goals.

Reintroducing 118.3 million allowances will further increase supply in an already oversupplied market, placing downward pressure on carbon prices. This weakens incentives for emissions reductions, reduces funding for the Greenhouse Gas Reduction Fund, and undermines investment in clean technologies. Market signals already reflect this dynamic: secondary and futures prices for California Carbon Allowances have declined toward the floor, with some projections indicating undersubscribed auctions clearing at minimum prices. This reflects a weakening market, where the price signal is no longer sufficient to drive emissions reductions. The proposed MDI structure exacerbates this problem by further suppressing returns on clean investment.

2. Support efforts to make electricity more affordable and accelerate the transfer of fossil gas allowances to electric utilities.

We support CARB's April proposal to accelerate the transition of fossil gas allowances to electric distribution utilities to comply with AB 1207. The January ISOR delayed the transfer of fossil gas auction revenues to electric customers until 2029. The accelerated April proposed transfer will improve affordability and reduce electricity costs for consumers sooner rather than later.

3. End post-2030 free industry allocations pending updated leakage analysis and revised economic conditions.

¹ https://assets.nextgenpolicy.org/a5883594-coalition-ltr_cap-invest-carb-isor-priorities_3.9.26.pdf

² <https://theclimatecenter.org/fossil-fuels/clearing-the-zero-emission-path/>

We support revising the post-2030 industrial free allocations given updated and current empirical evidence of emissions leakage. We commend CARB for removing the originally proposed post-2030 allocations in the ISOR.

4. Require regular allowance supply evaluations to strengthen accountability, transparency, and emissions outcomes under Cap-and-Invest

We suggest the Board issue a resolution to require an allowance supply evaluation at regular intervals to increase accountability, transparency and trust in the success of the Cap and Invest program to deliver the needed state mandated emissions reductions. Such evaluations can determine if any ‘oversupply’ of allowances could jeopardize reaching the mandated emission reduction targets; and this will help CARB to develop and take remedial actions.

In conclusion, it is imperative that the integrity of the Cap and Invest market be maintained by ensuring that budgeted allowance allocations are aligned with the target emission reduction goals. This requires retiring a minimum of 118.3 allowances and this stipulation needs to be included in the new regulation package.

The new regulations will ideally strengthen the carbon market in California, a necessity given the climate emergency. We need ambitious and bold policies that prioritize affordability and cost containment for California consumers and are aligned with reaching state climate goals.

Thank you for your consideration of these comments. We look forward to collaborating with you to implement these recommendations.

Respectively Submitted,

Ellie Cohen
Chief Executive Officer
The Climate Center