

E2 (Bob Keefe)

Attached please find E2's comment on the 15-Day Changes for the Cap-and-Invest rulemaking



May 1, 2026

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

RE: E2 Comments on the 15-Day Changes to the Cap-and-Invest Regulation

Dear Ms. Sahota and Staff,

On behalf of E2's 2,300 members and supporters in California, I write to express our support for timely adoption of the Cap-and-Invest program to ensure expeditious implementation under current rulemaking timelines. Cap-and-Invest is a bedrock policy of the state's climate strategy; it plays a critical role in cost-effectively reducing climate emissions and must be updated without delay. While the proposed regulations impact the integrity of the emissions cap and have material issues that need to be addressed, E2 believes Cap-and-Invest's enduring contribution to climate action is of the utmost importance. Therefore, E2 urges the California Air Resources Board (CARB) to adopt the plan while considering pathways and opportunities to address critical concerns, including the proposed Manufacturing Decarbonization Incentive (MDI), during implementation of the program.

Founded in California 26 years ago, E2 is a national, nonpartisan organization of more than 11,000 business leaders from every sector of the economy who advocate for smart policies that are good for the economy and good for the environment. Our members have founded or funded more than 2,500 companies, created more than 600,000 jobs, and manage more than \$100 billion in venture and private equity capital.

The Cap-and-Invest Program Is Good for California's Economy

E2 appreciates CARB staff's commitment to aligning the Cap-and-Invest program with statutory targets to meet the state's 2045 carbon neutrality goals while aiming to ensure that affordability remains at the forefront of the rulemaking. Furthermore, the amendments establish a clear regulatory trajectory through 2045 to reach an 85% reduction in greenhouse gas (GHG) emissions, which provides a long-term price signal that industry and the private sector need to attract capital investments in clean and zero-emission technologies.

California has long been a leader in groundbreaking policy to address climate change, and the state's Cap-and-Invest program is the bedrock policy reinforcing our efforts to decarbonize the state's economy. The success of these policies can not only be seen in the reduction of GHG emissions over the past decade, but also in the statewide economic growth that has accompanied implementation of the Cap-and-Invest program. According to CARB's 2000-2023 GHG Inventory (2025 Edition), "from 2000 to 2023, the carbon intensity of California's economy decreased by 56.6% while the Gross State Product (GSP) increased by 81.2%".¹ Put another way, California's GSP more than doubled from 2000

¹ California Air Resources Board 2000-2023 GHG Inventory (2025 Edition).
https://ww2.arb.ca.gov/sites/default/files/2025-11/nc-2000_2023_ghg_inventory_trends.pdf

to 2023, even as overall greenhouse gas emissions fell by 21%.² This underscores that economic growth and emissions reductions are not mutually exclusive, and if done correctly, emissions mitigation can drive economic growth.

Part of this growth is reflected in the development of a robust and prosperous clean energy economy. E2's 2025 Clean Jobs California report found that more than 550,000 Californians work in clean economy jobs – including renewable generation, energy efficiency, storage and grid modernization, clean vehicles, and biofuels. California's clean energy economy added nearly 7,300 new workers in 2024 and grew three times faster than the rest of the state's economy.³ The report also found that the state's clean energy industry employed about seven times more workers than the fossil fuel industry. California's climate programs, anchored by Cap-and-Invest, continue to prove that high-quality job growth and innovation can be accomplished while also reducing GHGs.

Additionally, the Cap-and-Invest program supports economic growth while reducing climate risks and the rising costs of extreme weather events facing the state's businesses. With wildfires and severe weather already causing billions of dollars in losses, failing to update the Cap-and-Invest program in a timely manner leaves businesses vulnerable, threatens public health, and undermines the state's clean energy transition and climate leadership.

Timely Adoption of the Cap-and-Invest Program Secures Important Benefits for California

California risks its climate leadership if the state fails to adopt these regulations in a timely manner. When California regulators originally adopted Cap-and-Invest in 2011, they recognized an opportunity to be a global climate leader by leveraging state policy beyond our borders. The program is now linked to Québec, proving that international carbon markets provide the liquidity and price stability necessary for a resilient program. Additionally, adopting these regulations opens the opportunity for California to consider linkage with Washington's Cap-and-Invest program. Expanding this shared market to include Washington would create a more robust, cost-effective trading platform that lowers compliance costs for businesses while accelerating our collective path toward net-zero emissions and further cementing California's role as the anchor of the world's most sophisticated subnational carbon market.

E2 also supports staff's integration of affordability measures into the amendments such as changes to the California Climate Credit. Shifting the Climate Credit from natural gas and electricity bills to focusing on just electricity bills is significant in two ways: (1) it aims to lower the barrier to electrification, making it more affordable to run an electric heat pump or charge an electric vehicle at home and (2) it provides financial relief for electricity customers by shifting the application of the credit during the late summer months when Californians face their highest energy costs, maximizing its impact on affordability.

Critical Improvements Must Be Addressed During Implementation

While E2 supports the timely adoption of these regulations, the 15-Day Changes include a disappointing departure from California's aggressive climate action. The increase in industrial free allowances, while proposed in acknowledgement of federal tariff volatility, will reduce market incentives and capital for innovative low-carbon projects. This is happening during a time when the U.S. Department of Energy has reneged on billions of dollars of investment in our climate and economy. Additionally, the regulations propose a significant expansion of the MDI, which now substantially takes from allowances that were set to be retired and expands access for the state's refineries. While the

² Clean transportation drove California's emissions drop in 2023 <https://ww2.arb.ca.gov/news/clean-transportation-drove-californias-emissions-drop-2023>

³ E2 Clean Jobs California <https://e2.org/reports/clean-jobs-california-2025/>

original version of the MDI would have stimulated innovation by increasing future year ambition, the modifications will rely on CARB to use strong, timely implementation and oversight to prevent distortions, loss of real emission reduction, and uncertainty about the market's performance.

E2 encourages CARB to address these issues by considering the following options during the implementation phase:

- Reducing the allowances distributed through the Build Up California Reserve Account.
- CARB should be rigorous about the qualifications and application process when implementing MDI, including these three key categories:
 - MDI should be targeted for industries with the potential to reduce (not avoid) onsite facility-level emissions
 - MDI should be prioritized for competitive, cost-effective project applications
 - MDI allocations and usage should be monitored and granted where it can achieve verified, durable emissions reductions
- CARB should require robust standardized reporting requirements and should publicly provide aggregated data about projects to better inform industrial decarbonization costs, barriers, and reasons for non-participation.

In conclusion, E2 views the timely adoption of amendments to the program as a critical update to a proven system. We urge staff to move this rulemaking forward without delay for Board consideration on May 28, 2026, to ensure that California remains on a path to a cleaner, more resilient, and more equitable economy.

Thank you for your consideration of our comments.

Sincerely,

Bob Keefe, Executive Director

A handwritten signature in black ink that reads "Bob Keefe". The signature is written in a cursive, flowing style.