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On behalf of our 300+ member organizations, IETA appreciates this opportunity to provide feedback to CARB on the proposed initial regulation to support the Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms.

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IETA Comments on Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

IETA represents a broad and diverse group of 300+ businesses, including those with clean assets, exposure and operations across California and the globe. Our expertise is regularly called upon to inform carbon market solutions that deliver measurable climate outcomes while addressing economic competitiveness and affordability concerns. IETA is a longstanding supporter of California's Cap and Invest (C&I) program and welcomes the extension of the program through 2045 as well as the regulatory amendment process.

IETA's feedback as part of the ongoing rulemaking are structured around eleven (11) main sections:

- 1. Rulemaking Timeline**
- 2. Allowance Budgets and Utility/Industrial Allocation**
- 3. Utility Use-of-Allocated Allowance Value**
- 4. APCR Adjustments**
- 5. Enhanced Stakeholder Engagement on Forest Carbon Accounting**
- 6. Forestry Offset Reversals**
- 7. Account for Offset Use**
- 8. Effective Date for Offset Changes**
- 9. CCUS Provisions**
- 10. Corporate Association Group (CAG) Considerations**
- 11. Continuous Evaluation**

1. Rulemaking Timeline

As IETA has emphasized before, we encourage CARB to complete the regulatory amendment process in an expedited fashion. We suggest that CARB complete the ongoing rulemaking and adopt the proposed regulatory amendments by the 28 May Board Meeting without delay. This would provide regulatory certainty for Quebec as it completes its own regulatory amendments process by summer 2026. The finalization of regulatory amendments in both California and Quebec would facilitate the subsequent effort necessary for carbon market linkage with Washington State by mid-2027.

2. Allowance Budgets and Utility/Industrial Allocation

IETA understands that CARB is balancing various priorities in deciding on future allowance budgets and industrial allocation.

We recognize that affordability concerns led CARB to limit removals to 118.3 million allowances from the 2027-2030 budgets as part of a correction needed align with the statutory target of 40% below 1990 emissions by 2030. However, we note that the most recent auction settled at the floor indicating an opportunity to increase near-term removals. The California Legislative Analyst's Office has raised concerns that C&I revenues will be insufficient to maintain statutory allocations and IEMAC has expressed doubt that California will meet its 2045 emissions goal.¹ Accordingly, we encourage CARB to consider tightening its pre-2030 allowance budgets to demonstrate climate ambition and to maintain stable GGRF revenues for the priority programs they support.

Recognizing the imperative of affordability, IETA encourages CARB to increase allocation to EDUs in order to maintain a substantive California Climate Credit for residential ratepayers. While we acknowledge that CARB is transitioning free allowances from NGSs to EDUs, we note that this transition will play out over a decade as proposed. As such, we believe that CARB should lend additional support to EDUs by moderating the rate of decline of free allowance allocation.

We note that CARB has set post-2031 CAFs and revised allocation benchmarks for several industries in the proposed regulation to align with the decreasing allowance budgets. We support this direction while recognizing there are certain sectors that may merit a more gradual decline based on valid competitiveness concerns and the potential for carbon leakage.

¹ "Cap-and-Invest: November 2025 Auction Update and 2026-27 Budget Context." California Legislative Analyst's Office, December 9, 2025. <https://lao.ca.gov/Publications/Report/5096>.

3. Utility Use-of-Allocated Allowance Value

IETA disagrees with CARB’s proposal to preclude entities from using allocated allowance value to purchase voluntary carbon offset credits. Here, we suggest CARB rely on existing, reputable third-party standards and/or principles established by international meta-standards across the evolving verified carbon credit landscape.² CARB can ensure that credits purchased from allocated allowance value are high integrity instead of disallowing them altogether.

4. APCR Adjustments

IETA recognizes that CARB is attempting to enhance affordability and balance the distribution of allowances between APCR tiers by adding 1% of post-2030 allowance budgets to Tier 1 of the APCR to enhance the cost-containment features of the regulation. However, this process is gradual and will not fully balance the two tiers. We encourage CARB to also consider shaving allowances between 2027-2030 to increase the volume of allowance deposited into Tier I of the APCR.

5. Enhanced Stakeholder Engagement on Forest Carbon Accounting

CARB’s draft language weighs in on several highly technical and complicated forest accounting topics. In a number of instances, the draft language constitutes a significant change in how accounting has been done by stakeholders to date, particularly on topics where the protocol and regulations were not previously explicit, leading to a variety of interpretations and practices that have resulted in issued ARBOCs.

IETA strongly encourages CARB to launch workshops and/or a working group with project developers, verifiers, registries, and forest carbon experts on these topics to foster greater feedback, collaboration, and discussion on implementing the regulatory amendments.

² In terms of meta-standards, for example, the ICVCM [Core Carbon Principles](#) are effective governance, tracking, transparency, robust independent third-party validation and verification, additionality, permanence, robust quantification of reductions and removals, no double counting, sustainable development benefits and safeguards, and contribution to net zero transition.

6. Forestry Offset Reversals

IETA has two main concerns with the proposed amendments to Section 95983 on forestry offset reversals, particularly as they relate to unintentional reversals:

i. Section 95983(a)(5)

We are concerned the changes made to this section (i) do not accurately reflect the reality of the causes of slow-moving tree mortality and how it spreads through a forest over many years, and (ii) do not allow for projects to practically quantify the different types of unintentional reversals that occur over the course of several reporting periods.

ii. Reporting Periods in which both Unintentional and Intentional Reversals occurred - 95983(d)

The draft language proposed in Section 95983(d) does not provide enough direction on how to properly quantify unintentional versus intentional reversals that occur in the same reporting period. Neither does it accurately reflect feasible carbon forest management practices, even at conservative levels, as currently defined. IETA recommends that CARB, with input from all stakeholders, develop and adopt clear, rigorous accounting guidelines that specify how to quantify harvests and salvage harvests under the context of unintentional and intentional reversal.

7. Account for Offset Use

IETA appreciates CARB's decision to create a new "Allowance Budget for Offset Use" account and retire allowances from there rather than the main allowance budget. We suggested a similar mechanism during the informal rulemaking and are pleased to see that CARB acted upon the recommendation of IETA and other stakeholders. We believe that the proposed offset provision will overcome the "lumpiness" issue of directly implementing the AB 1207 offset mechanism. We encourage CARB to discuss its implementation of AB 1207 with the legislature, as legislative "clean-up language" validating CARB's interpretation may provide additional protection against potential legal challenges.

8. Effective Date for Offset Changes

IETA appreciates that CARB is revising its rules on offset credit generation and will update the Compliance Offset Protocols over the coming years. We recognize that offset projects are developed and issue credits over several years, which could raise ambiguity on which rules and protocols project developers should follow. We encourage CARB to include explicit language in the regulation that offset projects with reporting periods underway on the effective date of updated rules/protocols are subject to the rules in place when the projects were initiated rather than post-project initiation amendments to the regulation. This would provide project developers with greater regulatory certainty to engage in the Cap-and-Invest market.

9. CCUS Provisions

IETA is pleased that CARB included carbon capture, use and storage (CCUS) provisions in the proposed regulation. We encourage CARB to integrate the CCUS provisions with the SB 905 rollout and align CCUS standards across the Cap-and-Invest, LCFS, Net-Zero Cement, and Climate Disclosure programs.

10. Corporate Association Group (CAG) Considerations

The cap-and-invest program has supported participation by a broad spectrum of stakeholders in the market including obligated parties as well as investors. The continued participation of a wide range of stakeholders is essential to ensure a robust physical market and strong auction revenues. The program's current design recognizes the value that the investment community and their advisors bring to the program because it specifically allows advisors to provide their services to multiple registered entities without creating CAGs. This feature catalyzes the role of advisors, increasing efficiency.

While IETA supports continued and rigorous oversight to ensure a well running program free of market manipulation, the proposed CAG provisions may inadvertently eliminate the value of advisors by defining all advisors as subject to a CAG due to knowledge of multiple registrants' market positions. This may be appropriate for such advisors that effectively control their clients, such as by having the power to legally bind or direct their clients with respect to CCA transactions. However, it is not necessarily appropriate for advisors that do not have such authority or are otherwise limited by fiduciary duties and strict information

sharing restrictions. For example, the proposal to automatically trigger CAGs on the basis of common account viewing agents is overbroad. Account viewing agents often require account access for audit and financial verification purposes and by the very nature of the role have no authority to conduct CCA transactions.

As such, we suggest considering adjustments to the CAG provisions to better reflect the different categories of advisors and related market participants, particularly distinguishing between those with transaction authority and those in purely advisory or administrative roles. CARB can identify criteria that address actual sources of potential market manipulation while preserving the value advisors bring to the program.

11. Continuous Evaluation

CARB has proposed changes for covered entities and individual participants in the C&I program. IETA supports the direction and encourages CARB to regularly assess the market for instances of manipulation and make further changes if necessary to maintain a competitive market.

We note that CARB has introduced “limited emissions exemptions” from the C&I program for fuel cells and for entities that cross the emissions threshold for inclusion in C&I due to electricity generation during a state of emergency. We believe that CARB must periodically evaluate whether these exemptions compromise California’s ability to meet its statutory emissions reductions targets. CARB should emphasize this point in the Final Statement of Reasons (FSOR).

Conclusion

We appreciate this opportunity to provide feedback to CARB on the proposed initial regulation to support the Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms. With a global membership comprising a collective deep expertise in carbon markets and carbon accounting, IETA welcomes the opportunity to provide market insights and technical expertise to support CARB as the process continues.