California Council for Environmental and Economic Balance (Chris Shimoda)

Please see the attached comments of the California Council for Environmental and Economic Balance (CCEEB).

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March 9, 2026

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

Re: Comments regarding Proposed 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 Emission 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.

Background

This rulemaking comes at a pivotal moment nearly twenty years after the adoption of the landmark legislation The California Global Warming Solutions Act of 2006 (AB 32 – Nunez[1]). Over that period, California has successfully reduced greenhouse gas (GHG) emissions while growing to the 4th largest economy in the world. California achieved its 2020 target to reach 1990 levels of emissions ahead of schedule, on the basis of major public and private investments in renewable electricity, renewable fuels and more efficient vehicles.

However, California now faces new and evolving challenges that were not present at the program's inception, including a statewide affordability crisis, rollbacks of zero-emission vehicle rules, and

[1] Chapter 488, Statutes of 2006

a federal administration hostile to climate policy. According to a December 2025 Public Policy Institute of California[2] (PPIC) poll, 49% of Californians surveyed named cost of living, the economy and housing costs/availability as the most important issue facing people in California today, to just 3% who named the environment, pollution and global warming.

The results of this recent PPIC poll reflect the realities that California residents and businesses confront: Rising costs and broad inflationary pressures affecting nearly every corner of our State's economy. These pressures are as diverse as the development of housing and clean energy projects to the operation of family farms, the transportation of goods, the cost of groceries, household energy bills and more.

As CARB considers amendments to the Cap-and-Invest Regulation, it is critical that the Board carefully balance increasing program compliance costs with the marginal costs of emissions abatement, potential for leakage, and increased consumer cost impacts. We also recognize the difficult dynamics the agency faces due to the reliance of the Governor's proposed 2026-2027 Budget on significant revenues from the Greenhouse Gas Reduction Fund (GGRF) to support major expenditures in another difficult fiscal environment.

Nevertheless, maximizing affordability must be at the forefront of CARB's priorities for this rulemaking. While CCEEB certainly does not lay blame for California's affordability crisis at the feet of our climate policies, we must also recognize that increasing program ambitions from 2027-2035 and beyond will send increasingly strong carbon price signals throughout California's economy. These price signals are already influencing short and long-horizon capital investment decisions in the industrial sector today and trickling down to consumers facing some of the nation's highest energy costs. California's carbon price should continue to promote innovation, economywide cost-effective emission reduction, while mitigating impacts to those industries and consumers most directly impacted.

Proposed Changes to Industrial Allowance Allocation: Cap Adjustment Factors, Industry Assistance Factors and Cost-Containment

Manufacturing is a cornerstone of California's economy, employing over a million Californians and accounting for roughly 10% of the State's GDP. Manufacturing supports many middle-class families with sustainable union jobs, and is a force multiplier driving economic activity throughout the State's diverse supply chains. Manufactured goods account for about 85% of the State's exports, in sectors as diverse as aerospace, electronics, zero-emission vehicles, medical devices, food products and energy.

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[2] https://www.ppic.org/publication/ppic-statewide-survey-californians-and-their-government-december-2025/

CCEEB appreciates staff's proposal to maintain the current cap adjustment factors (CAF) through 2031, as well as, maintaining the 100% industry assistance factors (AF) for the industrial sector through 2035. However, CARB may want to consider revising the CAF for these critical sectors upwards starting in 2026. The proposed 2026-2035 CAF represents a steep decline, especially acute in 2032 with a 14.6% reduction, an approximately 4-5x greater drop in a single year than the historical trajectory of the CAF. We appreciate that CARB recognizes how the proposed CAF could impact leakage and consumer impact as the initial statement of reasons states: "future changes…may be needed to reflect shifts in the economy, worldwide carbon pricing, and corresponding leakage risks."

Given the program's increasing stringency, more robust cost containment measures will be critical to mitigating leakage and consumer impact. The current method of increasing the Allowance Price Containment Reserve (APCR) and ceiling by 5% plus the consumer price index (CPI) is arbitrary and has a compounding effect. Using a historical average CPI of 2.5%, the current Tier 1/Tier 2/Ceiling prices of $65/$84/$103 would reach approximately $125/$161/$197 by 2035 and $256/$331/$406 by 2045.

Therefore, we encourage 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.

Impacts on In-State Refining Capacity and Union Labor

California refineries continue to be a vital part of the State's diverse energy system, providing fuels that continue to be in high demand by California citizens and critical industries, generating significant tax revenue for local government and employing thousands of skilled tradesmen and women, including electrical workers, operating engineers, pipefitters, boilermakers and welders. These union jobs typically far exceed regional median wages and support countless middle-class families.

As extensively documented in the California Energy Commission's (CEC) June 27, 2025 letter to Governor Newsom "recent years have been marked by higher gasoline retail prices, in-state petroleum refinery conversions and exits…a growing reliance on fuel imports to meet consumer demand…(and) a credible risk of rapid near-term conversions or exits of existing refineries." In other words, whatever the extent of its relationship to Cap-and-Invest, refinery capacity leakage is concerning today. This phenomenon is a reality, not theoretical.

The CEC further stated "Retaining in-state refining capacity while demand for refined fuel persists supports the resilience of the transportation fuels system in California. It can also maintain employment and local revenue while giving workers and communities time to plan for the future…We recommend that the Air Resources Board continue to work on the regulatory process for continued implementation of the Cap-and-(Invest) program, including progress towards required targets, cost containment strategies and minimizing leakage."

The proposed rule amendments however, do not go far enough to ensure in-state refining capacity is not adversely impacted by additional program costs. Further loss of in-state refining capacity risks price shocks that will erode public support for our climate goals, generating increased emissions from the production and transport of fuel from the limited number of refineries worldwide who produce CARBOB, exposing the State to new vulnerabilities from impacts of geopolitical events, external markets and regulatory changes in other jurisdictions, and eliminate thousands of high-quality union jobs.

We recommend CARB consider stronger cost-containment and leakage mitigation in this rulemaking to protect in-state refining capacity.

Biorefinery Recognition
CCEEB appreciates CARB recognizing a new class of facility in California—biorefineries. This update to the Program reflects the investment and innovation taking place due to the state's carbon policies.

Transition of Investor-Owned Utility Natural Gas Supplier Allocation to EDUs
CCEEB recognizes the reauthorization language includes a phased-in approach to the transition of natural gas supplier (NGS) allocations to EDUs, where appropriate, and existing statute also requires CARB to ensure that it designs allocations in a manner that does not disproportionately impact low income communities.

Further, it is possible that the Californians least likely to transition away from existing home gas appliances early will be lower income and older residents on fixed incomes. CARB's implementation of AB 1207 as it pertains to the transition of NGS allowances to EDUs must ensure that low-income communities are not disproportionately impacted by the regulation, which the current proposed regulation does not address.

Proposed Electricity Distribution Utility (EDU) Allocations
CARB's proposed modifications to update 2027-2030 EDU allocations result in significantly fewer allowances than under the current regulation for large portions of California electricity ratepayers, including a near 60% reduction in one major IOU territory.

This proposed modification runs counter to AB 1207's legislative direction to maximize affordability as fewer allowances will result in less ratepayer relief in the form of the California

Climate Credit. Higher rates will also stimy California's continued efforts to encourage electrification.

CCEEB supports the Joint Utilities Group proposal for an effective Renewable Portfolio Standard as a means to mitigate the impact on California electricity ratepayers from a reduced Climate Credit.[3] An approach that balances energy affordability is imperative to continue advancing climate objectives across building and transportation sectors.

Furthermore, the possibility of state-owned allowances being utilized to provide California Climate Credits was referenced in an LAO analysis in 2025.[4] CARB should consider the relatively narrow benefits of some of the programs proposed to be funded by the GGRF versus the broader benefits of price signals created by shifting state-owned allowances to provide ratepayer relief.

Technical Comments

- 95852.3(a): CCEEB supports the treatment of utilized or sequestered captured CO_2., and encourages swift adoption of associated carbon capture and storage (CCS) regulations and accounting methodologies.
- 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.

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[3] Joint Utilities Group Comments on Potential Updates to the California Cap-and-Trade Program, dated June 21, 2024.

[4] "Historically, GGRF has not been used to help mitigate the program's impacts on consumer costs. Instead, the free allowances provided to utilities generally have served this purpose. However, in light of recent concerns around affordability, the Legislature could consider directing some GGRF revenues to this purpose as well. Such an approach could be particularly compelling given that reauthorization could put upward pressure on allowance prices, thereby increasing the costs paid by emitters (and ultimately consumers)." – *The Greenhouse Gas Reduction Fund: Current Status and Choices Ahead* Legislative Analyst Office, April 2025

Sincerely,

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