



May 4, 2026

Ms. Lauren Sanchez, Chair  
California Air Resources Board  
1001 I Street, Sacramento, CA 95864

**Re:** Proposed 2026 Amendments to the Cap-and-Invest Regulation — 15-Day Notice Comments

Dear Chair Sanchez and Board Members:

We write as the bipartisan-bicameral group of California legislators whose April 8 letter set out what this program must accomplish: reduce greenhouse gas emissions cost-effectively, protect ratepayers, minimize leakage, and keep California's industrial base here rather than exporting production and pollution to less regulated jurisdictions<sup>1</sup>. Before acknowledging where the 15-day amendments moved in that direction, we want to address a framing problem in the current debate that risks pushing the Board toward the wrong conclusions. Moreover, we want to underscore that CARB's decisions will take place in the context of a growing state energy and global fuel crisis that threatens California's economy, destabilizes domestic energy security, and reduces our emergency response capabilities.<sup>2</sup>

Cap-and-Invest at its core is not a revenue program. AB 32 directed cost-effective reductions.<sup>3</sup> SB 32 reinforced that mandate.<sup>4</sup> AB 398 added explicit obligations to minimize leakage and ratepayer costs.<sup>5</sup> None of those statutes identify revenue generation as a program objective. AB 1207 reinforced those obligations by directing CARB to design regulations that minimize ratepayer impacts and ensure that compliance activities do not disproportionately burden low-income communities, making affordability and equity explicit design requirements, not downstream considerations.<sup>6</sup> The Greenhouse Gas Reduction Fund (GGRF) is a consequence of the market mechanism, not its purpose. Recent commentary characterizes free allocation and the Manufacturing Decarbonization Incentive (MDI) as costing the state billions in lost auction revenue. That framing measures the program against a goal the Legislature never set, and we reject it. We value protecting California's households through affordable program design, keeping their wages in household budgets. NetZero California's analysis of GGRF

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<sup>1</sup> California Problem Solvers Caucus, [Letter to Board Chair Lauren Sanchez, California Air Resources Board on Proposed 2026 Amendments to the Cap-and-Invest Regulation](#).

<sup>2</sup> California Problem Solvers Caucus, [Letter to Commissioner Siva Gunda, Vice Chair, California Energy Commission on state energy supply](#).

<sup>3</sup> California Health and Safety Code § 38562(a)(1)–(2) (AB 32, 2006).

<sup>4</sup> SB 32 (Pavley, Chapter 249, Statutes of 2016).

<sup>5</sup> Cal. Health & Safety Code § 38562(c)(2)(I) (AB 398, 2017).

<sup>6</sup> Cal. Health & Safety Code § 38562(b)(1)(B)(i) and § 38562(b)(2), as amended by AB 1207 (Irwin, Chapter 117, Statutes of 2025).

expenditures found that many programs deliver reductions at costs well above the market allowance price or best-available technology benchmarks.<sup>7</sup> Value preserved through free allocation and MDI stays in California; it stays in worker wages, facility operations, local tax bases, fuel price stability, and ratepayer credits.

Several 15-day revisions addressed our April recommendations, for which we are grateful:

- EDU allowance allocations for 2027–2030 were increased for most utilities, stabilizing the California Climate Credit and addressing a portion of the \$4.9 billion gap the Joint Utility Group documented.<sup>8</sup>
- A new §95893(d)(8) provision directs 30 percent of NGS allocation value to low-income residential ratepayers beginning January 2028, acknowledging that low-income gas customers bear disproportionate transition burden.<sup>9</sup>
- The Manufacturing Decarbonization Incentive ties additional allocation to demonstrated decarbonization investment. The U.S. Acid Rain Program achieved SO<sub>2</sub> reductions ahead of schedule and below projected costs by giving industry the certainty to invest rather than exit.<sup>10</sup> MDI works on the same premise. A qualifying facility that modernizes is a California employer, regulated under California standards, producing for California consumers. The alternative is grim, as two refinery closures, more than a dozen food processor exits, and reduced output for cement, glass, and other exposed commodities have already demonstrated. The MDI gives CARB a tool to prevent regrettable – and in the case of fuel, potentially catastrophic – outcomes. That said, MDI incentives must maintain the program’s environmental integrity by being subject to clear accountability standards, like offsets, that ensure they will provide additional GHG emission reductions or removal.

Three gaps require action this year. We cannot afford more job loss or another facility closure.

- The post-2030 regulatory void is the most urgent. The 15-day proposal struck the 2031–2035 CAF values and eliminated Table 9-4 entirely. No specified allocation values exist for industry or utilities beyond December 31, 2030. Capital investment decisions with 10-year horizons cannot be made against a blank regulatory page. California’s industrial free allocation ratio sits at 62 percent, the lowest of any major comparable program, against Washington’s 94 percent and Quebec’s 99 percent.<sup>11</sup> A post-2030 void in this environment does not produce a neutral outcome. It produces the next closure. For these reasons, PSC supports swift conclusion of the current rulemaking, followed quickly by a subsequent rulemaking that addresses post-2030 allowance allocations for industry and utilities.
- The 2032 compounding effect has not been addressed. The Standard CAF drops 29.6 percent in a single year at the same moment 50 percent of NGS allocation transfers to EDUs, cutting value protecting gas customers from approximately \$897 million to \$542 million.<sup>12</sup> A dual-fuel household not yet electrified by 2035 may lose roughly \$134 per year in gas Climate Credit while

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<sup>7</sup> Uden, S. & DeMarco, A. (Apr. 2025). Data analysis of California’s GGRF. Net Zero California.

[www.netzerocalifornia.org/blog/data-analysis-of-cap-and-trade-investments](http://www.netzerocalifornia.org/blog/data-analysis-of-cap-and-trade-investments)

<sup>8</sup> Joint Utility Group, Comment Letter, Mar. 9, 2026, pp. 1–6.

<sup>9</sup> Cal. Health & Safety Code § 38562(b)(1)(B)(i) (AB 1207, 2025).

<sup>10</sup> EPA, Acid Rain Program: 2007 Progress Report; Schmalensee, R. et al. (1998). *J. of Economic Perspectives*, 12(3), 53–68

<sup>11</sup> CARB, Initial Statement of Reasons (Jan. 20, 2026), Table 6, p. 60.

<sup>12</sup> Problem Solvers Caucus, Letter to Chair Sanchez, Apr. 8, 2026, Table 1.

gaining only \$57 in electric Credit — falling hardest on renters and low-income households. CARB has not published the disaggregated household bill impact analysis AB 1207’s equity mandate appears to require.

- Table 8-1 is unchanged. Sectors experiencing leakage remain classified Medium leakage risk despite over a dozen closures. The CEC’s June 2025 formal finding notes that imports could reach 25 to 35 percent of statewide demand by summer 2026.<sup>13</sup> The AB 398 statutory leakage report required by December 31, 2025 was substituted with a workshop presentation and the required analysis was never transmitted to the Legislature.<sup>14</sup> The Board should not finalize leakage classification for sectors in active contraction without the statutory analysis the Legislature required.

We understand the desire to adopt a rule by May 28<sup>th</sup> but call on CARB to initiate a subsequent rulemaking within calendar year 2026 to address the post-2030 allocation void, deliver the overdue leakage report, publish the household bill impact analysis, establish additional leakage protections, and implement a workable CCUS compliance pathway.<sup>15</sup> California’s climate program has achieved something real. Protecting it means ensuring the Legislature’s statutory mandate for cost-effective, affordable, leakage-minimizing reductions is treated as the program’s purpose, not a constraint on its revenue potential.

Respectfully submitted,



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<sup>13</sup> Cal. Energy Commission, Letter from Vice Chair Gunda to Gov. Newsom, Jun. 27, 2025, p. 7.

<sup>14</sup> Cal. Health & Safety Code § 38562(c)(2)(I) (AB 398, 2017).

<sup>15</sup> SB 840 (Limón, Chapter 121, Statutes of 2025)