California Chamber of Commerce (Jonathan Kendrick)

Attached please find the California Chamber of Commerce's Comments on the Proposed 15-Day Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation.

CalChamber
CALIFORNIA CHAMBER OF COMMERCE

May 4, 2026

Lauren Sanchez
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95814

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

Chair Sanchez:

The California Chamber of Commerce (CalChamber)[1] appreciates the opportunity to comment on the California Air Resources Board's (CARB) proposed 15-day amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation made publicly available on April 14, 2026 (the 15-Day Amendments). The 15-Day Amendments modify a proposed rulemaking intended to implement the extension of the cap-and-invest program through 2045 pursuant to AB 1207 and SB 840 (the Proposed Rulemaking) originally made publicly available January 20, 2026, as a set of 45-day amendments (the 45-Day Amendments).

A durable cap-and-invest program requires safeguards for compliance flexibility, cost-containment, and leakage[2] protection that scale in tandem with increasing program stringency.[3] While the 15-Day Amendments make constructive improvements upon the 45-Day Amendments, important questions remain as to whether those safeguards have been sufficiently enhanced to preserve affordability, economic competitiveness, and long-term program resilience under the new cap trajectory.

The Proposed Rulemaking comes at a critical juncture in California's cap-and-invest program. Increased stringency comes amidst the state's continued struggle with a severe and prolonged affordability crisis. As allowance budgets tighten and compliance obligations grow, the margin for error narrows. It is essential that the program's supporting architecture[4] continues to provide meaningful compliance flexibility and strong cost-containment and leakage protections. Without those safeguards, the program risks losing the balance between environmental ambition and economic feasibility that has been central to its long-term durability.

Striking the appropriate balance is a formidable task. If the cap tightens faster than technology, infrastructure, and permitting realities allow, compliance costs will rise in ways that put pressure on consumers or increase leakage risk. At the same time, measures intended to address those risks must be designed in a way that preserves the program's core promise of ***significant, cost-effective emissions reductions***.[5]

---

[1] CalChamber represents a broad and diverse cross-section of California employers, including many of the covered entities that would be directly affected by the proposed rule package.

[2] "Leakage" refers to the risk that increased compliance costs or regulatory stringency causes emissions-intensive activity to shift from California to jurisdictions with less stringent climate policies, resulting in economic displacement without corresponding global emissions reductions, and potentially increasing net emissions.

[3] See California Chamber of Commerce, *Comments on Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation* (Mar. 9, 2026) ("CalChamber 45-Day Comments") at pp. 1-5, available at https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid377/did200184/pid_213315/assets/merged/430ui7zhuh3_document.pdf?v=34869

[4] By "supporting architecture" we mean mechanisms that provide compliance flexibility, cost-containment, and leakage protection. Examples include the industrial allocation framework, the allowance price containment reserve, allowance banking, offset usage, and the price ceiling.

[5] As reflected in AB 32 (2006), SB 32 (2016), AB 398 (2017), and AB 1207 (2025).

1215 K Street, Suite 1400
Sacramento, CA 95814
916 444 6670
www.calchamber.com

Against that backdrop, these comments address several areas that warrant careful attention as CARB seeks to implement a more stringent cap trajectory while preserving affordability, minimizing leakage risk, and supporting long-term program effectiveness.

I. Greater Post-2030 Certainty Is Needed to Support Long-Term Investment and Minimize Leakage.

The 15-day Amendments improve the cap adjustment factor applicable to industrial allowance allocation through 2030. As a central element of the allocation formula, the cap adjustment factor helps determine the volume of allowances industrial facilities receive as part of the program's leakage protection framework. By increasing the cap adjustment factor relative to the earlier proposal, the 15-day Amendments improve leakage protection by slowing the decline in industrial allowance allocation and helping address concerns that compliance obligations could tighten faster than covered entities can reasonably deploy decarbonization solutions in the near term. Particularly in sectors facing global competition and limited near-term technology substitution options, preserving a more robust industrial allocation framework during this period supports continued in-state investment while reinforcing allowance allocation as a core leakage protection mechanism within the program. These changes also better align the program with AB 1207's express directives to minimize leakage while considering affordability and cost-effectiveness.[6]

At the same time, the limited time horizon over which cap allocation factors are specified creates a material gap in regulatory predictability. Many covered facilities make investment decisions today for assets expected to operate well into future decades. Decisions involving process redesign, fuel switching, carbon capture, equipment replacement, and major facility modernization depend on assumptions about long-term compliance obligations and regulatory conditions. Providing certainty only through 2030 does not align well with how these investment decisions are made and can make it more difficult for covered entities to evaluate and commit to long-lived in-state investments.

These concerns are not hypothetical. Leakage risk is already shaping investment and operational decisions in emissions-intensive sectors through deferred reinvestment, constrained growth, and future production occurring outside California. California has seen examples of industrial contraction, including refinery capacity reductions and closures, food processing facility relocations, and other pressures on trade-exposed manufacturing that underscore how cost pressures and regulatory uncertainty can influence where production occurs. That reality reinforces why long-term allocation certainty is not only a safeguard against leakage, but also a precondition for the industrial decarbonization investments the program seeks to induce. When post-2030 allocation treatment remains uncertain even as the cap becomes significantly more stringent, covered entities may delay or redirect long-lived capital investments, creating risks not only for competitiveness and leakage protection, but also for achieving the deeper emissions reductions the program is intended to drive.

For these reasons, CalChamber encourages CARB to provide greater visibility regarding the post-2030 industrial allocation trajectory to give covered entities increased confidence that leakage protection will remain durable as program stringency increases. Long-term clarity around those signals would help support the in-state investments needed to achieve emissions reductions while minimizing leakage, consistent with the objectives reflected in AB 1207.

II. Revisions to the Manufacturing Decarbonization Incentive Improve Its Ability to Support Decarbonization While Reinforcing Program Integrity and Durability.

In CalChamber's prior comments on the 45-Day Amendments, we raised significant concerns that the proposed Manufacturing Decarbonization Incentive (MDI), as initially structured, was too narrow, too uncertain, and too difficult to access to serve as a meaningful compliance and investment tool for many covered entities. As we noted in those comments, the original proposal risked creating an incentive that was difficult to access and unlikely to support the kinds of capital-intensive decarbonization investments needed in the industrial sector.[7]

[6] See Health and Safety Code § 38562(b) (directing CARB to minimize leakage, consider the effect of its regulations on affordability and cost-effectiveness).
[7] CalChamber 45-Day Comments at pp. 7-10.

The 15-Day Amendments meaningfully strengthen the MDI with revisions targeted at creating a mechanism more capable of supporting real investment decisions. These improvements enhance the MDI's potential to function as a practical decarbonization tool rather than a largely theoretical compliance option. CalChamber appreciates those changes and believes they materially increase the usefulness of the mechanism.

However, following release of the 15-Day Amendments, some parties have raised alarm that the MDI concept undermines the environmental integrity of the cap-and-invest program. CalChamber respectfully disagrees. In our view, the revised MDI is a mechanism that increases the decarbonization capacity needed to support the long-term durability of the program.

A. The MDI Can Reinforce Environmental Integrity and Program Durability by Converting One-Time Compliance Value into Long-Term Emissions-Reducing Capacity.

One concern raised by certain parties is that the MDI could undermine environmental integrity by making additional allowances available through the program for qualifying decarbonization investments. They argue this weakens the emissions constraint intended by the program. CalChamber believes those concerns overlook an important distinction central to evaluating the mechanism.

An allowance is fundamentally a ***one-time compliance instrument*** authorizing emissions of one metric ton of carbon dioxide equivalent (CO2e) within cap-and-invests compliance system. By contrast, the investments the MDI is intended to support create ***recurring capacity to reduce emissions over the life of an asset, often for decades***. Those are not equivalent things, and they should not be treated as equivalent in assessing the implications of the MDI.

The MDI has an emissions-reduction multiplier effect by using an allowance's one-time compliance value to support investment in long-lived infrastructure that generates recurring emissions reductions for years, producing benefits that extend well beyond a single compliance period. Viewed in those terms, the relevant question is not simply how many additional allowances may be associated with the MDI in the near term, but whether the mechanism expands the practical capacity needed to support deeper reductions over time.

These investments can help covered sectors prepare for a more stringent cap by putting emissions-reducing technologies and infrastructure in place before compliance obligations tighten further. For covered entities, this can lower future compliance costs, reduce exposure to allowance price volatility, and improve the economics of decarbonization projects that require long lead times and significant capital planning. By reducing future compliance pressure, the MDI can also help moderate cost pass-through to consumers at a time when California is already facing a serious affordability crisis.

The benefits, however, may extend beyond the individual covered entity receiving MDI allowances. Deployment of industrial decarbonization technologies can help build broader sectoral capability by supporting learning-by-doing, supply chain development, operational experience, and, in some cases, reducing costs or barriers for subsequent projects. In essence, the MDI accelerates deployment of technologies or practices that can be replicated more broadly across sectors. That matters because broader availability of viable compliance pathways improves the ability of the market to absorb the increased stringency of the program.

These investments may also help reduce leakage risk. For the individual facility, long-lived decarbonization investments can strengthen the economics of continued in-state operation. At a broader level, supporting continued industrial investment and technological deployment in California can help preserve the in-state industrial base and decarbonization capacity needed to support deeper emissions reductions over time. In that sense, the MDI can support not only facility-level compliance, but broader sectoral resilience under a tightening cap.

For these reasons, concerns that assess the MDI solely based on the number of additional allowances associated with the mechanism miss the broader role that the MDI can play in expanding compliance

options, supporting industrial decarbonization, and reducing leakage and affordability risks. In that respect, the MDI reinforces the long-term environmental and economic integrity of the cap-and-invest program.

B. The MDI Is Consistent with Program Integrity Because Investment-Linked Flexibility Has Long Been Part of Cap-and-Invest Design.

Some parties have also argued that the MDI undermines the environmental integrity of the program because it is a departure from the notion of a "fixed" cap. But that concern rests on an overly static conception of cap-and-invest that does not reflect how the program has long operated in practice.

The environmental integrity of California's cap-and-invest program has never been defined solely by a fixed quantity of allowances divorced from flexibility mechanisms. The program has long paired a declining cap with mechanisms such as banking, offsets, the Allowance Price Containment Reserve (APCR), and the price ceiling to support cost containment, protect against leakage, and sustain the program over time. Those mechanisms are not departures from environmental integrity; they are part of the supporting architecture through which the program has historically preserved environmental integrity.

The MDI is a logical evolution of that design. It does not grant covered entities unilateral authority to "create" allowances or "break the cap." Instead, it establishes a rule-based pathway for CARB to allocate allowances only when specific, verifiable decarbonization investments are approved and made. Importantly, the mechanism is also structured so that allowances associated with an approved investment may be subject to return if the investment is not timely carried out, reinforcing that the MDI is tied to real performance rather than simply providing additional compliance value. In that respect, the MDI functions as an investment-linked flexibility mechanism within the program, not an expansion of the cap itself.

Critics of the MDI tend to equate a "fixed" cap with environmental integrity, but the purpose of cap-and-invest is not to preserve a static allowance quantity for its own sake. The objective is to achieve cost-effective emissions reductions while minimizing leakage risk. From that perspective, the MDI is consistent with program integrity because it helps strengthen the capacity for industrial transition. A narrow focus on the number of additional allowances associated with the MDI overlooks this broader dynamic by treating near-term allowance quantities as the sole measure of environmental integrity, rather than considering whether the mechanism expands the practical pathways available to achieve the deeper reductions over time necessary to achieve California's 2045 ambitions.

The relevant counterfactual is not a world without additional MDI-linked allowances in the abstract, but a world in which the cap tightens without sufficient industrial transition pathways. In that scenario, when compliance obligations outpace feasible decarbonization opportunities, costs rise, leakage pressures increase, and long-term program durability weakens. Viewed against that alternative, the MDI preserves the environmental integrity of the program by supporting real-world capacity for decarbonization.

C. Predictable Implementation and Clear Long-Term Signals Will Be Critical to the Success of the MDI.

While the 15-Day Amendments make meaningful improvements to the MDI and materially enhance its practicality as a decarbonization tool, the mechanism's ultimate effectiveness will turn heavily on clear implementation details and credible long-term signals from CARB.

As with many novel regulatory mechanisms, the value of the MDI will depend on whether it can bridge the gap between a theoretical compliance option and a usable tool with real-world application. For the mechanism to influence capital decisions, covered entities must be able to incorporate it into project planning with reasonable confidence regarding eligibility criteria, approval standards, qualifying investments, and implementation timelines. Clear communication regarding program expectations can help ensure the MDI functions as a credible investment signal rather than a conceptually attractive incentive with uncertain practical value.

This need for predictability is heightened by the 15-Day Amendments' publication of cap allocation factors only through 2030. For emissions-intensive, trade-exposed industries making long-lived capital investments, decisions are not made on short-term horizons. The absence of longer-term visibility into allowance allocation reinforces the importance of clear signals from CARB regarding how the MDI is intended to operate and how it fits within the broader trajectory of industrial decarbonization and leakage protection under the program.

The usefulness of the MDI may also hinge on implementation timelines aligning with the realities of permitting, engineering, and deployment for major industrial decarbonization projects, which often unfold over many years. That is particularly important because the MDI is intended, in part, to support investments whose benefits may extend decades into the future. For those investments to materialize, regulated entities need not only an incentive structure, but confidence that the mechanism can be used in a sufficiently predictable and timely manner. Clear implementation expectations can help translate the MDI from a regulatory incentive into a usable investment signal.

In short, while the 15-Day Amendments represent meaningful progress, realization of the MDI's potential will be shaped in significant part by implementation that is predictable, administrable, and capable of supporting long-term investment planning.

III. The Transition of Allowance Value from Natural Gas Corporations to Electrical Distribution Utilities Requires Continued Attention to Affordability and Transition Sequencing.

CalChamber appreciates that the 15-Day Amendments provide additional clarity regarding the transition of allowance value from natural gas corporations (NGCs) to electrical distribution utilities (EDUs) pursuant to AB 1207. The amendments reflect a meaningful effort to implement the Legislature's direction that this transition occur in a manner that minimizes ratepayer impacts and protects low-income ratepayers.

However, CalChamber remains concerned that important questions remain regarding how the transition will affect natural gas customers during what is likely to be a long and uneven electrification transition. Many households and businesses will remain dependent on natural gas service well beyond the early years of the proposed transition. For many customers, electrification options may be constrained by housing type, cost barriers, infrastructure limitations, or other factors outside their control. For those customers, the natural gas Climate Credit continues to function as an important ratepayer protection mechanism that helps moderate the pass-through of carbon compliance costs embedded in gas service.

These concerns are heightened by the structural realities of the gas system transition. Because many gas system costs are fixed, declining throughput can place upward pressure on costs borne by remaining customers if support mechanisms diminish faster than customer electrification occurs in practice. The resulting risk is not simply one of shifting allowance value, but of creating unintended affordability pressures during the transition itself.

For that reason, CalChamber encourages CARB to provide guidance on how it intends to evaluate whether the transition is in fact minimizing ratepayer impacts over time, as AB 1207 requires. CARB should articulate the assumptions, metrics, or review process it intends to use to assess impacts on both electric and gas customers as the transition unfolds, including whether adjustments may be warranted if affordability impacts emerge. A transition that preserves strong ratepayer protections for both electric and gas customers will better align implementation of this allowance value shift with AB 1207's parallel directives regarding affordability, cost-effectiveness, and equitable program design.

IV. The 15-Day Amendments Do Not Fully Align Cost-Containment Mechanisms with Increased Program Stringency.

While CalChamber appreciates several constructive changes reflected in the 15-Day Amendments, the changes do not fully align the program's cost-containment architecture with the significantly increased stringency contemplated in the Proposed Rulemaking. In particular, the amendments do not address two important concerns raised in CalChamber's 45-Day Comments: the proposed increase in the Allowance

Price Containment Reserve (APCR) release trigger from 60 percent to 80 percent of the price ceiling, and retention of the annual five percent plus inflation escalation applied to key price-containment parameters. In CalChamber's view, the absence of revisions on either issue leaves important affordability and volatility risks unresolved.

As CalChamber previously noted, the APCR has long served as a central component of the program's cost-containment architecture by providing additional allowance supply before prices approach the ceiling. The proposal to move the release trigger from 60 percent to 80 percent would reduce the responsiveness of that safeguard despite the fact the program is entering a significantly more constrained phase. In a market with materially reduced allowance supply and continued uncertainty regarding the pace of commercially viable decarbonization pathways, preserving an earlier intervention point becomes more important. Because the 15-Day Amendments do not modify this proposal, CalChamber remains concerned that a higher trigger unnecessarily increases the risk of avoidable price volatility before reserve mechanisms can respond.

The 15-Day Amendments also do not address CalChamber's concerns regarding retention of the annual five percent plus inflation escalator applied to the auction reserve price, APCR tiers, and the price ceiling. That escalator was designed in a very different program context.[8] In a program where cap stringency is increasing substantially, maintaining an automatic administrative escalator above inflation compounds the effects of tightening supply and can contribute to allowance prices reflecting administratively induced scarcity as much as underlying marginal abatement costs. The interaction of these two forces, reduced supply and administratively accelerated price growth, raises important affordability concerns the 15-Day Amendments leave unresolved.

A higher APCR intervention point and continued above-inflation administrative price escalation will weaken cost-containment as cap stringency increases. The program's affordability safeguards must remain responsive to the market conditions created by a materially tighter cap. CalChamber therefore encourages CARB, in subsequent rulemakings,[9] to consider whether retaining a less responsive APCR trigger and an unchanged five percent-plus-inflation escalator remains appropriate. Recalibrating those elements would not weaken California's emissions goals; it would help ensure that increased ambition is supported by safeguards capable of moderating unnecessary price volatility and reducing avoidable cost pressure on consumers and covered entities.

V. Future Rulemakings Should Evaluate Additional Structural Approaches to Preserve Affordability, Competitiveness, and In-State Emissions Reductions.

As the cap-and-invest program moves toward increased stringency, CARB should begin evaluating whether additional approaches are needed to preserve affordability and competitiveness over the life of the extended program. The issues raised in these comments demonstrate the importance of refining the program's existing safeguards. But with the program now extended through 2045, CARB should also consider whether new tools will be needed to address cost and leakage risks that may not be fully managed through the current market architecture alone.

This is especially important because the next phase of cap-and-invest will unfold alongside major changes in California's energy, industrial, transportation, and infrastructure systems. Compliance costs will increasingly be shaped not only by allowance supply, but by whether covered entities have access to commercially viable technologies, timely permitting, affordable energy, adequate infrastructure, and realistic capital deployment timelines. If those conditions do not develop at the pace assumed by the cap trajectory, the program may face cost and leakage pressures that cannot be solved solely through incremental adjustments to existing mechanisms.

CalChamber therefore encourages CARB to use future rulemakings not only to adjust existing program parameters, but to assess whether additional tools are needed for the 2030-to-2045 period. As the cap

---

[8] See CARB's 2010 Cap and Trade Rulemaking Supplement to the Final Statement of Reasons at p. 67 (explaining that CARB used a 5% above CPI escalator approach in conformance with 2009's H.R. 2454 which was a failed attempt to establish a nationwide cap and trade system).

[9] CARB has indicated it will conduct additional cap-and-invest rulemakings, including another rulemaking later this year to consider linkage with other programs. Resolving the post-2030 framework will also require another rulemaking to occur in the near future.

becomes more stringent, long-term success will depend on whether California can pair declining emissions limits with practical pathways for covered sectors to reduce emissions here. Cost containment and leakage protection should be understood not only as carbon market safeguards, but as broader design principles necessary to sustain investment, preserve affordability, and achieve durable in-state emissions reductions.

VI. Conclusion.

California's cap-and-invest program has remained durable because it has historically paired environmental ambition with economic feasibility through a market-based framework grounded in cost containment, compliance flexibility, and leakage protection. That balance has been central to the program's economic sustainability and its long-term environmental credibility.

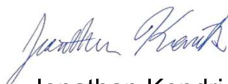
The 15-Day Amendments improve upon the original 45-Day Amendments in several important respects. In particular, revisions to industrial allocation through 2030 and improvements to the Manufacturing Decarbonization Incentive represent strong steps toward better aligning increased stringency with practical compliance pathways and leakage protection. CalChamber appreciates those improvements.

However, preserving the balance that has historically made cap-and-invest effective requires ensuring the program's supporting architecture scales alongside increased ambition. As these comments emphasize, that includes maintaining durable leakage protections, incentivizing decarbonization investments, carefully sequencing the transition in allowance value, and ensuring cost-containment mechanisms are calibrated to tighter allowance supply.

CalChamber respectfully submits that additional guidance and continued prioritization of these issues in future rulemakings would strengthen the long-term environmental and economic durability of the program. A cap-and-invest program that couples deeper ambition with strong affordability protections, robust leakage safeguards, and practical pathways for industrial decarbonization will be better positioned to deliver cost-effective emissions reductions while sustaining the balance between ambition, affordability, and competitiveness that has long underpinned the program's success.

CalChamber appreciates the opportunity to provide comments on the 15-Day Amendments.

Sincerely,



Jonathan Kendrick
Policy Advocate
California Chamber of Commerce