

March 9, 2026

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

Chair Lauren Sanchez
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Members of the Board
California Air Resources Board
1001 I Street
Sacramento, CA 95812

RE: Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market- Based Compliance Mechanisms Regulation

Dear Governor Newsom, Chair Sanchez, and CARB Board Members and Staff:

Last year, in the face of federal backtracking, California reinforced its leadership on fighting climate change by extending its Cap-and-Invest (C&I) program while prioritizing reducing high electricity bills and saving households money.

Now, the California Air Resources Board (CARB) must uphold the State's commitment to climate ambition by implementing a strong C&I program this year that delivers significant near-term greenhouse gas emissions (GHG) reductions, stabilizes the carbon market, and generates critical revenue for climate and community programs funded by the Greenhouse Gas Reduction Fund (GGRF).

However, CARB's 2026 proposed C&I program amendments fall short of the near-term ambition needed for California to be on a consistent and affordable path to achieve its 2045 carbon neutrality goals. CARB previously indicated that removing 265 million allowances by 2030 was necessary to put California on track with its 2045 climate goals; now, the Initial Statement of Reasons (ISOR) proposes to remove only the bare minimum - 118 million allowances by 2030 - related to an inventory update. This delay in emissions reductions limits the program's impact as both a climate and affordability solution for California. As evidence, the most recent C&I auction in February only cleared at the floor price for the second time in less than a year. This weak outcome signals an oversupply of allowances and underscores the need for stronger, near-term ambition to reinforce the program's stringency, integrity, and effectiveness.

Both [analytical modeling](#) and real-world evidence support a more ambitious path. **We, the undersigned organizations, recommend CARB implement final C&I regulatory amendments by this fall to inform updated allowance allocations with the following changes to stabilize the program, uphold California’s climate ambition, and save households money.**

1. Tighten the 2027-2030 carbon allowance budgets to strengthen the market and preserve household affordability benefits.
2. Adopt a more ambitious transition of the natural gas climate credit to reduce high summer electricity bills.
3. Align allowance allocations with an updated assessment of leakage risk by 2031.
4. Consult immediately the Environmental Justice Advisory Committee, per AB 32, on the proposed Cap & Invest regulation.

The following letter outlines the analysis, evidence, and reasoning for our recommendations to improve the C&I regulation. It is also critical that this regulation is finalized this spring and implemented this fall to ensure near-term emissions reduction benefits to Californians, put California on an achievable path to realize our 2030 and 2045 emissions reduction goals, and stabilize the carbon market to finance critical community programs across the state. A stronger C&I program will yield significant climate and community benefits across California.

1. Tighten the 2027-2030 carbon allowance budgets to strengthen the market and preserve household affordability benefits

In this rulemaking, CARB is missing an opportunity to increase the ambition of California’s cornerstone climate program while saving California families money. We recommend accelerating near-term allowance removals to drive greater cost-effective emissions reductions and put California on a stronger path to meet its climate goals.

Updated modeling from [Greenline Insights \(GLI\)](#) finds that CARB could pursue a stronger near-term emissions cap than proposed in the ISOR, while still providing meaningful cost-savings for low- and moderate-income families.

GLI evaluated two scenarios that accelerate near-term emission reductions through a tighter emissions cap – one which removed ~154 million allowances and another which removed ~180 million allowances pre-2030. In both scenarios, GLI found that a tighter cap supports faster emissions reductions while still providing net cost savings to low- and moderate-income households.

The scenario which would remove ~180 million allowances through 2030 – compared to the 118 million proposed by CARB – was found to significantly incentivize decarbonization while still saving money for working families. Specifically, **removing 180 million allowances from 2027-2030 is projected to result in over \$860 million in net savings to California families**

earning \$100,000 or less per year – a group that represents more than half of all households in the state. **Across all modeled scenarios, benefits are progressively distributed, as lower-income households are projected to experience the largest net gains.** Importantly, GLI found that the stronger emissions caps are modeled to stay within the price containment points in the program – showing that more ambition is affordable not only for households but also for covered entities.

Near-term ambition is what matters most for the climate: early emissions reductions in long-lived climate pollutants, like carbon dioxide, are critical to minimize the cumulative build-up of climate pollution in the atmosphere and limit overall warming, while early reductions in short-lived climate pollutants, like methane, are critical to slow the rate of warming. Stronger emissions reductions before 2030 are also important to invest in and spur a green economy, putting California in a stronger position to achieve its net-zero target by 2045.¹

The delay in climate ambition represented by CARB’s proposal in the ISOR also has important ramifications for GGRF revenue. The most ambitious cap modeled by GLI (removing 180 million allowances pre-2030) is projected to generate over \$1 billion more revenue for the GGRF compared to GLI’s modeling of the ISOR proposal. This revenue is urgently needed to reduce electricity costs for households, and fund critical investments in decarbonization and climate resilience, among many other priorities funded by the GGRF.

2. Adopt a more ambitious transition of the natural gas climate credit to reduce high summer electricity bills

AB 1207 required CARB to transition “support from gas corporations to electrical distribution utilities... on or before January 1, 2031” while minimizing ratepayer impacts and encouraging early climate action. The C&I amendments propose to transition climate credit allocations from gas corporations to electric distribution utilities between 2029 through 2036, delaying the transition years beyond the timeline required by AB 1207. Delaying the transition of the natural gas climate credit means foregoing savings during high-billed electricity months, when relief is needed most, and also needlessly discourages switching from gas to electric appliances by reducing operational cost savings from heat pumps and other zero-emission electric technologies.

Accordingly, CARB should complete the natural gas climate credit transition by C&I compliance year 2031 for the electric IOUs, in line with AB 1207. For other covered electricity utilities who require more lead time to introduce new technology systems to distribute the climate credit, we support providing reasonable flexibility to ensure smooth, equitable implementation with a public input process to deliver a meaningful credit that provides electricity consumers relief as soon as possible.

A successful transition will invest critical affordability revenues from C&I into lowering residential electricity bills, rather than continuing to invest in the natural gas bill climate credits.

¹ CARB, “Scoping Plan” (2022), pg. 116

3. Align allowance allocations with an updated assessment of leakage risk by 2031

AB 1207 struck the requirement for CARB to treat all emission-intensive, trade exposed facilities (EITE) at 100% risk of leakage, and instead required CARB to distribute these allowances starting in 2031 "in a manner that minimizes emissions leakage risk" to cost-effectively meet the state's greenhouse gas reduction targets. However, the proposed C&I amendments maintain 100% EITE assistance through 2035, citing "uncertain future economic pressures," including tariffs, loss of federal funding, and changes to other emissions trading systems.² CARB has stated they have recently analyzed leakage risk for EITE industries, which should serve as a basis to re-assess allowance allocations to industrial facilities.³

While we recognize near-term uncertainties, we ask CARB to evaluate opportunities to align allowance allocations with an updated assessment of leakage risks by 2031. Options for a pathway to reduce industry assistance by 2031 could include:

- Denote intent within the amendments to open a supplemental regulation in the next few years that would establish a decline for post-2031 EITE industry assistance factors based on updated economic analysis (as is done for the intended implementation of carbon capture, utilization and storage integration), in which CARB should identify opportunities for pre-2035 industry assistance factor declines.
- Align the reduction of EITE cap assistance factor for the cement industry in line with SB 596 targets to sector emissions reductions of 40% below baseline by 2035.
- Publicize CARB's leakage analysis for continued public input and review.

4. Consult the Environmental Justice Advisory Committee, per AB 32, on the proposed C&I regulation

California's C&I program affects both greenhouse gas emissions and the distribution of health-harming co-pollutants that disproportionately impact California's environmental justice (EJ) communities. As CARB considers updates to drive deeper GHG reductions, it must also ensure that the program delivers direct benefits in overburdened communities. Achieving that goal requires meaningful engagement with EJ communities and their advocates. CARB should promptly consult the Environmental Justice Advisory Committee to elevate community priorities and provide recommendations on the proposed rules. We urge CARB to do this immediately so that ambitious new rules can be put into effect without delay.

Thank you for your consideration of the above comments. We look forward to working collaboratively to implement these recommendations into the final Cap & Invest regulation.

² The amendments additionally didn't establish assistance factors after 2035, indicating the need to re-review industrial assistance and leakage risk factors in the mid-term.

³ [CARB, "Cap-and-Invest Program Workshop" \(2025\)](#), slide 35

Sincerely,

Chloe Ames
Climate Policy Advisor
NextGen California

Jo Gardias
Climate Solutions Fellow
Natural Resources Defense Council

Caroline Jones
Energy Transition & Carbon Markets
Manager
Environmental Defense Fund

Ellie Cohen
CEO
The Climate Center

Kjellen Belcher
Senior Research and Policy Analyst
Earthjustice

Gracyna Mohabir
Clean Air & Energy Regulatory Advocate
California Environmental Voters

Bill Magavern
Policy Director
Coalition for Clean Air

Jenna Roper
PhD Senior Policy Associate
Central California Asthma Collaborative

Sakereh Maskal
Policy and Advocacy Lead
Pesticide Action and Agroecology Network

Kat Taylor
Principal
Office of Kat Taylor

Brian Shobe
Policy Director
**California Climate and Agriculture
Network**

Lolly Lim
Sr. Program Manager of Climate Equity
Greenlining Institute

Alexis Sutterman
Senior Policy Manager
Brightline Defense

Adam Sweeney
Chapter Chair
**Climate Reality Project: Silicon Valley
Chapter**

Daniel Barad
Senior Policy Manager
Union of Concerned Scientists