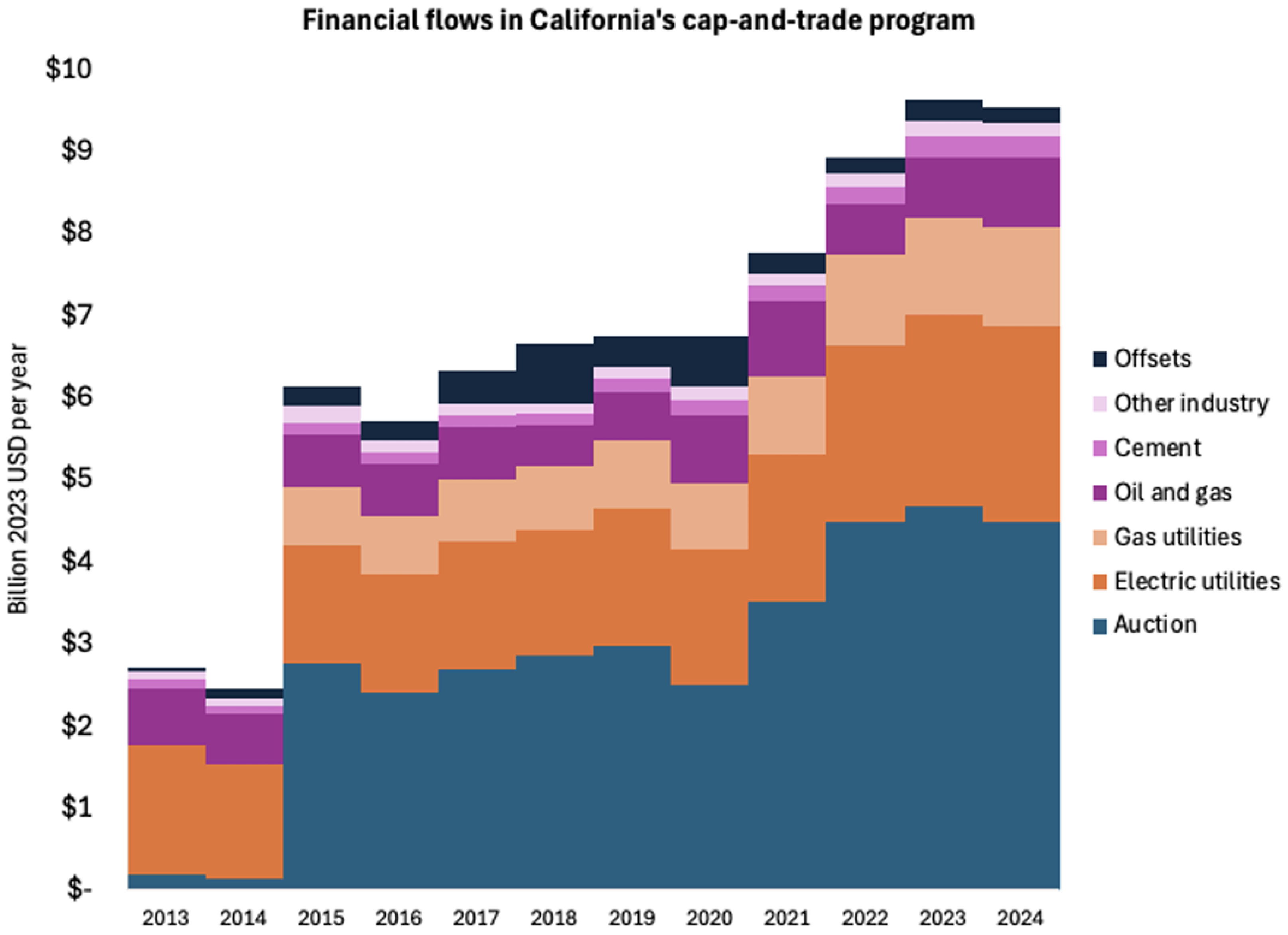
Framing observations

The legislative reauthorization, and subsequent CARB rulemaking, presents a critical opportunity to re-visit key components of California's Cap-and-Invest program to ensure that it is fit for purpose.

Fit for what purpose? This regulation is being designed with multiple objectives in mind:

- Reduce California's GHG emissions
- Contain the costs of meeting our climate goals
- Address affordability concerns
- Mitigate emissions leakage and adverse impacts on industry
- Salience (help Californians see how Cap-and-Invest helps them)
- Regulatory certainty

Designing one cap-and-invest program to meet 5 or 6 or 7 competing objectives means there will be trade-offs.



Program design decisions establish allowance budgets and the allocation of this allowance value across three main categories:

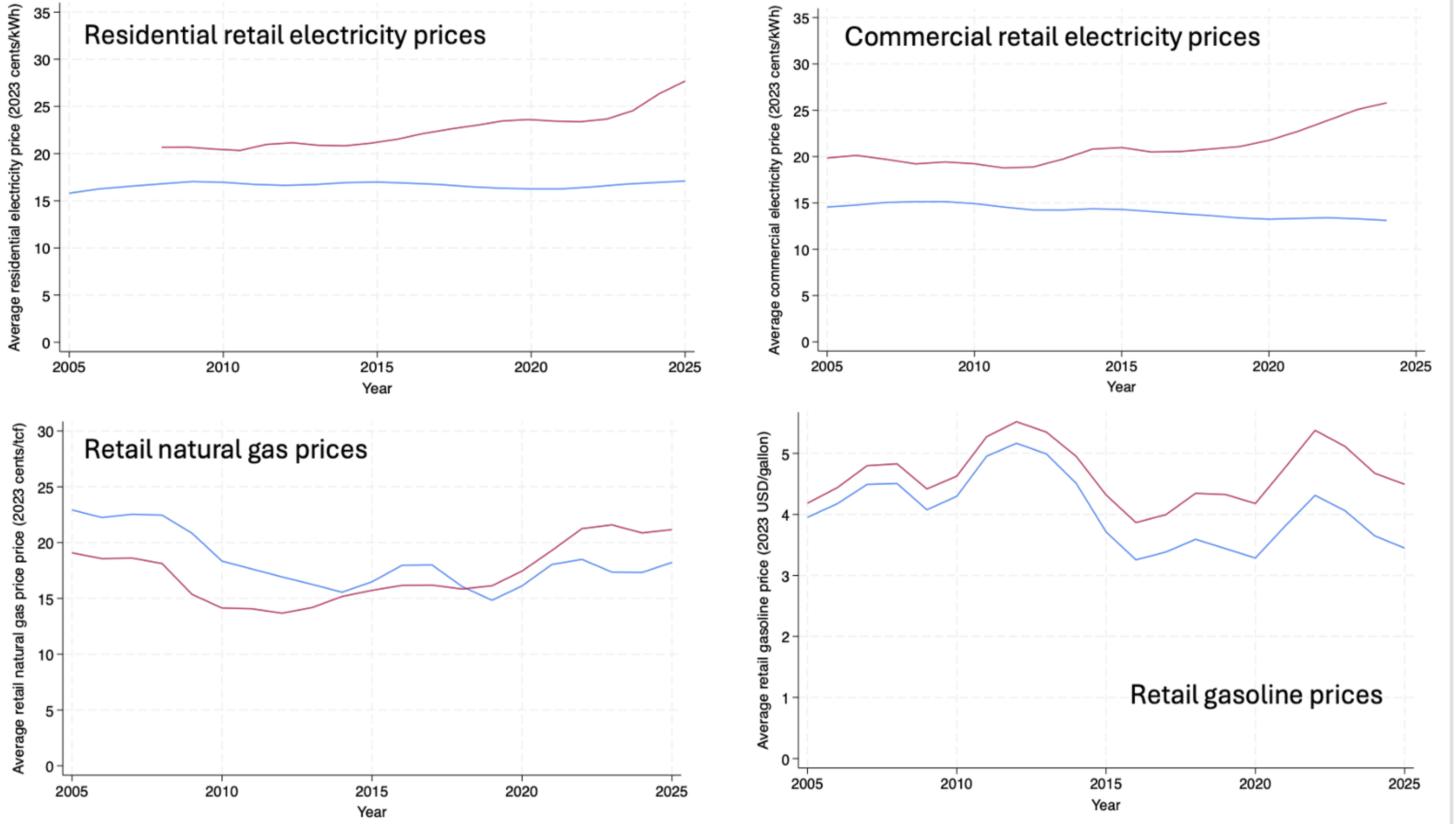
(1) Free allocations to utilities (~23-30%)

(2) Free allocation to some industry (~10-15%)

(3) Auction revenues for GGRF (~42-49%)

SOURCE: 2024 ANNUAL REPORT OF THE INDEPENDENT EMISSIONS MARKET ADVISORY COMMITTEE

Utility allowance value is used to address some of California's energy affordability concerns



Notes: Average inflation-adjusted retail rates in California are shown in red; national average prices are in blue. National average residential prices (nominal) come from the EIA ([Table 7c]). PG&E residential prices come from the CPUC ([here]). CPUC data summarize average bundled retail rates paid by all California households (including CARE customers). Natural gas prices, commercial electricity prices, and retail gasoline prices all come from the EIA. [FRED] inflation adjustment factors use 2025 as the base year.

California retail prices

US average retail prices

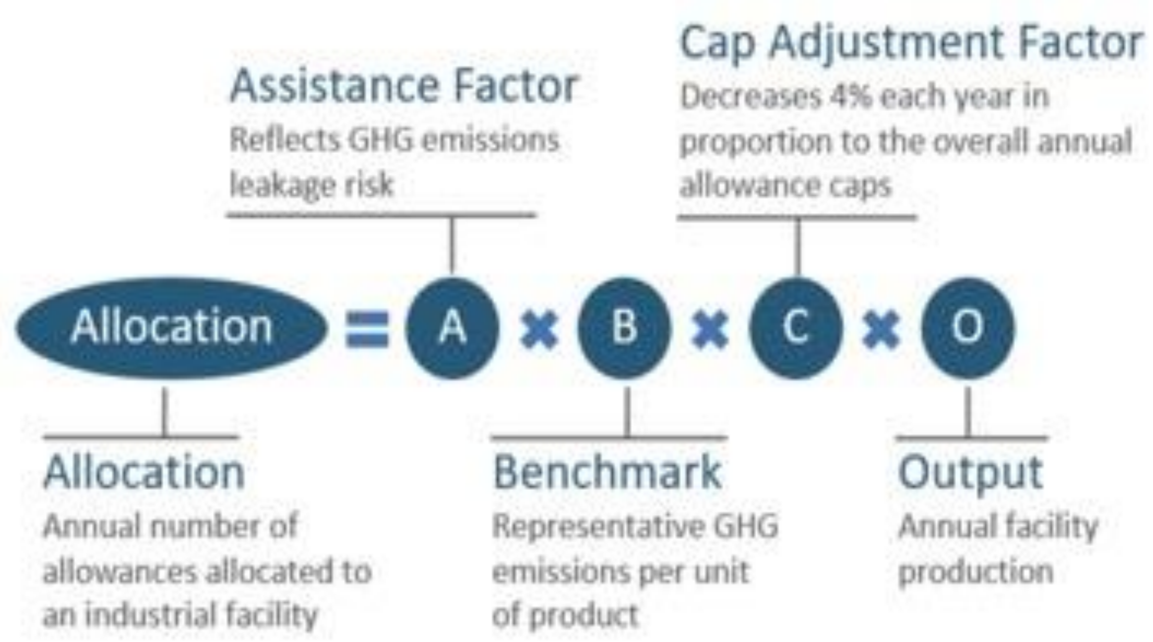
Output-based allocation provides industry assistance

- A carbon price coupled with a well-calibrated subsidy can be an effective leakage mitigation strategy.

- Given opportunity and abatement costs, output-based subsidies should ideally be calibrated to balance costs with leakage mitigation benefits.

- Now is an important time to review the parameters that define output-based allowances in light of the best available evidence

- Analysis that informs this recalibration should be publicly shared to the extent possible.



California's Greenhouse Gas Reduction Fund (GGRF)

- The ISOR projects a scenario in which GGRF revenues will peak in 2027 at $4 billion — slightly less than the $4.3 billion in commitments anticipated in SB 840 — and then steadily decline every year, falling to $1.9 billion in 2035.

- Based on analysis provided by CARB, it appears that the proposed regulations would substantially reduce expected GGRF revenues relative to what was anticipated in recent legislation re-authorizing the cap-and-invest program.