



California Council for Environmental and Economic Balance

369 Pine Street, Suite 720, San Francisco, CA 94104

(415) 512-7890 | cceeb.org

January 31, 2025

Independent Emissions Advisory Committee 1001 I Street Sacramento, CA 95814

Re Independent Emissions Market Advisory Committee (IEMAC): 2024 Draft Report Chapters

Dear Independent Market Advisory Committee Members,

On behalf of the California Council for Environmental & Economic Balance (CCEEB), we write to provide comments on the potential changes to California's Cap-and-Trade (C&T) Program. 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. CCEEB strongly supports C&T as the most cost-effective and economically efficient tool to achieve California's carbon neutrality goal, C&T is uniquely positioned to balance ambitious climate objectives with economic and industrial vitality.

While we acknowledge the Committee's efforts, several recommendations presented in the draft report conflict with the program's foundational principles of cost-effectiveness, economic efficiency, and equity, as established under Assembly Bill 32 (2006) and reaffirmed in AB 398 (2017). Unfortunately, they further conflict with public sentiments on and policy leader interest in addressing affordability. We continue to have concerns about the departure of this committee from its statutory obligation and continued avoidance of discussing the overlapping and layered policy interaction, cost-effectiveness, and technological feasibility – however we recognize that the affordability and carbon removal chapters make an attempt. Our comments aim to highlight inconsistencies and provide a critique of the report's recommendations.

Insufficient Quantitative Cost Analysis Across Recommendations

The IEMAC report frequently advocates for programmatic changes without evidence of deficiency of the current program and without sufficient quantitative assessments for its recommendations. For example:

- **Removal or devaluation of offsets:** The report's recommendation to reduce offsets acknowledges that such an action could increase the costs of compliance. Eliminating offsets could drive up the costs of achieving California's greenhouse gas (GHG) reduction goals, especially as reductions beyond the "low-hanging fruit" become more expensive. In the context of energy affordability, this recommendation moves the needle in the wrong direction. Consideration in this report should be given to providing greater flexibility to use offsets for compliance to facilitate more cost-effective emissions reductions within the Cap-and-Trade program.
- **Cumulative cost impact:** The report fails to provide a cumulative quantitative cost estimate for its recommendations, leaving stakeholders unable to assess the newly imposed total financial burden. Given California's projected need to reduce an additional 180–265 million metric tons (MMT) of CO₂e by 2030 under the cap-and-trade program – approximately a doubling or tripling

of year over year ambition from our current trajectory, these proposals could impose untenable costs on households and businesses.

Every recommendation in the report should include a detailed cost-benefit analysis and a clear assessment of its economic impact on ratepayers, fuel prices, and the broader California economy. Without this information, policymakers lack the data they need to evaluate whether the recommendations align with AB 32's cost-effectiveness mandate.

Economic Inefficiency of Revenue-Generating Proposals

The report's implicit support for revenue generation as a goal undermines the cost-effectiveness principles of California's climate policy. Focusing the market mechanisms of the Cap-and-Trade program to simply generate increased revenue will drive up the costs on regulated entities and introduce inefficiencies in attempts to reallocate funds compared to the current program design that embeds cost containment through rules-based cost-containment" mechanisms, such as free allowances and offsets.

- **Inefficiency of revenue reliance:** AB 398 (2017) emphasized market design features that prioritize cost containment, including the use of free allowances to minimize economic disruption while achieving emissions reductions. In contrast, the report's recommendations to raise allowance floor prices, add an ECR, and constrain offsets would increase compliance costs without necessarily enhancing environmental outcomes.
- **Legislative spending:** The Greenhouse Gas Reduction Fund (GGRF) has faced criticisms for its inconsistent deployment of revenues toward programs that directly reduce GHGs. According to an independent analysis of GGRF expenditures¹, a significant portion of funds has gone to programs with limited or unclear GHG reduction benefits. A 2023 Legislative Analyst's Office report noted that, "[a]ccording to the administration's estimates, GGRF-funded programs vary widely in the costs associated with their emissions reductions, ranging from \$9 to \$164,000 per ton of carbon reduced, with most programs reducing emissions at a cost of between \$150 and \$2,000 per ton. In contrast, other large state initiatives tend to be more cost-effective, including cap-and-trade (\$28 per ton), the low carbon fuel standard (about \$70 per ton), and the renewable portfolio standard (\$60 to \$70 per ton according to our 2020 estimate "² Raising revenues by increasing allowance prices or limiting offsets only compounds the inefficient use of the GGRF. CCEEB encourages the Legislature and Administration to act prudently in reconsidering how GGRF is allocated to ensure that expenditures reflect the core priorities of advancing cost-effective GHG emissions reductions through measures that improve energy affordability.

IEMAC's report should recommend that Policymakers should prioritize cost-containment measures embedded in the program's design, such as the ceiling, allowance price containment reserve, offsets, and free allowances, which provide predictable and efficient compliance pathways. Delivering emission reductions at the lowest possible cost must continue to be the driving objective – revenue generation is not and should not be the purpose of this program.

¹ [NetZeroCalifornia](#)

² [230238LAO Cap and Trade.pdf](#)

Misalignment with Legislative Intent and Historical Context

Allowance Allocation

As illustrated in IEMAC's "Assessing the Affordability Implications of California's GHG Cap and Trade Program" draft chapter, Cap-and-Trade compliance is only one of multiple cost elements in energy rates. However, Cap-and-Trade allowance allocations can help support energy affordability.

Use of utility allocation is mischaracterized in the "Allowance allocations and financial flows" chapter. It is important that the Legislature and the public understand that utility allocation is for the benefit of utility customers. The chapter states: *"Because many [electric] [Investor Owned Utilities] IOUs receive more allowances than they need for compliance purposes, they are also required to use any **surplus funds** collected from the sale of their consignment allowances to benefit their customers, primarily through the on-bill California Climate Credit that all private utility ratepayers receive twice a year."* The use of IOU allowance revenue is unrelated to compliance needs, as IOUs cannot deposit allocated allowances for compliance or use allowance value to purchase allowances for compliance; therefore, there are no "surplus" funds. As CARB noted in its 2017 Cap-and-Trade rulemaking, "the purpose of EDU allocation is to protect EDU ratepayers from the costs that the Cap-and-Trade Regulation imposes on these ratepayers as a whole."³

All utility allocations - electric IOUs, electric Publicly Owned Utilities (POUs) and gas utilities – are pre-determined in the C&T regulation; this structure provides an incentive for utilities to further reduce actual emissions so that benefits accrue to their ratepayers. Additionally, utility use of allowance value is limited by regulation and required to be for the benefit of rate utility customers,

The statement above also implies that only the "surplus" portion of electric IOU allowance revenues are returned via Climate Credit. In addition to there not being a "surplus," it is important to note that typically 85% - 100% of electric IOU allowance revenues is directly returned to electric customers through the California Climate Credit. A minority portion of electric IOU allowance revenues (not to exceed 15%) are used to fund CPUC-approved ratepayer benefiting climate programs.

Offsets

The IEMAC's draft report recommends reducing the role of offsets contradicting the program's legislative and regulatory history. During the 2010 rulemaking process, offsets were explicitly integrated into the Cap-and-Trade Program as a cost-containment mechanism, with an 8% usage limit to ensure environmental integrity.

- **Offsets under the cap:** Offsets were already factored into the cap-setting process. This was testified to in multiple IEMAC meetings and yet omitted from the discussion in this report. Limiting or devaluing offsets will not result in additional GHG reductions but will increase compliance costs unnecessarily.

³ *Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms*, Final Statement of Reasons, dated August 2017; p. 34.

- The opening paragraph in **Appendix E** of the 2010 Cap-and-Trade Regulation Final Statement of Reasons (FSOR) states:
 - *"The cap number determines the number of allowances issued by ARB and, when combined with the number of permissible offset credits, determines the total limit on emissions from all of the covered entities in the program."*
- This confirms that the **total limit on emissions in the C&T program is inclusive of both allowances and offsets**, meaning the total allowable emissions under the program cap account for both types of compliance instruments.
 - **The cap sets the total emissions limit** for covered entities.
 - **This limit includes both allowances issued by ARB and the permissible number of offset credits.**
 - **Offsets are functionally below the cap**, meaning their usage does not allow emissions beyond the total established emissions limit, which is referred to as "the cap."
- Appendix E of the 2010 Cap-and-Trade Rulemaking's Initial Statement of Reasons contradicts the often-misconstrued argument that offsets exist above the cap. Instead, the program was designed with 8% offsets as part of the overall emissions limit, ensuring that offsets do not expand total emissions but rather serve as a compliance pathway within the cap.
- **Benefits of offsets:** CARB-approved offset projects have delivered measurable GHG reductions while providing economic and social benefits and facilitating lower cost emissions reductions. For example, forest offsets have supported tribal communities like the Yurok and Round Valley Tribes, enabling land acquisition and sustainable management practices. These benefits would be jeopardized by the report's recommendations.

The IEMAC's report should recognize offsets as a proven, cost-effective tool for achieving emissions reductions and align its recommendations with the legislative intent of AB 32 and AB 398.

Carbon Management

IEMAC addresses the challenges of carbon management and correctly identifies the importance of ensuring that carbon capture projects do NOT create a compliance obligation. However, the report falls short of making this a recommendation. CCEEB suggests that this chapter be explicit in recommending that CARB formalize that captured emissions are exempt from C&T, as directed by state legislation.

Logical Inconsistencies in Key Recommendations

Several recommendations rely on flawed logic or insufficient evidence:

- **Offset criticism:** The draft report raises concerns about the environmental integrity of offsets without providing substantive evidence. The rigorous verification protocols established by CARB ensure that offsets represent real, additional, and permanent GHG reductions.

- **Revenue vs. cost containment:** The report suggests that increasing programmatic costs to raise revenues is justified, but it fails to demonstrate how this aligns with the cost-effectiveness principle central to AB 32. Revenue generation is not an appropriate substitute for cost-containment measures.

IEMAC's report should ensure that its recommendations are supported by robust evidence and aligned with the program's cost-effectiveness goals. Logical fallacies, such as drawing irrelevant conclusions from offset data, undermine the credibility of the report.

Emissions Containment Reserve (ECR)

While the report suggests introducing an ECR to further limit allowances and increase prices during periods of low demand, it does not quantify the potential cost impact on the California public or regulated entities. Evidence from other jurisdictions such as the Regional Greenhouse Gas Initiative shows that such mechanisms often result in increased compliance costs which ultimately impacts the citizens through higher costs of goods, services, and energy. The issuance of the Resource for the Future policy brief of an ECR came well after the draft IEMAC report was released for comment so we cannot fully analyze that and meet the deadline for comments but look forward to continuing discussions on this topic.

Cumulative Economic Impact of Recommendations

The cumulative effect of the report's proposed recommendations, including increased allowance floor prices with an ECR, offset restrictions, and new market mechanisms, would impose significant costs on California's economy:

- **Allowance floor price escalator:** The artificial 5% + CPI escalator has already raised allowance prices by over 50% since its implementation. Continuing this trend could disproportionately impact low-income households and small businesses.
- **Projected compliance costs:** Compliance costs are going up, particularly as California tightens its cap to achieve the additional 180–265 MMT of reductions needed by 2030. Further reducing or eliminating offsets, removing allowances for offset utilization, adding an ECR, and other recommendations of IEMAC will further increase costs.
- **Impact on utility bills and fuel prices:** Increased compliance costs would inevitably translate into higher utility bills and fuel prices for consumers, exacerbating economic inequities.

IEMAC should prioritize maintaining the structural integrity of existing cost-containment provisions, such as offsets and allowance allocations, rather than introducing additional cost burdens.

Conclusion

The IEMAC's 2024 recommendations, while well-intentioned, fail to align with the legislative priorities of AB 32 and AB 398. By prioritizing revenue generation and introducing costly programmatic changes, the report risks undermining the cost-effectiveness and economic efficiency of California's Cap-and-Trade Program.

We urge the IEMAC to re-evaluate its recommendations with a focus on preserving the program's cost-containment mechanisms, ensuring robust cost-benefit analyses, and upholding the legislative intent of California's climate policies.

Thank you for your consideration of our comments. We look forward to discussing them or answering any questions you may have at your convenience. Please contact [me](#) and [Mikhael Skvarla](#), CCEB's governmental relations representative should you have any questions or comments.

Sincerely,

A handwritten signature in black ink that reads "Tim Carmichael". The signature is fluid and cursive, with the first name "Tim" and last name "Carmichael" clearly distinguishable.

Tim Carmichael
President/CEO

Cc: Honorable Members, California Joint Legislative Committee on Climate Change