The Climate Reality Project
SILICON VALLEY CHAPTER

Date: July 20, 2026

Independent Market Emissions Advisory Committee
California Environmental Protection Agency
1001 I Street
Sacramento, CA 95814

Submitted via email: iemac@calepa.ca.gov

ADMINISTRATIVE NOTICE & REQUEST FOR PUBLIC RECORD ARCHIVAL

This letter constitutes a formal public comment containing protected speech under the First Amendment of the U.S. Constitution and Article I, Section 2 of the California Constitution.

This submission is directed to the Independent Emissions Market Advisory Committee (IEMAC) for immediate distribution to all committee members and for inclusion in the public meeting materials for the July 2, 2026 committee meeting. Because the IEMAC regularly publishes written public comments to its online portal, any selective omission of this comment letter based on its viewpoint, perspective, or the political sensitivity of the factual information contained herein constitutes unlawful viewpoint discrimination.

If this submission is excluded from the online meeting materials, please provide the specific statutory exemption, legal authority, or neutral administrative policy justifying the omission within 10 calendar days. Alternatively, preserve this electronic record, its metadata, and all related internal communications for immediate production under the California Public Records Act (CPRA).

Re: Follow-up to my earlier public comments for the July 2, 2026, IEMAC meeting

To the Members of the Committee:

My previous comment letter for the July 2 IEMAC meeting (copied herewith) addressed the potential impact of banked MDI allowances, in addition to the existing allowance bank, on California's 2045 GHG target. I have extended the analysis to also include the potential impact of excess APCR allowances. A full accounting of potential over-the-cap allowances (exceedance over CARB's allowance budgets[1]) includes the following:

- The 379M bank (as of Q4, 2024, as reported in the 2024 IEMAC Annual Report[2]; this might increase by 2027)

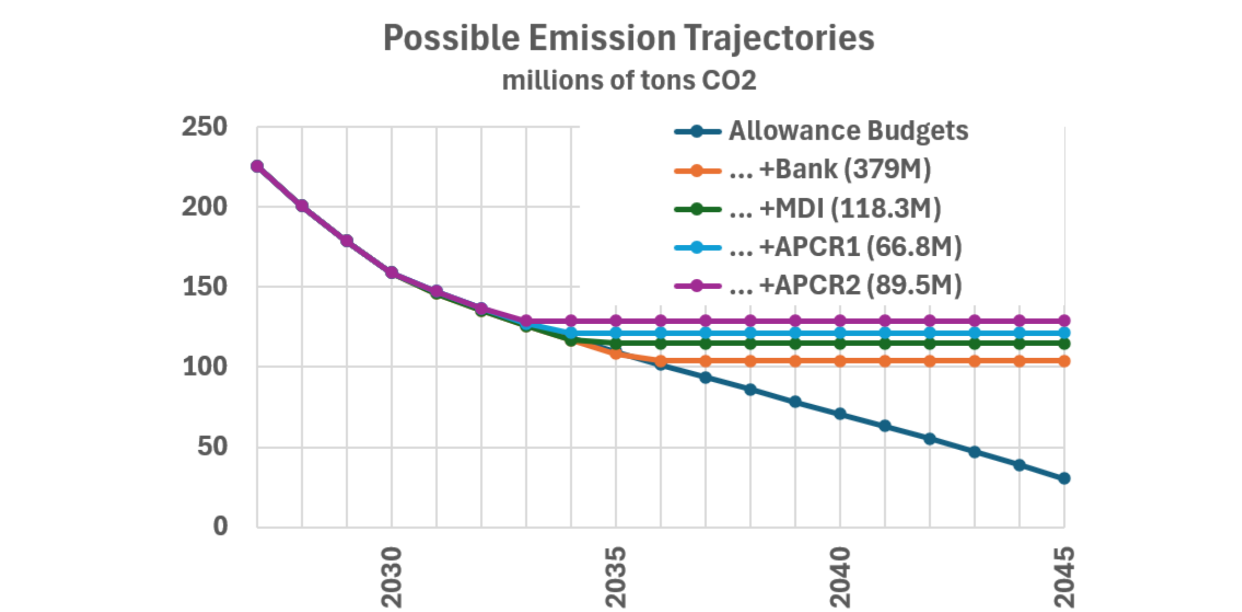
[1] https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_app%20a-1.pdf#page=109

[2] https://calepa.ca.gov/wp-content/uploads/2025/02/2024-ANNUAL-REPORT-OF-THE-IEMAC-final.pdf#page=44

- The 118.3M MDI allowance reserve (which will likely be banked, according to CARB's market expectations[3])
- The 156.3M APCR pre-2027 reserve balance (66.8M in APCR1, 89.5M in APCR2)[4]

The total potential cap exceedance is 653.6M allowances, which could allow regulated sectors to stop reducing emissions in 2033 and to meet their compliance obligation even while holding annual emissions flat at 129 MMTCO2e through 2045.

The following chart illustrates the potential effect of the above-listed cap exceedance factors on 2045 emissions. It is impossible to reliably forecast emissions trajectories under CARB's Cap-and-Invest regulation, but the chart clearly shows the magnitude of the cap exceedance and its potential impact on the 2045 target. (See the CapExceedance.xlsx spreadsheet accompanying this letter for calculation details.)



The Legislature and the public do not comprehend how far CARB's regulations have deviated from the State's 2045 target, in part because the IEMAC and LAO have mainly focused on the 2030 target and have given little attention to the 2045 goal in their advisory reports.

For example, the LAO's October, 2023, "Frequently Asked Questions" about Cap-and-Trade illustrated the potential impact of the allowance bank on 2030 emissions (Figure 3).[5] But regulated entities would not likely use their banked allowances for 2030 compliance if allowances could have much higher future value; in doing so they would be forfeiting an

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[3] 5/28/2026 Board meeting @8:08:40 https://cal-span.org/meeting/carb_20260528/

[4] https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/regulation/nc-Staff%20Report%20-%20Initial%20Statement%20of%20Reasons%20(ISOR).pdf#page=41

[5] https://lao.ca.gov/reports/2023/4811/Cap-and-Trade-FAQs-102423.pdf#page=4

investment asset with a 5% real annual return plus a potential additional gain of up to 267% if allowance prices rise substantially. (This was the crux of CARB staff's explanation, at the May 28 Board meeting, of why the new MDI allowances would not be expected to impact near-term emissions or GGRF revenue.)

The 2024 IEMAC Annual Report characterized the 379M allowance bank as being "greater than one year's allowance supply," but that understates the bank's significance in relation to the 2045 target. 379M allowances equates approximately to seven years (2039-2045) of cumulative emission under CARB's allowance budgets, and the full 653.6M exceedance amounts to a full decade (2036-2045) of emissions.

I encourage the IEMAC and LAO to advise the Legislature on whether it is realistically possible, with the large glut of banked allowances that CARB has allowed to accrue (including additional MDI allowances), for the State to achieve its 2045 target, and whether there is any way to bring CARB's regulatory policy back into conformity with statutory climate goals. CARB has been unable or unwilling to address this issue, and the Legislature won't know how to do so without clear guidance from the IEMAC and LAO.

Sincerely,

Ken Johnson
Legislation and Policy Committee
Climate Reality Project: Silicon Valley Chapter

Subject: Fwd: MDI
From: Kenneth Johnson <ken@kjinnovation.org>
Date: 7/1/2026, 12:19 PM
To: "Dean, William@EPA" <William.Dean@calepa.ca.gov>
CC: Meredith Fowlie <fowlie@berkeley.edu>, Danny Cullenward <dcullenward-iemac@ghgpolicy.org>, brian@ibew428.org, Katelyn Roedner Sutter <kroedner@edf.org>, "Kerstein, Helen" <Helen.Kerstein@LAO.CA.GOV>

Bill, Would you please post this as a public comment for the July 2 meeting?

My Capitol Weekly op ed on banking was published today (https://capitolweekly.net/carbs-half-billion-ton-elephant-in-the-room/), but unfortunately without the chart that I had submitted to illustrate the MDI's impact on the 2045 GHG target. Following is a copy of the submission with the intended graphic and the underlying calculations (attached MDI.xlsx).

Aside from the banking issue, the op ed also touches on more effective regulatory alternatives to the MDI and to CARB's revised allowance allocations:

A border carbon adjustment would be the obvious resolution to industry leakage. This will be addressed in CARB's forthcoming AB 398 report, which Steven Cliff said will "help inform staff assessment of the post-2030 allocation discussion" (May 29 Board meeting @1:31:40). A near-term regulatory alternative for oil refineries, which would be more effective than CARB's allowance-budget-busting MDI, would be to simply not regulate in-state refineries until such time as imports can be brought within the scope of state regulation via a border adjustment.

CARB's 15-day amendments reduced 2027-2030 GGRF allocations by an estimated 83 million, with 57 million being transferred to Utility Allocation and 26 million being transferred to Industrial Allocation. (May 6 Senate hearing, CARB slide 12) CARB assumed no impact of the MDI on GGRF revenue, under the premise that excess MDI allowances would be banked. A more effective regulatory alternative to the revised allowance allocations would be to shift the 83 million allowances into a supplemental, low-priority (Tier-4) GGRF allocation to Utilities and Industry, which would have no impact on existing Tier 1-3 GGRF program allocations under SB 840, but would direct revenue in excess of existing programs' budget requirements to give consumers and industry significant relief from high regulatory costs at high allowance prices.

Ken Johnson
Legislation and Policy Committee
Climate Reality Project: Silicon Valley Chapter

-------- Forwarded Message --------
Subject:MDI
Date: Wed, 24 Jun 2026 12:31:48 -0700
From: Kenneth Johnson <ken@kjinnovation.org>

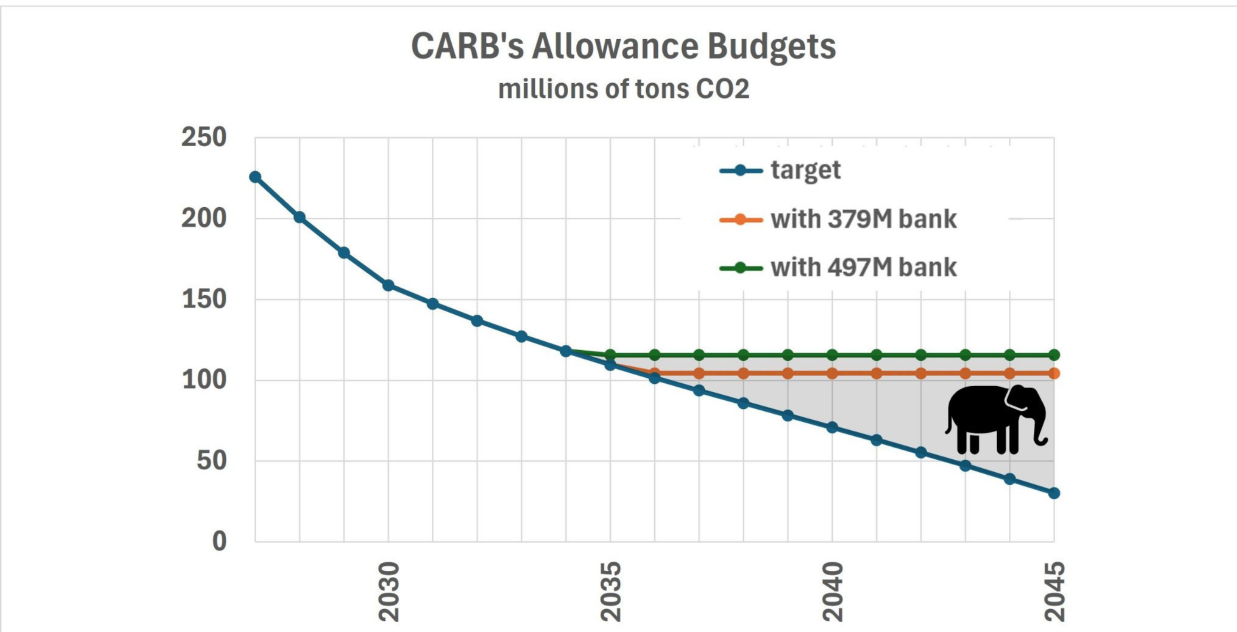
To: Danny Cullenward <dcullenward-iemac@ghgpolicy.org>, Kerstein, Helen <Helen.Kerstein@LAO.CA.GOV>

Danny and Helen,

FYI, I've submitted an op ed to Capitol Weekly (copied below), which the Editor plans to run on July 1. You might be interested in the analytical data in paragraph 4. I've attached the Excel file with the underlying calculations.

Re item 5(d) in the Agenda for the July 2 IEMAC meeting ("2030 GHG targets ..."), you might consider broadening the topic scope to include the 2045 target.

Ken



CARB's half-billion-ton elephant in the room

By Ken Johnson

The California Air Resources Board [recently voted](#) to authorize the state's new [Cap-and-Invest regulations](#) after much hand-wringing over a last-minute amendment, purportedly in response to political pressure from oil refineries, to subsidize industry decarbonization projects. The proposed [Manufacturing Decarbonization Incentive](#) (MDI) will finance industry projects by creating a new allowance reserve account with 118 million allowances over and beyond CARB's previously planned carbon allowance budgets. (However, the Board suspended MDI activation pending further review and potential amendment.)

The Legislative Analyst's Office had advised the Legislature prior to the Board's vote that "By adding MDI allowances outside of the cap, the proposed regulations would allow for additional emissions above the capped level and reduce certainty that the state will meet its 2030 GHG reduction target." Furthermore, the new allowance allocation could cut into revenues for the Greenhouse Gas Reduction Fund, which relies on allowance auctions to finance a variety of state programs. Surplus MDI allowances could depress auction sales or prices.

CARB staff rebutted LAO's analysis, arguing that most of the MDI allowances would be issued after 2030, and in any case, the additional allowances would likely be banked for future use and would therefore not impact near-term allowance sales or emissions. (May 28 Board meeting @8:08:40.)

The "elephant in the room" that CARB and LAO were both ignoring is the MDI's potential impact on attainment of the state's 2045 GHG reduction target. There were already over 379 million banked allowances in circulation in late 2024 (and surely many more by now), comparable to CARB's cumulative allowance budgets over the 2039-2045 time span (seven years). Those allowances would allow industry to basically stop reducing emissions after 2035. CARB's planned allowance budgets decline from 110 million in 2035 to 30 million in 2045, but a 379-million allowance bank would allow industry to meet its compliance obligation while holding annual emissions constant at 104 million tons-CO2 over the 2036-2045 time frame. An additional 118 million banked MDI allowances would raise the total in-circulation bank to over 497 million, allowing industry to hold 2035-2045 annual emissions at 116 million tons-CO2.

CARB doesn't have a viable plan for attaining the state's AB 1279 GHG target, and its new MDI reserve sends a clear signal to the market that CARB is not committed to enforcing its allowance budgets, and that the 2045 target is merely "aspirational."

It is not clear what purpose the MDI is intended to serve. In its response to public comments on the MDI, CARB said "MDI allocation is designed to mitigate emissions leakage … ." But staff told the Board on May 28 (@7:31:23) that "although MDI certainly could benefit [ ] the program by reducing leakage, that's not its principal purpose ... it's intended to decarbonize those sectors." California already has a "decarbonization incentive" program, namely Cap-and-Invest, not to mention the GGRF, LCFS, RPS, electrification incentives, … . Why are those programs unable to sufficiently incentivize decarbonization?

California's oil refineries (Chevron, PBF Energy, Marathon) did not ask for an investment subsidy; what they need is, first, protection from competition with unregulated and more highly-polluting imports, and second, relief from high regulatory costs.

The first need could be met with a carbon border adjustment, which would bring out-of-state refineries within the scope of California's regulations for imported fuel. (The LCFS already accounts for upstream emissions of imported fuel.) CARB was dismissive of public recommendations for a border adjustment, asserting that “such a mechanism is unnecessary here as there is no evidence that emissions leakage will occur as a result of the Proposed Amendments, and as such a border adjustment alternative or measure, or other alternative mechanisms, are not necessary to reduce or avoid any significant emissions leakage related impacts.” Why, then, is the MDI needed “to mitigate emissions leakage”?

Industry’s regulatory cost burden could be alleviated without cannibalizing the GGRF or breaching allowance budgets. The GGRF is revenue-starved at low allowance prices, whereas industry is primarily concerned with potential high costs at prices near the price ceiling. A supplemental, output-based GGRF allocation to industry at a low priority level would have no impact on existing GGRF programs, but GGRF revenue in excess of existing programs’ budget requirements (at high allowance prices) could give industry significant relief from high regulatory costs.

It is hard to comprehend CARB’s thinking and policy rationale on these matters, especially its obliviousness to the additional half-billion tons of CO_2 emissions that will be permitted by the allowance bank – likely putting the state’s 2045 target out of reach.

Ken Johnson is affiliated with the Climate Reality Project: Silicon Valley Chapter and is a writer on climate-policy topics.

Attachments:

MDI.xlsx	35.4 KB