



December 5, 2024

Joint Legislative Committee on Climate Change Policies
1021 O Street, Suite 7710
Sacramento, CA 95814
Attn: Ross Zelen, Chief Consultant

Copy to:
Independent Emissions Market Advisory Committee
Attn: Meredith Fowlie, Chair, and Danny Cullenward, Vice-Chair

Dear Mr. Zelen,

Please find herewith my recommendations to the Legislature pertaining to Cap-and-Trade authorization and post-2030 climate policy. Thank you for offering me the opportunity to share my perspectives on this topic.

I am copying this to the IEMAC, whose guidance on the four itemized policy recommendations could be of value to the Legislature.

Sincerely,

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

Recommendations to the California Legislature for Post-2030 GHG Regulation

Key Recommendations: As the Legislature considers options for greenhouse gas regulation after expiration of the current Cap-and-Trade authorization, I recommend that California's legislative policies be guided by four key policy objectives:

- Effectuate the AB 1279 mandate (HSC 38562.2(c)(1)) to "Achieve net zero greenhouse gas emissions as soon as possible" within limits of cost affordability.
- Pursue policies and collaborations with other states, the federal government, and other nations to facilitate and expedite attainment of net zero global greenhouse gas emissions as soon as possible. (HSC 38564)
- Employ stable and predictable carbon pricing incentives, within limits of cost affordability, to give economic value to decarbonization and to facilitate long-term investment in low-carbon technologies and industries.
- Apply carbon pricing revenue to finance decarbonization of regulated industries and to make rapid decarbonization affordable.

CARB's current regulatory policy does not give actionable meaning or effect to the phrase "as soon as possible" in AB 1279. The statute mandates attainment of carbon neutrality "no later than 2045", but CARB's Cap-and-Trade [Allowance Budget in CARB's SRIA](#) is constructed to attain carbon neutrality no sooner than 2045. The proposed Cap-and-Trade regulation would create no incentive for earlier attainment of carbon neutrality within defined limits of cost affordability, but neither would it guarantee attainment of the target by 2045 because the cap is preempted by the AB-398 price ceiling. California should establish a clear legislative and regulatory priority of attaining carbon neutrality as soon as possible, within limits of cost affordability, irrespective of whether attainment occurs sooner or later than 2045.

CARB's 2022 Scoping Plan [cites the IPCC's finding](#) that "to avoid climate catastrophe and remain below 1.5°C with limited or no overshoot of that threshold, global net anthropogenic CO₂ emissions need to reach net zero by 2050." But the [general consensus](#) of most IPCC scientists is that the 1.5°C goal is now unachievable and that global heating will exceed 2.5 or 3.0°C by 2100. An increase of 2.0°C is the threshold at which cascading near-term [tipping points will likely be triggered](#), leading to catastrophic and irreversible climate impacts.

An [unprecedented and rapid decarbonization](#) of the global economy is required to avert climate catastrophe. The California Legislature's singular focus on statewide emission targets could result in the state winning the battle but losing the war against climate change. [AB 32](#) clearly recognized that "national and international actions are necessary to fully address the issue of global warming," and that California's actions could "have far-reaching effects by encouraging other states, the federal government, and other countries to act." But the Cap-and-Trade linkage and offsets employed by California perversely disincentivize and deter such action.

The hundreds of millions of dollars that Quebec has [paid California](#) for allowances and offset credits in recent years could have alternatively been invested in moving Quebec's own economy toward carbon neutrality. Quebec cannot achieve net-zero by outsourcing its emissions

reductions to California, which will have no allowances or offsets to spare if the state is seriously endeavoring to achieve net-zero – or net-negative – emissions as soon as possible. Moreover, if California were to rely on inexpensive offsets and credits from linked jurisdictions to achieve its 2045 target as part of a least-cost compliance strategy, then global carbon neutrality would only be achievable if others paid for the most expensive decarbonization options that California would have forgone.

In light of the UNFCCC's failure to motivate meaningful climate action and the Republican administration's overt hostility to such action, it is incumbent on California and its allies to lead efforts on climate change. California should engage with other jurisdictions in efforts to achieve emissions reductions additional to, not in lieu of, in-state reductions. Collaborations should be pursued to share in the investment costs (and financial returns) of sustainable technology development. The global investment potential of sustainable technologies (for cement, steel, fertilizer, aviation, etc.) should be leveraged to facilitate early-stage development and commercialization in California and other first-mover jurisdictions as soon as possible. Any burden sharing between parties should be allocated based on their "[common but differentiated responsibilities and respective capabilities](#)," not based on global price equalization.

California's Cap-and-Trade system has evolved into a hybrid policy instrument incorporating tax-like price controls (a price floor and ceiling, the APCR), which forfeit the emissions certainty of a firm cap in favor of price certainty, but without providing the price stability of a carbon tax. CARB's regulatory incoherence stems from ill-defined legislative objectives: Should regulations operate to achieve a firm (albeit unsustainable) emissions goal at the lowest possible cost, or should they seek to achieve the lowest possible emissions within a firm cost limit?

Cost affordability is a political requisite to secure authorization by the California Legislature, and more broadly to establish a precedent that might be followed by other states and nations. AB 398 established six statutory criteria for setting the Cap-and-Trade price ceiling, the first being "the need to avoid adverse impacts on resident households, businesses, and the state's economy." The same criteria are applicable to the price floor, although there are currently no statutory criteria for setting the floor. The IEMAC could, at the Legislature's request, review and re-evaluate the policy choices and rationale behind CARB's current Cap-and-Trade regulatory framework, and could propose policy criteria for setting the price ceiling and floor.

Regulatory costs depend critically on how carbon pricing revenue is expended. One policy alternative that was not considered in [CARB's 2011 Scoping Plan](#) was the option of establishing a firm carbon price, with all pricing revenue being used to finance decarbonization of regulated industries and to make rapid decarbonization affordable. For example, a stable, high carbon price could be applied, creating maximal incentives for investment in decarbonization, by employing output-based allocation of carbon pricing revenue. (The canonical precedent for this policy approach is [Sweden's regulation](#) of stationary-source NOx emissions in the early 1990s.) To better inform the Legislature on its policy options, CARB could (at the Legislature's request) evaluate the comparative economic performance of this alternative (either retrospective or projected) as part of CARB's Cap-and-Trade modeling effort.