



February 24, 2025

The Honorable Mike McGuire, President Pro Tem
California State Senate
1021 O Street, Ste 8518
Sacramento CA 95814

The Honorable Robert Rivas, Speaker
California State Assembly
1021 O Street, Ste 8330
Sacramento CA 95814

The Honorable Monique Limón
California State Senate
1021 O Street, Ste 7610
Sacramento CA 95814

The Honorable Jacqui Irwin
California State Assembly
1021 O Street, Ste 6220
Sacramento CA 95814

RE: Reauthorization of California's Cap and Trade Program

Dear Pro Tem McGuire, Speaker Rivas, Senator Limón, and Assemblymember Irwin,

California's Cap and Trade Program was conceived and developed to play a fundamental role in the state's transition to carbon neutrality, serving to reduce carbon emissions not captured by other regulations through a stable and cost-efficient market mechanism. Despite this ambition, the current program is failing to reduce carbon emissions at the necessary pace to meet California's climate targets. As the State Legislature deliberates reauthorizing the Cap and Trade program beyond its 2030 sunset date, it is critical to consider reforms to the program that will close this gap between ambition and implementation.

To strengthen the market's emissions reduction potential, bring accountability to its operation, uplift environmental justice, and increase revenues generated by Cap and Trade auctions, NextGen California strongly encourages you to adopt the following priorities for reauthorization:

1. **Drive greater emissions reductions by reauthorizing the program and lowering the allowance cap to align with California's 2045 carbon neutrality target.**

The Cap and Trade program is not structured to meet its 2030 emissions reduction target. An oversupply of compliance instruments in the market means that without changes, the program is all but certain to miss the near-term goal set by the California Air Resources Board (CARB) in the 2022 Scoping Plan.¹

Any extension of Cap and Trade beyond 2030 must calibrate the carbon market toward the 2045 target to

¹ Brown, Ross. "Assessing California's Climate Policies: The 2022 Scoping Plan Update". The Legislative Analyst's Office, January 4, 2023. <https://lao.ca.gov/Publications/Report/4656>.

justify the long-term operation of the program. The Legislature should direct CARB to lower the allowance cap and adopt an allowance reduction pathway that prioritizes near-term cuts to greenhouse gas emissions in line with California’s statutory climate targets.

2. **Address affordability issues and lower costs for consumers by increasing the climate credit.**

Californians are experiencing rapidly rising electricity rates in conjunction with the broad effort to phase out fossil fuel appliances, vehicles, and infrastructure. The Cap and Trade program already has a dividend in the form of a Climate Credit, but it could do more to address the dramatic cost increases in the consumer electricity markets that have taken place in recent years.

Cap and Trade reauthorization should recast the role of the Climate Credit as a larger dividend with a [progressive structure](#)² designed to lower the cost of electricity for all Californians, especially low-income households.

3. **Promote environmental justice by reducing free allowances, bringing offsets under the emissions allowance cap, and introducing facility level caps in frontline communities.**

California’s low-income and communities of color have long endured a disproportionate burden of pollution and climate change impacts. The Cap and Trade Program and its accompanying policies do not go far enough to repair these historic and ongoing harms. Currently, the fossil fuel industry takes advantage of free allowances, underregulated offsets, and other loopholes to continue polluting the air and water in California’s frontline communities.

As a part of reauthorization, the Legislature should reduce free allowances and count offsets under the allowance cap instead of counting them as additional to allowances. Additionally, the Legislature should introduce and regulate facility level emissions caps in designated environmental justice communities to ensure that the Cap and Trade program does not further incentivize disproportionate pollution burden in disadvantaged communities.

4. **Direct Greenhouse Gas Reduction Fund (GGRF) allocations to prioritize environmental justice-aligned programs and advance California’s climate goals.**

Over the course of the Cap and Trade program’s operation, the GGRF has provided billions of dollars for programs that advance the clean energy economy and reduce climate pollution. However, important environmental justice programs like Transformative Climate Communities and Equitable Building Decarbonization have struggled to secure sustained funding in recent years, while discretionary GGRF dollars are frequently targeted as a backstop for funding programs that have a more tenuous connection to climate action.

² Smith, Lane, Michael Mastrandrea, and Michael Wara. “Reallocating the Residential California Climate Credit to Low-Income Customers”. Climate and Energy Policy Program, December 13, 2024.
https://woods.stanford.edu/sites/woods/files/media/file/cepp_policy_brief_climate_credit_reallocation.pdf.



It is crucial that GGRF continues to be a source of funding for programs that drive real emissions reductions and long-term climate resilience. Reauthorization should also provide continuous GGRF appropriations for environmental justice-aligned programs and commit a higher level of GGRF funding for environmental justice priorities generally.

5. **Improve program accountability by establishing clear timelines for regulatory review and legislative oversight.**

The Cap and Trade program is critical to reduce emissions needed to meet California’s statutory carbon neutrality goal by 2045, acting as a “backstop” to reduce emissions that are not achieved through other state policies and regulations. If the program is not on track to support sufficient emissions reductions, there must be a clear process with an established timeline and legislative oversight by which CARB updates its regulations to course-correct.

As part of reauthorization, the Legislature should establish a formal, periodic regulatory review and oversight process in consultation with the Independent Emissions Market Advisory Committee and the Environmental Justice Advisory Committee. This process should oversee the following: evaluate and ensure that the Cap and Trade program is aligned with statewide greenhouse gas reduction goals, assess and address disproportionate pollution burdens from facilities subject to the program, and update program compliance mechanisms in keeping with the latest and best science.

As California faces fiscal headwinds and federal funding uncertainty, reauthorization of the Cap and Trade program is an opportunity to both stabilize and increase funding for climate priorities. However, it is critical that policymakers do not lose sight of the market’s foundational purpose of emissions reduction.

The State of Washington is now operating a more progressive version of California’s Cap and Trade program, which incorporates many of the aforementioned policy recommendations – it is time for California to increase our ambition and position our program to promote the best policies available. The above priorities can help guide decision making as legislators balance considerations for emissions reductions, revenue and affordability, accountability, and environmental justice.

This is a pivotal moment in California’s climate transition, and it is vital that the Legislature’s actions for Cap and Trade reauthorization are commensurate with our state’s climate ambition and global leadership. Our policy advisors, James Pew (james.pew@nextgenpolicy.org) and Chloe Ames (chloe.ames@nextgenpolicy.org), are available at your convenience to further discuss the priorities listed above. We look forward to working with you.

Sincerely,

Arnold Sowell Jr.

Executive Director, NextGen California