



Rachel Gold  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

May 9, 2024

Dear Ms. Gold:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary for the proposed regulation on the Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, as required in the California Code of Regulations (CCR), title 1, section 2002 (a)(1). Comments are based upon the SRIA and other publicly available information.

The proposed regulation would revise the 2025-2030 emission allowance budgets to increase program stringency, revise post-2030 allowance budgets, update industrial and utility allowance allocations, minimize emissions leakage in the electricity sector by ensuring compliance obligations are applied consistently to imported electricity, and replenish the Voluntary Renewable Electricity Reserve with allowances to recognize voluntary investments in renewable electricity beyond state requirements. The proposed amendments would cover 353 facilities (mainly utility and manufacturing plants) with the first requirements starting in 2025 and would be fully implemented by 2045.

The total direct cost over the regulation's implementation period from 2025 to 2046 is estimated at \$143 billion for the covered facilities in the energy and industrial sectors, and the total cost savings for these facilities (mainly from lower energy costs) are estimated to be \$62 billion. The net cost increase would be passed on to individuals and businesses through increased prices for energy and goods produced in the state. Over the same period, estimated health benefits amount to \$73 billion, and the decrease in greenhouse gas emissions is estimated to generate a global benefit through the avoided social cost of carbon in the range of \$28 billion to \$460 billion depending on the discount rate used.

The estimated fiscal impact of the proposed regulation would lead local government revenues to increase by an estimated \$11.3 billion over the 2025-2046 period from additional allowance sales, sales taxes, and utility taxes on electricity but decrease by \$943 million from utility taxes on natural gas, and publicly owned utilities' compliance/abatement costs would increase by \$3.7 billion. State government revenues over the same period are projected to increase by \$11.2 billion from selling allowances and from general and diesel fuel sales taxes offset by a decrease of \$2.6 billion from natural gas surcharges and another \$3.7 billion from lower personal income tax revenue.

Finance generally concurs with the methodology, with the following exceptions.

First, the SRIA states that the average price of natural gas (page 49) was taken from the U.S. Energy Information Administration's 2021 price outlook, when the 2023 outlook had been

published at the time. The SRIA should either update the projection with the latest available data or explain why the 2021 outlook is appropriate for the analysis.

Second, the baseline California employment number in table 25 used to identify employment impacts shows projected statewide employment of 25.6 million in 2026. In 2023, California household employment was about 18.4 million and payroll employment was 17.8 million. The baseline California employment projection should be taken from Finance's latest published economic forecast as per CCR title 1, section 2003 (b), which currently shows household and payroll employment of 18.8 and 18.4 million respectively in 2026.

Lastly, the estimated impact on state personal income tax revenue that is discussed in the impacts to individuals section on personal income as part of the economic impact analysis should also be included in the fiscal impact estimate.

These comments are intended to provide sufficient guidance outlining revisions to the impact assessment. If any significant changes to the proposed regulations during the rulemaking process result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,

**Somjita Mitra** Digitally signed by Somjita Mitra  
Date: 2024.05.09 16:54:30 -07'00'

Somjita Mitra  
Chief Economist

cc: Ms. Dee Dee Myers, Director, Governor's Office of Business and Economic Development  
Mr. Kenneth Pogue, Director, Office of Administrative Law  
Ms. Yana Garcia, Secretary for Environmental Protection  
Mr. Mark Sippola, Chief, Cap-and-Trade Program, Air Resources Board