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We're working to rapidly reduce climate pollution at scale, starting in California.

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The Honorable Chair Jacqui Irwin  
Joint Legislative Committee on Climate Change  
1021 O Street, Room 6220  
Sacramento, CA 95814

August 26, 2025

#### **RE: Proposed Amendments to Assembly Bill No. 1207**

Dear Chair Irwin,

We at The Climate Center appreciate your leadership of the Assembly Cap and Trade Working Group and your work on the proposed amendments to AB 1207 (RN 25 20977, dated 8/18/25). We support the general direction that the Assembly is taking with these amendments to address issues of affordability and strengthen the program to achieve the state's climate, health, and economic goals. Below, we highlight sections in the document that we support and oppose, and offer suggestions to improve the proposal further.

The Climate Center is a climate and energy policy nonprofit working to rapidly reduce climate pollution at scale. We are a think-tank, do-tank working collaboratively for accelerated, equitable climate policy in California. We know that as goes California, so goes the world. With the climate crisis rapidly worsening, we engage in cross-sector coalitions to enact bold, science-based policy that sparks innovation and channels market forces for speed and scale GHG reductions to benefit everyone.

## **Allowances to Fossil Fuel Corporations - *OPPOSE and Recommended Additions***

The Climate Center strongly opposes free allowances to fossil fuel corporations and strongly recommends the following:

- **Rapidly phase out free allowances** to fossil fuel corporations as they subsidize continued pollution and instead use those funds to directly address and improve affordability.<sup>1</sup>
- **Restore the authority to CARB** to allocate allowance values according to each industry's actual leakage risk as an essential and necessary first step.
- **Add specific language restoring CARB's authority** to modify and reassess the distribution of free allowances clearly in the language of the Assembly's proposal.

## **Emissions Containment Reserve - *SUPPORT***

- **We strongly support the Assembly's inclusion of an Emissions Containment Reserve (ECR)** to help stabilize both the carbon price and the allowance market. Implementing an ECR will foster a more favorable environment for carbon-reduction investments and facilitate effective planning and expenditure of GGRF programs. Negotiations will be necessary with linked programs in Washington and Quebec. Notably, [Washington](#) State's existing ECR establishes a strong precedent for reaching consensus on this mechanism among all partners.

## **Electric Utility-Related Amendments - *SUPPORT***

We also strongly support the following amendments from the Assembly that will make consumer utility bills more affordable, including:

- **Transfer of Gas Allowances to Electric Utilities:** Authorizing CARB to transition free allowances from gas utilities to electric utilities by 2031 or earlier to support the state's electrification goals and minimize electric bills for ratepayers.
- **Volumetric Climate Credit:** A volumetric Climate Credit for high bill months, prioritizing residential ratepayers.
- **Clean Energy Infrastructure Fund (CEIF):** The CEIF will require electrical utilities to deposit 10% of revenue from the sale of their free allowances to provide public financing of clean energy transmission projects to meet the state's clean energy goals and reduce ratepayer costs.
- **Funds to Demand Side Grid Support:** Requiring an electrical corporation to

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<sup>1</sup> <https://theclimatecenter.org/climate-targets/reforming-californias-cap-and-trade-program-policy-brief/>

remit 5% of the revenues received as a result of the direct allocation of allowances to the California Public Utility Commission for deposit in the Demand Side Grid Support (DSGS) Account. Virtual power plants (VPP), networks of local clean energy resources such as smart thermometers, rooftop solar, and stationary or mobile batteries, are eligible to participate in the DSGS program. Recent studies<sup>2</sup> have demonstrated that accelerated use of VPPs can help save electricity ratepayers in California hundreds of millions of dollars annually.<sup>3</sup>

### **Nature-Based Solutions - *SUPPORT and Recommended Additions***

We are grateful to the Assembly for including the essential role of nature-based solutions in reducing greenhouse gas emissions, increasing resilience to growing extreme weather and meeting California's climate targets over the next 20 years. We appreciate that the proposed Assembly amendments recognize nature-based solutions in several sections and elevate their importance within the Cap and Trade and Greenhouse Gas Reduction Fund (GGRF) discussions.

- **Eligible Funding Priority:** We appreciate the addition of nature-based solutions as a priority in Section 6. However, Section 13 calls for specific allocations of revenue to individual funds, guided by multi-year spending plans, without including nature-based solutions. We support the use of multi-year spending plans to balance program stability with legislative oversight, but urge you to amend this section to explicitly include nature-based solutions as an eligible funding priority.
- **Price Containment Reserve:** The proposed amendments in Section 38562 appropriately reference nature-based solutions. We recommend going further by directing the state to proactively acquire greenhouse gas reductions from multi-benefit natural, urban, and working lands projects to stock the reserve. A process driven by the California Natural Resources Agency (CNRA) to select, fund, or implement such projects would ensure that California secures the full suite of public benefits—climate resilience, biodiversity protection, watershed health, food and water security, and community well-being—in addition to greenhouse gas reductions.

### **Offsets Expansion- *OPPOSE and Recommended Additions***

We oppose offsets because they permit continued toxic pollution in frontline communities and exacerbate the climate crisis. In addition, numerous studies have demonstrated that offsets are inadequate as compliance instruments.<sup>4</sup>

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<sup>2</sup><https://www.canarymedia.com/articles/virtual-power-plants/california-demand-side-grid-support-benefits>

<sup>3</sup><https://www.brattle.com/wp-content/uploads/2025/08/The-Demand-Side-Grid-Support-Program-An-Assessment-of-Scale-and-Value.pdf>

<sup>4</sup> Coglianese, C., & Giles, C. (2025). "Third-Party Auditing Cannot Guarantee Carbon Offset Credibility." (SSRN Working Paper) – This report documents that as much as 80% or more of issued offset credits "continue to lack integrity" and explains in detail why the auditing process does not safeguard against these flaws. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=5345783](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5345783)

Therefore, **we do not support expanding the percentage of offsets as an overall part of the program.**

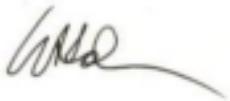
To the extent there will be offsets and modifications in the role of offsets, we recommend the following:

- **Keep offsets in state:** If offsets remain part of the program, we believe that they should be implemented within California, procured by the state, and focused on nature-based solutions that advance existing state goals as specified in Section 38561.5.
- **Count below the cap:** Any offsets sold in the market should count below the cap—meaning that for every offset used, an equivalent allowance must be retired from the market.
- **Facility level caps:** if offsets remain, facility level caps should be introduced to reduce pollution in non-attainment areas.
- **CDR for atmospheric carbon removal only:** Carbon dioxide removal (CDR) should not be used to meet the state's emissions reduction goals; CDR should exclusively be used for removing legacy carbon from the atmosphere.
- **State responsibility for offset projects:** We strongly recommend establishing a new, state-administered offset program and protocols dedicated to advancing the state's Nature-Based Solutions Climate Targets. This would ensure program proceeds are invested in high-impact, CNRA-selected nature-based projects located in California. This approach allows the state to prioritize strategic locations and project designs that maximize public benefits, rather than defaulting to developer-driven siting.

## Conclusion

Thank you for your leadership on this critical policy. We greatly appreciate the effort that went into this proposal and are generally supportive of its overall direction; however, there are opportunities to strengthen the program through further improvements. We look forward to working with you to ensure that a reauthorized Cap and Trade Program achieves the strongest possible outcomes for California's communities, lands, wildlife, and climate.

Sincerely,



Ellie Cohen, CEO  
The Climate Center

**CC:**

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