SENATE COMMITTEE ON ENVIRONMENTAL QUALITY
Senator Blakespear, Chair
2025 - 2026 Regular

Bill No:	AB 1207		
Author:	Irwin		
Version:	3/17/2025	**Hearing Date:**	7/16/2025
Urgency:	No	**Fiscal:**	Yes
Consultant:	Eric Walters		

SUBJECT: Climate change: market-based compliance mechanism: price ceiling

DIGEST: This bill specifies the social cost of carbon that must be considered by the California Air Resources Board (CARB) vis-à-vis establishing a price ceiling on allowances pursuant to the cap-and-trade regulation.

ANALYSIS:

Existing law:

1) Requires CARB to adopt a statewide greenhouse gas (GHG) emissions limit equivalent to 1990 levels by 2020, to ensure that statewide GHG emissions are reduced to at least 40% below the 2020 statewide limit no later than December 31, 2030, and to adopt rules and regulations to achieve maximum technologically feasible and cost-effective GHG emission reductions. (Health and Safety Code (HSC) 38500 et seq.)

2) Declares the policy of the state to achieve net zero GHG emissions as soon as possible, but no later than 2045, and to achieve and maintain net negative GHG emissions thereafter. (HSC 38562.2)

3) Requires any direct regulation or market-based compliance mechanism to achieve GHG reductions that are real, permanent, quantifiable, verifiable, and enforceable by ARB. (HSC 38562)

4) Authorizes CARB, in furtherance of achieving the 2020 statewide limit, to adopt a regulation that establishes a system of market-based declining annual aggregate emission limits for sources or categories of sources that emit GHG emissions, applicable from January 1, 2012, to December 31, 2020, to comply with GHG reduction regulations, once specified conditions are met.

5) Extended, pursuant to AB 398 (E. Garcia, Chapter 135, Statutes of 2017), CARB's cap-and-trade authority to 2030, and further, among other changes:

   a) Required ARB to establish a price ceiling on GHG emission allowances in consideration of specified factors, including the social cost of carbon; and
   b) Added several new conditions governing the management and allocation of allowances.

6) Requires CARB, when it adopts regulations to achieve GHG emission reductions beyond the 2020 statewide limit, to consider social costs and prioritize direct emission reductions at large stationary, mobile, and other sources. (HSC 38562.5)

7) Defines "social costs" as an estimate of the economic damages, including, but not limited to, changes in net agricultural productivity; impacts to public health; climate adaptation impacts, such as property damages from increased flood risk; and changes in energy system costs, per metric ton of greenhouse gas emission per year. (HSC 38506)

This bill, for the purposes of the price ceiling on GHG emission allowances established pursuant to AB 398, requires CARB to consider the social cost of carbon as established by the U.S. EPA in November of 2023.

Background

1) *Social cost of carbon*. The social cost of carbon (SCC) is an estimate, in dollars, of the economic damages that result from emitting an additional ton of carbon dioxide into the atmosphere. The SCC puts the effects of climate change into economic terms to help policymakers understand the economic impacts of decisions that would increase or decrease emissions.

   One of the primary ways the SCC is used in policy design and evaluation is through cost-benefit analysis. Take, for example, a regulation that limits air pollution: its total benefits—such as improving public health and environmental conditions through better air quality—would be compared against the implementation costs, such as purchasing and installing equipment to control air pollution.

   The SCC is used in cost-benefit analysis to quantify the dollar value of a policy's effect on climate change due to changes in greenhouse gas emissions. For policies that increase emissions, the expected increase in emissions (in tons) is multiplied by the SCC, and the resulting dollar amount is included as part of the total estimated costs of the policy. For policies that decrease emissions, the change in emissions is multiplied by the SCC, and the result is added to the expected benefits of the policy.

Comments

1) *Purpose of Bill.* According to the author, "California's cap-and-trade program is one of our state's flagship climate policies and is regarded as one of the most effective, and most cost-effective, mechanisms for greenhouse gas emission reduction worldwide. As the federal government retreats from efforts to address climate change, it is more important than ever that California's climate policies remain strong and grounded in rigorous scientific research. AB 1207 directs the California Air Resources Board to use the social cost of carbon value published by the U.S. EPA in 2023 to structure the cap-and-trade market, ensuring that California's cap-and-trade program continues to be informed by the best available science and promoting affordability by maximizing the environmental benefit of perhaps our most cost-effective emissions-reduction program."

2) *What's in the ceiling?* Today, the price ceiling—established by CARB pursuant to the authority granted by AB 398 and set based on the considerations required therein—is $94.92. For perspective, the latest allowance auction settlement price was $25.87, and the highest it has ever been is $41.76 (in February 2024). If demand sharply increased (or supply sharply fell) and the settlement price at a future auction were to be at the price ceiling, the cost impacts of cap-and-trade would be much greater than they are today. A recent report from the Legislative Analyst's Office estimated that if prices were to somehow reach and remain at the current price ceiling, annual impacts to gas prices could total roughly $700 per year.

   Although the SCC considered by CARB does not set the price ceiling alone, it is one of many factors CARB is required to consider. By changing the considerations CARB must make in setting the ceiling, this bill could more directly set the maximum allowable price impacts caused by cap-and-trade. This is not without its consequences, since more allowances would be offered at the ceiling meaning the "cap" in cap-and-trade would no longer be firm. Where to set the price ceiling is one of many questions regarding the design of the cap-and-trade program that lacks an objectively correct answer.

Related/Prior Legislation

SB 840 (Limon, 2025) would require certain reports on the cap-and-trade program to continue indefinitely. SB 840 is currently in the Assembly Natural Resources Committee.

SOURCE: Author

SUPPORT:

Bloom Energy
City of Lathrop
City of Rohnert Park
City of St. Helena
City of Thousand Oaks
Ieta

OPPOSITION:

Asian Pacific Environmental Network (APEN)
California Environmental Justice Alliance
Center on Race, Poverty & the Environment
Central California Asthma Collaborative (CCAC)
Central California Environmental Justic Network (CCEJN)
Central Valley Air Quality Coalition (CVAQ)
Clean Water Action
Climate Center; the
Communities for a Better Environment
Communitiy Water Center
Leadership Counsel for Justice and Accountability
Physicians for Social Responsibility Los Angeles
The Greenlining Institute
Transform

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