



## **Manufacturing Decarbonization Incentive Fund Frequently Asked Questions**

### **What is the Manufacturing Decarbonization Incentive Fund?**

A first of its kind feature for a carbon market, the proposed Manufacturing Decarbonization Incentive Fund would provide \$4 billion to support investment and doing business in California and to help make up for the loss of federal incentives. The fund will help accelerate emission reductions at covered facilities.

### **Who is eligible?**

Eligible entities include manufacturers and refiners subject to California's Cap-and-Invest Regulation such as cement and steel producers, and food processors among others.

### **What projects are eligible?**

It will fund projects that companies may need for long-term emissions reductions but require additional financial support. Eligible projects include replacing fossil fuel-powered equipment with clean alternatives, low-carbon hydrogen use, renewable energy generation, carbon capture and sequestration, methane reductions, and more.

### **How is it funded?**

CARB would issue new incentive allowances in a separate reserve account to create the fund. The new allowances would be restricted to 118 million in total. These instruments would only be released into the market if a company applied for them to support investment in eligible emissions reductions projects.

### **What happens to the allowances if they're not used?**

A company must report on the use of the incentive allowances. Any amount of incentive allowances not used to reduce emissions, must be returned to CARB and retired from the program.

## How will progress be reported?

As companies apply for and receive allowances from the fund, that data will be regularly reported publicly. It will be informed by any incentive allowances used, retired, and remaining for distribution. Any distribution of incentive allowances will be dependent on covered entity application and demand.

The first applications are due by June 1, 2027 and the first year in which incentive allowances will be awarded is late 2027 and be eligible for use in 2028. Companies can apply value to eligible project expenditures starting when the regulation goes into effect on September 1, 2026, pending board approval.

## How does this proposed incentive fund support California's 2030 and 2045 climate target?

In response to updates to the state's greenhouse gas inventory, the April 2026 *additional proposed updates* to the Cap-and-Invest Program include the immediate removal of 118 million allowances and makes the technical adjustment for this decade. This removal of allowances results in a 11 percent cap decline year-over-year for this decade. The cap decline from 2031 to 2045 is an average 7 percent.

The incentive fund is designed to both provide financial support for near-term emissions reductions and help scale technologies needed for achieving the mid-century climate targets. Staff will monitor, evaluate, and report publicly on the use of the incentive fund and statewide emissions trends to ensure the state remains on track to achieve statutory climate targets, and make adjustments as needed.

## April 22 Updates

### How will this program work in practice?

CARB will build on its existing policies for transparent market information to regularly provide data on how many applications have come in, how many have been approved, and the drawing down on the incentive fund, among other details. Public and market transparency will be critical for successful implementation of this program.

### Eligibility Details

To be eligible for the incentive allocation, an entity must be eligible for industrial allowance allocation. Specifics are listed in the proposed regulation, but generally investments in the following categories could be eligible for incentive fund support:

- Exempt biomass-derived fuels use or methane emissions reductions that reduce a facility's covered emissions.

- New electric equipment that results in reduction or avoidance of onsite fossil fuel combustion.
- Purchase and use of low-carbon hydrogen that meets specific criteria for demonstrating low-carbon value.
- Solar thermal or geothermal energy generation that results in reduced or avoided onsite combustion of fossil fuels.
- Electrified thermal energy procurement that results in reduced or avoided onsite combustion of fossil fuels.
- Use of alternative materials to avoid process emissions, such as in the cement sector.
- Sequestered or utilized captured carbon dioxide projects. For this use to be allowable, a Board-approved quantification methodology must be incorporated into the Regulation pursuant to the requirements of section 95852.3.

### **Application, Review, and Information Transparency**

- Eligible facilities submit an electronic application to CARB.
- Approved applications apply to one compliance period. A facility must apply to the Executive Officer on or before the following dates to be eligible to receive the cap adjustment factor modifier for the specified budget years:
  - June 1, 2027, for budget year 2028.
  - June 1, 2028, for budget years 2029 and 2030.
  - June 1, 2030, for budget years 2031 through 2033.
  - June 1, 2033, for budget years 2034 and 2035.
- As part of implementation:
  - Staff would publicly list all applications received that are complete while protecting any confidential business information, at least quarterly.
  - Staff would update the public website to indicate which applications are approved on a regular basis, similar to how updates are provided on issuance of offset credits in the compliance offset program.
- Applications would need to include quantification details of the proposed project, justification that the project meets eligibility criteria, expected annual reductions, and changes in fuel use and type, as applicable, among other details necessary to calculate the potential GHG reductions and meet the regulatory requirements.
- Staff will review applications as they are submitted to CARB to ensure they are complete and that the projects meet the regulatory requirements to receive support from manufacturing decarbonization incentive allocation prior to approval by the Executive Officer. Once approved, the public website would be updated to reflect approval of a project.

- CARB would include the number of allowances retired from the incentive fund in the *quarterly compliance instrument report*.
- CARB would annually post the aggregate number of allowances distributed from the incentive fund in the *public allocation report* posted in December of each year. The aggregate amounts will be broken down by each sector included in the allocation report.

## **Incentive Fund Accountability**

At the end of each compliance period, each facility that received incentive fund support will submit a report to CARB that demonstrates how the incentive value was spent on the eligible use(s) outlined in the application and how the project met the quantified GHG emissions. If the facility cannot demonstrate that it spent the incentive value on eligible projects within the spending deadline, then it is required to return an equivalent number of allowances to CARB, which will be retired. If a company files for bankruptcy, the existing bankruptcy process in the regulation would apply in this situation.

## **Timing Considerations**

The earliest incentive allocation could be provided is by October 24, 2027 for applications that are submitted by June 1, 2027 and approved by the Executive Officer before allocation occurs. Any applications approved for this initial incentive allocation would only have incentive support for the calendar year 2028 since the incentive allocation is approved and provided on a compliance period basis.

## **Market Oversight**

The incentive allowances will be tracked with unique identifiers in the registry. The status of these credits will be included in the compliance instrument reports CARB already publicly posts on a quarterly and annual basis. These incentive allowances can be used for compliance or sold to others in the market. As these credits enter the market, CARB and the market monitor will closely monitor secondary market and registry data to identify if any unintended market distortions are resulting from the implementation of the new design feature. Because it is unknown at this time how many applications CARB may receive, and ultimately approve, it will be critical to provide market transparency to support a steadily increasing carbon price to incentivize reductions to help achieve the state's climate targets.