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# California State Senate

SENATOR  
**ELOISE GÓMEZ REYES**  
TWENTY-NINTH SENATE DISTRICT



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May 19<sup>th</sup>, 2026

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Chair, California Air Resources Board  
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## **RE: Follow up to March 6<sup>th</sup> Cap and Invest Legislative Oversight Hearing**

Dear Chair Sanchez and Mr. March,

Thank you for your testimony at the joint hearing of the Senate Budget and Fiscal Review Subcommittee No. 2 on Resources, Environmental Protection & Energy and Senate Environmental Quality Committee to discuss the Board's proposed cap-and-invest program regulations.

At the hearing, we discussed the trade-offs in the program and explored whether the latest staff proposal achieves the right balance between competing priorities for environmental protection, revenue generation, and affordability — particularly as it relates to the proposed Manufacturing Decarbonization Incentive (MDI).

I am not convinced that the Board has provided a satisfactory answer for why it is appropriate to significantly cut California's public investments while providing billions of dollars in new funding to industrial emitters via a mechanism with limited oversight, no direction from the Legislature, and no documented benefits to consumer affordability.

When the Legislature reauthorized the cap-and-invest program last year, SB 840 (Stat. 2025, Limón) anticipated that the program would raise at least \$4 billion a year. In contrast, Chair Sanchez testified that if market prices rise to \$30 per allowance, the Board now expects the program to generate approximately \$8 billion from 2027 through 2030, with an average of \$2 billion per year. With revenues of only \$2 billion a year, a majority of the measures previously committed to in SB 840 funded by the Greenhouse Gas Reduction Fund (GGRF) would not receive any funding at all, imperilling critical investments in environmental justice, affordable housing, public transit, and air quality at the same time when the federal government is pulling back support for these essential priorities.

In place of public investments, the Board proposes to create a new Manufacturing Decarbonization Incentive program that would allocate up to 118 million allowances to industrial emitters, potentially for business-as-usual emission reductions. Furthermore, as noted in the handout provided by the Legislative Analyst's Office for our hearing, "recent analysis by the Chair of the Independent Emissions Market Advisory Committee suggests that some emitters could receive free allowances well in excess of their emissions," directly conflicting with the Legislature's intent behind the recently extended and modified program.

It is difficult to understand why the Board believes it is appropriate to prioritize a limited set of beneficiaries for a new subsidy that is funded not by equitably sharing limited program revenues, but by eliminating public funding for programs supported by a wide range of local governments and stakeholder groups.

Chair Sanchez emphasized that while a reduction in program revenue should be expected under the Board's latest proposal, the primary purpose of the cap-and-invest program is to cut emissions in line with California's legal requirements. However, Chair Sanchez also confirmed that the new incentive program would be funded by creating new allowances **that allow polluters to emit more than the levels Board staff determined are legally necessary** to comply with California's climate laws, including SB 32 (Stat. 2016, Pavley) and AB 1279 (Stat. 2022, Muratsuchi).

Affordability is a paramount concern as reflected both in both SB 840 and our May 6 hearing. However, the MDI's connection to consumer savings was never adequately explained and decades of free allowance allocations alongside persistently – and ever increasing - high retail energy prices cast significant doubt on the premise.

Unfortunately, no one was able to provide the Senate with any evidence to indicate that energy companies reduce consumer prices when they receive larger subsidies. Chair Sanchez helpfully noted that the California Energy Commission monitors the impact of the Board's programs on transportation fuel prices in California, pursuant to SB 1322 (Stat. 2022, Allen), and provided assurances that the Board will pay close attention to this data going forward. I am glad that the Board will monitor this issue in the future, but I would like to know what those data points say about consumer cost impacts today.

Accordingly, I request Chair Sanchez to answer the following questions:

1. In the January cap-and-invest proposal, Board staff determined that it was necessary to remove 118 million allowances from the program to comply with the bare minimum requirements of California's legally mandated 2030 GHG target. How is the proposed addition of up to 118 million allowances in the April regulatory update consistent with this earlier conclusion, and what specific evidence did Board staff prepare in its rulemaking process, if any, to justify this proposed change?
2. Under Cap and Invest today, oil refineries and other industrial emitters benefit from receiving significant numbers of free allowances. I continue to be concerned that it is unclear how California consumers benefit from more free allowances to industry. Is there any correlation between more industrial allocations and lower consumer costs? Even if not and the purpose of the

allocated allowances is strictly to minimize leakage: what assurances does the legislature have that these emitters will remain in California if that is a goal of the MDI?

Similarly, I request Mr. March to answer the following questions:

3. Now that the May Revision of the Governor's proposed Budget has been released, I am concerned that GGRF estimates do not account for the proposed changes to Cap-and-Invest. It is impossible to make informed decisions about the Budget without this information. Understanding that the amendments may not be finalized, will DOF be providing an updated GGRF expenditure plan agreed to through SB 840 that factors in these impacts?
4. If the latest proposal from the Board were to become law, what is the outlook for GGRF revenues for the period 2027 through 2030? Is it reasonable to estimate that, at a market price of \$30 per allowance, the state should anticipate collecting approximately \$2 billion per year?
5. Some researchers have suggested that program revenues could be even lower if auctions are undersubscribed due to limited demand caused by the new manufacturing incentive program.<sup>1</sup> What would happen to GGRF revenues if auctions were undersubscribed in the future, and about how much lower might actual revenues be in that case?

The hard truth of the Cap and Invest Program is that every dollar allocated to one thing is one fewer dollar allocated somewhere else. I understand the challenging decisions CARB is facing and the trade-offs that must be weighed in writing the next chapter of California's landmark climate policy. Currently, I am not convinced that the proposed amendments to the program have struck the right balance of these trade-offs and in effect have chosen industry incentives over programs that address public health, climate change, transit, housing and more. This is being done with significant concerns that these changes will not bring us closer to our climate goals. Until CARB can convince us that Californians will benefit at least as much from the higher proposed industrial supports as they do from the GGRF-funded programs they will lose because of these amendments, I will remain deeply concerned with this proposal.

Thank you again for your testimony and I look forward to your responses and collaboration on this important issue.

Sincerely,



Senator Eloise Gómez Reyes  
29<sup>th</sup> Senate District

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<sup>1</sup> Kyle Meng and Jordan Wingenroth (2026), [Potential lost cap-and-invest revenue under the Manufacturing Decarbonization Incentive](#), Environmental Markets Lab, UC Santa Barbara.