May 27, 2026

The Honorable Eloise Gómez Reyes
California State Senate
1021 O Street, Suite 7210
Sacramento, California 95814

Dear Senator Reyes:

Thank you for your May 19 letter regarding the proposed amendments to the Cap-and-Invest Program (Program), and for the conversation on May 20 where we discussed your concerns with the regulatory amendments proposed by California Air Resources Board (CARB or Board) staff. I strongly value open dialogue with the Legislature about CARB's work. I commend your leadership in the Senate for jointly Chairing a hearing with Senator Blakespear on the CARB staff proposal, and for the opportunity that hearing provided to hear from the public on this important matter. Such opportunities for public and Legislative engagement are so critical to the work we do and in our service to all Californians.

Regarding the two questions in your letter that you asked me to answer:

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?*

   Staff are still proposing to remove 118 million allowances between now and 2030, resulting in an eleven percent yearly cap decline. That decline is almost three times as fast as the existing regulation. Only about a fourth of the facilities in the program are eligible to apply and seek approval for the Manufacturing Decarbonization Incentive (MDI) allowances. Credible third-party estimates suggest that the *maximum* amount of MDI allowances that could come into the market in the first year is approximately 25 million allowances. The MDI will facilitate emission reductions that will decarbonize the industrial sector to help achieve our statutory climate targets. The MDI does this by pulling forward high capital facility investments that would not have occurred for decades, if at all, resulting in permanent greenhouse gas (GHG) and air pollution emission reductions that directly benefit the frontline communities near these sources. The MDI also helps scale clean energy and technology needed for our mid-century climate targets because the eligible project types align with the types of actions included in the 2022 Scoping Plan.

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?

While the MDI program is structured to support in-state jobs and businesses, the goal is to help facilities that want to remain in California fund major investments that permanently reduce GHG and air pollution emissions, directly benefiting the communities in which these sources are located. The MDI will not cover the entire cost of a project, and we know that companies that invest large amounts of capital in facility improvements stay in California. Because the emission reductions facilitated by the MDI are permanent, these improvements would also lower the ongoing annual Program compliance costs for these facilities, further minimizing leakage and cost pass through to consumers. If an awarded MDI incentive is not used to invest in facility projects, the company would have to return it back to CARB through enforceable regulatory requirements. The MDI will be subject to the full oversight and enforcement as the broader Program.

Thank you again for your ongoing partnership and open communication about this and other CARB related issues. If you have any further questions, please do not hesitate to reach out directly; you have my cell phone number.

Sincerely,

Lauren Sanchez, Chair

cc: Steven S. Cliff, Ph.D., Executive Officer, California Air Resources Board

David Ernest García, Ph.D., Legislative Director, California Air Resources Board