

State of California Air Resources Board

Board Item Summary

Items #26-3-2 and 26-3-3: Public Hearing to Consider Proposed Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions and to Consider Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Staff Recommendation:

Staff recommends the California Air Resources Board (CARB or Board) approve the Proposed Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR, Item #26-3-2) and the Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Invest Regulation, Item #26-3-3). Though these items are separate rulemakings, they will be heard together at the Board meeting given their interrelatedness.

Discussion:

On September 19, 2025, Governor Newsom signed into law Senate Bill 840 (SB 840, Limón, Statutes of 2025, Ch. 121) and Assembly Bill 1207 (AB 1207, Irwin, Statutes of 2025, Ch. 117), both of which were passed by a supermajority in the Legislature. AB 1207 extends the Cap-and-Invest Program (previously known as the Cap-and-Trade Program) through 2045, providing investment and regulatory certainty for clean energy and technology, uplifting affordability for Californians, and giving additional direction to CARB.

CARB first formally adopted the Cap-and-Invest Regulation in October 2011. The Cap-and-Invest Regulation (Regulation) establishes a declining limit on major sources of greenhouse gas (GHG) emissions throughout California, and it creates a powerful economic incentive for significant investment in cleaner, more efficient technologies. CARB adopted the Regulation, along with complementary measures, pursuant to direction in Assembly Bill 32 (AB 32, Núñez, Statutes of 2006, Ch. 488) Health and Safety Code Sections 38500-38599 to

cost-effectively reduce California's GHG emissions and meet the State's statutory climate targets.

The proposed Cap-and-Invest amendments reflect the direction and process in AB 1207 to support meeting California's climate targets, prioritize affordability, support businesses and jobs, and support regulatory and market certainty. Most significantly, the proposed amendments revise allowance budgets through 2045 to support achieving the statutory climate targets for 2030 and 2045. The proposed amendments also build on the public process to update the Regulation that CARB staff started in 2023. CARB staff conducted eight public workshops and two community meetings with the Environmental Justice Advisory Committee (EJAC) to discuss potential changes to the Regulation and to solicit public feedback. CARB staff also presented at and participated in five EJAC Meetings and three Joint EJAC/CARB Board Meetings prior to releasing the initial rulemaking proposal in January 2026 for a 45-day comment period. In response to public input, CARB staff released a revised rulemaking proposal in April 2026 for a 15-day comment period.

One of the requirements of AB 32 is a GHG reporting regulation. To comply with this requirement, staff developed, and the Board adopted the Mandatory Reporting Regulation (MRR) in 2007. Since then, the Board has adopted several amendment packages to MRR to support the Cap-and-Invest Program, the statewide GHG inventory, the Cost of Implementation (COI) Fee Regulation, and other CARB GHG reduction programs.

CARB staff has proposed amendments to MRR to align with and support California's Cap-and-Invest Regulation, including provisions related to allowance allocation and the calculation of compliance obligations, and to ensure that reported GHG emissions and product data are accurate and complete to support California's GHG emissions reduction programs, including the statewide GHG emissions inventory. The proposed amendments to MRR do not change the overall reporting structure or requirements of the reporting regulation. These proposed amendments improve upon, clarify, and add to the existing requirements.

Summary and Impacts:

The proposed amendments to the Cap-and-Invest Regulation, if adopted, are expected to result in significant GHG emissions reductions as well as air quality and health benefits and to provide economic benefits across the State. This includes reductions in GHG emissions from reduced fossil fuel combustion and from additional Greenhouse Gas Reduction Fund (GGRF) program expenditures that are estimated to also reduce emissions of fine particulate matter and oxides of nitrogen, resulting in benefits to public health. The proposed changes are expected to deliver benefits to utility ratepayers, climate investments, and investment in California manufacturing. The proposed changes are also designed to improve oversight and administration of the Cap-and-Invest Program.

The proposed amendments to the Cap-and-Invest Regulation ensure the State stays on track to meet its 2030 and 2045 climate targets, implement legislative direction, and include various provisions designed to achieve these goals. Key changes include updating annual allowance budgets to align with the State's climate targets and providing a manufacturing decarbonization incentive to help make up for the loss of federal incentives to invest in clean California manufacturing. The proposed amendments provide enhanced electricity bill relief by increasing the California Climate Credit through increased free allowance allocation to electric utilities. The proposed amendments transfer allocated allowances from natural gas utilities to electric utilities while maintaining natural gas bill relief for low-income customers. The proposed amendments also increase emissions leakage protection for industry by providing additional allowance allocation and compliance options for industry, including in-state refiners, through 2030, recognizing the unprecedented economic and energy disruptions currently experienced in response to federal policy actions.

The proposed amendments to MRR are designed to make technical changes and clarify existing requirements to ensure the accuracy and completeness of reported GHG emissions and product data. The proposed amendments to MRR provide cost savings or otherwise have a minor economic impact, which can be absorbed by entities affected by the revisions. Among other minor changes, the proposed amendments add and strengthen reporting requirements for geologic carbon dioxide sequestration facilities, biorefineries, biofuel suppliers, imported cement products, imported and electrolytic hydrogen, and imported liquefied petroleum gas, and also address electricity imports from energy storage systems and minimize the potential for emissions leakage from imported electricity transfers within the California Independent System Operator's markets.

CARB is the lead agency for the proposed amendments to the Cap-and-Invest Regulation and has prepared a Final Environmental Impact Analysis (EIA) pursuant to its certified regulatory program to comply with the requirements of the California Environmental Quality Act (CEQA). The Final EIA provides a programmatic environmental analysis of an illustrative, reasonably foreseeable compliance scenario that could result from implementing the proposed amendments to the Cap-and-Invest Regulation. CARB also prepared the Response to Comments on the Draft EIA, which includes responses to CEQA-related comments received during the 45-day noticed comment period. The Response to Comments also includes responses to environmental comments received during the 15-day comment period, although such responses are not required as the 15-day comment period is not a CEQA comment period.

Implementation of the proposed amendments could result in certain compliance responses, including, but not limited to: increased production and use of low-carbon fuels and feedstocks such as low-carbon hydrogen, renewable natural gas, and other low-carbon fuels, plus associated infrastructure; updating and electrifying on-site equipment and other efficiency improvements including process changes; increased deployment of thermal energy storage and battery storage, and manufacturing of storage systems and associated

increases in mining and exports; the construction of new or expansion of existing biorefining and co-processing operations; additional combustion of biomass and biomass-derived fuels at certain facilities; the decrease in oil and gas extraction, refining, and distribution; reduced fuel use; increased recycling, refurbishment or disposal of batteries and phased-out equipment; increased use of low-carbon products and expansion and potential new development of associated facility operations; the construction and operation of new manufacturing facilities to support zero-emission technologies; and the construction and operation of new power plants, solar fields, wind turbines, and other electricity generation facilities and electricity transmission and distribution infrastructure to accommodate increased electrical demand associated with the deployment of zero-emission technologies.

The Final EIA concluded that the implementation of the proposed amendments to the Cap-and-Invest Regulation has the potential to result in beneficial impacts to GHG emissions; less than significant impacts, or no impacts, to energy, mineral resources, population and housing, public services and recreation; and potentially significant adverse impacts to aesthetics, agriculture and forestry resources, air quality, biological resources, cultural resources, geology and soils, hazards and hazardous materials, hydrology and water quality, land use and planning, noise, transportation, tribal cultural resources, utilities and service systems and wildfire. If CARB had the authority to require mitigation for project-specific impacts from anticipated compliance responses, many of these potentially significant impacts could be feasibly avoided or mitigated to a less-than-significant level. However, such mitigation is beyond CARB's authority and, thus, the suggested mitigation measures in the Final EIA are considered legally infeasible for CARB to implement and enforce. Therefore, the Final EIA takes the conservative approach in its post-mitigation significance conclusions and discloses, for CEQA compliance purposes, that potentially significant environmental impacts may be unavoidable since other lead agencies are tasked with implementing the suggested mitigation measures and they may not be sufficient to mitigate an impact to less-than-significant and/or the lead agencies may not impose the full extent of the suggested mitigation measures in future project approvals. Despite these potential adverse impacts, the proposed amendments are needed to ensure the significant environmental and economic benefits are realized.