Proposed

State of California
Air Resources Board

Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation

Resolution 26-7

May 28, 2026

Agenda Item No.: 26-3-3

Whereas, sections 39600 and 39601 of the Health and Safety Code authorize the California Air Resources Board (CARB or Board) to adopt standards, rules and regulations and to do such acts as may be necessary for the proper execution of the powers and duties granted to and imposed upon the Board by law;

Whereas, staff has proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (Proposed Amendments), as set forth in Appendix A to the Initial Statement of Reasons released to the public on January 20, 2026, and modified regulatory language developed in response to comments received since the Initial Statement of Reasons (ISOR or Staff Report) was released on April 14, 2026;

Whereas, Health and Safety Code sections 39515 and 39516 provide that any power, duty, purpose, function or jurisdiction of the Board may be delegated to the CARB Executive Officer as the Board deems appropriate, and is presumed delegated unless it has been specifically reserved;

Whereas, the Legislature has enacted the California Global Warming Solutions Act of 2006 (Assembly Bill (AB) 32),[1] which added Division 25.5 to the Health and Safety Code and declared that global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California;

Whereas, AB 32 expresses the Legislature's intent that the Board coordinate with State agencies and consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing AB 32; and design emissions reduction measures to meet the statewide emissions limits for greenhouse gases (GHG) in a manner that minimizes costs and maximizes benefits for California's economy, maximizes additional environmental and economic co-benefits for California, and complements the State's efforts to improve air quality;

[1] Health & Saf. Code, § 38500 et seq. (Stats. 2006, ch. 488).

Whereas, California experiences a wider range of the effects of climate change and suffers these effects to a greater degree than other states in the nation, including extreme and prolonged drought, dwindling supplies of fresh water from loss of snowpack, more extensive and severe wildfires, and rising storm surges and sea levels;

Whereas, the increase in the size and severity of California wildfires is directly responsible for adding to the air thousands of tons of the criteria air pollutants designated under the federal Clean Air Act,[2] including particulate matter, oxides of nitrogen, and volatile organic compounds, which threaten public health both within and well beyond California's borders;[3]

Whereas, in recognition of the devastating impacts of climate-changing emissions on California, Governor Arnold Schwarzenegger issued Executive Order S-3-05 in 2005 to establish the following targets to reduce GHG emissions: by 2010, reduce GHG emissions to 2000 levels; by 2020, reduce GHG emissions to 1990 levels; and by 2050, reduce GHG emission to 80% below 1990 levels;

Whereas, in AB 32, the Legislature codified the target of reducing GHG emissions to 1990 levels by 2020;[4]

Whereas, Governor Brown issued Executive Order B-30-15 in 2015, which established an interim GHG emissions reduction target of 40% below 1990 levels by 2030 to ensure California achieves meaningful early emission reductions on a trajectory to meet the 2050 targets, which was subsequently adopted by the Legislature in Senate Bill (SB) 32 (Stats. 2016, ch. 249);[5]

Whereas, section 38566 of the Health and Safety Code, added pursuant to SB 32, further directs that CARB shall ensure that State GHG emissions are reduced to at least 40% below 1990 levels no later than December 31, 2030;

Whereas, section 38562.2 of the Health and Safety Code, added pursuant to AB 1279 (Stats. 2022, ch. 337), establishes further targets of statewide anthropogenic GHG emissions reduced to at least 85% below 1990 levels by 2045, net-zero GHG emissions as soon as possible but no later than 2045, and net-negative GHG emissions thereafter;

Whereas, section 39740 et seq. of the Health and Safety Code, added pursuant to SB 905 (Stats. 2022, ch. 359), works together with AB 1279 to support the safe scaling of carbon management technologies to help achieve the AB 1279 targets;

Whereas, section 38510 of the Health and Safety Code designates CARB as the State agency charged with monitoring and regulating sources of GHG emissions in order to reduce these emissions;

Whereas, section 38505 of the Health and Safety Code defines GHGs as including carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, and nitrogen trifluoride;

Whereas, section 38562 of the Health and Safety Code requires the Board to adopt GHG emissions limits and emissions reduction measures by regulation to achieve the maximum

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[2] 42 U.S.C. § 7401 et seq.
[3] *Id.*
[4] Health & Saf. Code, § 38550.
[5] Health & Saf. Code, § 38566.

technologically feasible and cost-effective reductions in GHG emissions to achieve the requirements of sections 38562.2 and 38566;

Whereas, the Legislature enacted AB 197 (Stats. 2016, ch. 250), which directed CARB to consider the social cost of GHG emissions and to prioritize direct emissions reductions from sources in California;

Whereas, in the Legislature enacted AB 197,[6] which the Legislature declared that continuing to reduce GHG emissions is critical for protecting all areas of the State, but especially for the State's most disadvantaged communities, as those communities are affected first and most frequently by adverse impacts of climate change, including increased frequency of extreme weather events such as drought, heat waves, and flooding;

Whereas, AB 32 added section 38565 to the Health and Safety Code, directing CARB to ensure, where applicable and to the extent feasible, that CARB's GHG emission reduction regulations and programs direct public and private investment toward the most disadvantaged communities in California and provide an opportunity for community institutions to benefit from statewide efforts to reduce GHG emissions;

Whereas, CARB recognizes the imperative to meaningfully integrate equity and environmental justice considerations into programs and policies in partnership with affected communities;

Whereas, higher priority must be placed on identifying all feasible actions CARB can take as soon as possible, regulatory and otherwise, and promoting environmental justice and equity in each action, consistent with statute;

Whereas, the Legislature enacted AB 398 (Stats. 2017, ch. 135), which amended certain provisions of AB 32 through 2030, and provided direction on a post-2020 market-based compliance mechanism to help achieve the SB 32 GHG emissions reduction target;

Whereas, section 38562 of the Health and Safety Code, amended pursuant to AB 1207 (Stats. 2025, ch. 117) extends the market-based compliance mechanism to December 31, 2045;

Whereas, AB 1207 renames CARB's market-based compliance program from the Cap-and-Trade Program to Cap-and-Invest Program (Program);

Whereas, section 38580 of the Health and Safety Code charges CARB with monitoring compliance and enforcing its regulations under AB 32;

Whereas, section 38562, subdivision (b) of the Health and Safety Code requires CARB, to the extent feasible and in furtherance of achieving the statewide 2030 and 2045 GHG emissions limits, to do all of the following:

> Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce GHG emissions.
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> Design the regulations, including distribution of emissions allowances where appropriate, in a manner that transitions support from gas corporations to electrical

[6] Gov. Code, Article 7.6 (commencing with section 9147.10) to Chapter 1.5 of Part 1 of Division 2 of Title 2; and to amend Health & Saf. Code §§ 39510 and 39607; and add Health & Saf. Code §§ 38506, 38531, 38562.5, and 38562.7 (Stats. 2016, ch. 250).

distribution utilities on or before January 1, 2031, to minimize ratepayer impacts and achieve the requirements statewide 2030 and 2045 GHG emissions limits.

Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.

Ensure that entities that have voluntarily reduced their GHG emissions before the implementation of this section receive appropriate credit for early voluntary reductions.

Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

Consider cost-effectiveness of these regulations.

Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

Consider the effect of these regulations on affordability, cost effectiveness, minimization of leakage in California, and achieving the requirements of statewide 2030 and 2045 GHG emissions limits.

Minimize the administrative burden of implementing and complying with these regulations.

Minimize leakage.

Consider the significance of the contribution of each source or category of sources to statewide emissions of GHGs.

Whereas, section 38562, subdivision (c)(2) of the Health and Safety Code requires CARB, in adopting a regulation of market-based declining annual aggregate emissions limits applicable from January 1, 2021, to December 31, 2045, to:

Establish two price containment points at levels below the price ceiling and offer to covered entities nontradable allowances for sale at these price containment points.

Remove a number of allowances equal to the total number of offset credits used for compliance obligations in the prior year from the next year's annual allowance budget and retire them.

Set industry assistance factors for allowance allocation commencing in 2021 through 2030 at the levels applicable in the compliance period of 2015 to 2017, inclusive, and commencing January 1, 2031, distribute industrial sector allowances in a manner that minimizes emissions leakage risk to cost-effectively achieve the requirements of sections 38562.2 and 38566 and the purposes of this division.

Establish allowance banking rules that discourage speculation, avoid financial windfalls, and consider the impact on complying entities and volatility in the market.

Whereas, in 2011, the Board first adopted the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (the Regulation), which became effective January 1, 2012, with the first compliance period beginning in 2013;

Whereas, the Board adopted amendments to the Regulation in 2012 to make targeted implementation changes that became effective September 1, 2012;

Whereas, the Board adopted amendments to the Regulation in 2013 to formally link the Cap-and-Invest Program with the Province of Quebec's cap-and-trade system that became effective October 1, 2013, making California and Quebec allowances and offsets available for compliance purposes in both jurisdictions;

Whereas, the Board adopted amendments to the Regulation in 2014 to adopt an additional compliance offset protocol for Mine Methane Capture and make additional implementation changes that became effective July 1, 2014;

Whereas, the Board adopted a second set of amendments to the Regulation in 2014 to adopt updates to the Compliance Offset Protocols for Livestock, Ozone Depleting Substances, and U.S. Forests, and make additional implementation changes that became effective January 1, 2015;

Whereas, the Board adopted amendments to the Regulation in 2015 to adopt the Compliance Offset Protocol for Rice Cultivation, adopt an update to the Compliance Offset Protocol for U.S. Forests, and make additional implementation changes that became effective November 1, 2015;

Whereas, the Board adopted amendments to the Regulation in 2017 to set the GHG allowance budgets from 2021 through 2050, to modify the Allowance Price Containment Reserve, to formally link with the Ontario cap-and-trade program beginning in 2018, and to make additional implementation changes that became effective October 1, 2017, and the Board directed the Executive Officer through Board Resolution 17-21 to make additional changes in a future rulemaking related to allowance allocation;

Whereas, the Board adopted amendments to the Regulation in 2018 to clarify requirements for successor entities after a change in ownership and to clarify the regulatory procedure for establishing the Auction Reserve Price that became effective May 30, 2018;

Whereas, the Board adopted amendments to the Regulation in 2018 to comport with the direction in AB 398 and delink with Ontario's cap-and-trade program that became effective April 1, 2019;

Whereas, the 2022 Scoping Plan for Achieving Carbon Neutrality (2022 Scoping Plan) lays out a path to reduce anthropogenic GHG emissions by 85% below 1990 levels no later than 2045 and to achieve statewide carbon neutrality by 2045,[7] as directed by AB 1279;

Whereas, the State achieved its 2020 GHG emissions reduction target several years early and has remained below the 2020 target since that time;

Whereas, GHG emissions covered by the Cap-and-Invest Program have decreased from 340 million metric tons of carbon dioxide equivalent ($MMTCO_2e$) in 2015 to 256 $MMTCO_2e$ in 2024;

[7] 2022 Scoping Plan; CARB, December 2022, available at: *https://ww2.arb.ca.gov/resources/documents/2022-scoping-plan-documents*.

Whereas, in the 13 years of implementation, the Program has achieved close to 100% compliance;

Whereas, the Program has conducted 54 quarterly auctions, generated over 35 billion dollars for the Greenhouse Gas Reduction Fund (GGRF), provided over 16 billion dollars in energy bill credits for utility consumers, provided over 13 billion dollars of value to minimize emissions leakage and protect California job and businesses, and issued over 290 million verified compliance offset credits;

Whereas, technical adjustments to CARB's GHG Emissions Inventory affected the determination of annual allowance budgets in the current Regulation, necessitating the removal of 118.3 million allowances from annual allowance budgets through 2030 to align the Program with the SB 32 GHG emissions reduction target for 2030;

Whereas, new post-2030 allowance budgets are needed to align the Program with the increased ambition identified by the 2022 Scoping Plan to support progress toward the 2045 GHG emissions reduction target established by AB 1279, which was not in effect in 2018 when the post-2030 allowance budgets in the current Regulation were adopted;

Whereas, AB 1207 requires CARB to consider the effects of the market-based program on affordability, cost-effectiveness, minimization of leakage in California, and achieving the emissions reduction targets;

Whereas, AB 1207 amended section 38562(c) of the Health and Safety Code to direct CARB to remove additional allowances from annual budgets corresponding to compliance offset use, which further increases Program stringency through the removal of allowances and reduces the number of allowances otherwise available for auction, as compliance offsets may be used to fulfill up to 6% of a covered entity's compliance obligation;

Whereas, the Allowance Price Containment Reserve serves a critical cost-containment function for entities covered by the Program and mitigates potential allowance price spikes;

Whereas, multi-year compliance periods support compliance flexibility for covered entities, provide opportunities for facilities to exit the Program upon reducing emissions below the 25,000 MMTCO_2e inclusion threshold, and should be set to align with California's GHG emissions reduction target years;

Whereas, trading and banking rules protect against market manipulation and support market liquidity and price discovery for compliance instruments;

Whereas, the free allocation of allowances to covered industrial facilities mitigates emissions leakage risk while incentivizing low-carbon production in California, and updated allocation benchmarks and methodologies are needed to reflect the evolving landscape for industrial manufacturing and transportation fuel production as California reduces industrial GHG emissions to meet the 2030 and 2045 targets;

Whereas, the California Public Utilities Commission (CPUC) has overseen the California Industry Assistance Credit to mitigate emissions leakage risk associated with industrial electricity purchases, and moving administration of this emissions leakage protection mechanism from CPUC to CARB's industrial allowance allocation process would streamline implementation and increase transparency for covered industrial facilities;

Whereas, the historic proportion of industrial covered emissions addressed by allowance allocation has been lower in the California Cap-and-Invest Program than in other global emissions trading systems, and increased industrial allowance allocation compared to the current Regulation is needed through 2030 to mitigate emissions leakage risk in the context of more ambitious annual allowance budgets;

Whereas, allowance allocation to electrical distribution utilities should be designed and updated in a manner that continues to protect ratepayers from the Program costs in electricity rates, particularly in light of forecasts for higher electricity demand and increased renewables procurement requirements under the Renewables Portfolio Standard program;

Whereas, the proceeds from investor-owned utility allowances consigned to auction are distributed to utility ratepayers through the California Climate Credit, as directed by the CPUC;

Whereas, AB 1207 requires CARB to distribute allowances in a manner that transitions support from natural gas corporations to electrical distribution utilities by January 1, 2031, which will increase the California Climate Credit for electricity ratepayers and lower total electricity bill costs relative to natural gas bill costs and thus support decarbonization of the buildings sector;

Whereas, it is critical to consider affordability in providing allowance allocation to natural gas suppliers and electrical distribution utilities;

Whereas, changes to covered emissions treatment are needed to align emissions coverage with evolving State policy, cost concerns, double-counting concerns, and lessons learned from Program implementation;

Whereas, the compliance offset program provides important cost-containment for the Cap-and-Invest Program and achieves cost-effective emissions reductions while providing environmental and additional co-benefits;

Whereas, SB 840 (Stats. 2025, ch. 121) directs CARB, no later than January 1, 2029, to update all existing compliance offset protocols to reflect the best available science and, no later than January 1, 2034, and every 5 years thereafter, to evaluate all compliance offset protocols and to consider whether updates are necessary to ensure the protocols reflect the best available science;

Whereas, updates to the compliance offset program are needed to clarify and streamline implementation, including updates to requirements related to offset project listing, offset project renewal, monitoring equipment, monitoring period activities, project verification, offset credit invalidation, and offset project registry activities;

Whereas, CARB's 2022 Scoping Plan recognizes carbon capture, utilization, and storage (CCUS) and carbon dioxide removal (CDR) as essential decarbonization strategies for meeting California's long-term statutory climate targets, and SB 905 directs CARB to create a program to evaluate, demonstrate, and regulate CCUS and CDR projects and technology;

Whereas, the 2022 Scoping Plan identified the technical challenges for decarbonization of high-heat industrial processes and the importance of policies to leverage private-sector investments to drive innovative clean technology deployments, including strategies to address cost barriers and to promote low-carbon fuel use in industrial applications that are difficult to electrify;

Whereas, the industrial sector currently accounts for 22% of the GHG emissions in the AB 32 Greenhouse Gas Inventory, making it the second largest sector after transportation sector for GHG emissions;

Whereas, the current federal administration has taken unprecedented and unlawful action, purporting to disapprove three actions by the U.S. Environmental Protection Agency granting California waivers under the Clean Air Act for certain mobile source emissions programs aimed at reducing emissions in the transportation sector;[8]

Whereas, the federal administration has rescinded its finding that GHG emissions endanger public health and welfare and repealed its GHG emissions standards for new vehicles and engines;[9]

Whereas, the federal administration has proposed to repeal its GHG emissions standards for power plants;[10]

Whereas, the federal administration has either cancelled grant programs or made it more difficult to obtain additional grant funds to support industrial decarbonization and production, production of low-carbon hydrogen, and CDR, among others;

Whereas, decarbonizing the industrial sector is essential to achieve carbon neutrality and stabilize climate in a growing economy;

Whereas, the eligible projects included in the Manufacturing Decarbonization Incentive (MDI) support efficient, low-carbon manufacturing in California;

Whereas, California is the largest manufacturing state in the United States;

Whereas, the eligible projects included in the MDI that reduce reliance on fossil fuel combustion technologies will deliver immediate reductions in air pollution to nearby communities;

Whereas, the eligible projects for the MDI include projects that are consistent with in the 2022 Scoping Plan Update, require large capital investments, and would not happen in the near-term without additional incentive;

Whereas, the eligible MDI project types need significant financial incentive to be implemented, and any unused MDI allocation allowances not used for eligible activities must be returned to CARB and will be retired;

Whereas, the MDI will support low-carbon hydrogen that is eligible for federal tax credit pursuant to 26 U.S.C. § 45V(b)(2)(A-D) or consistent with the Low Carbon Fuel Standard;

Whereas, because the MDI program is a new feature of the market program, public transparency, monitoring, and annual reports to the Board will be important to track the benefits of the program;

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[8] H.J. Res. 87, 88, 89 (119th Congress).
[9] 91 Fed. Reg. 7686 (Feb. 18, 2026).
[10] 90 Fed. Reg. 25,752 (June 17, 2025).

Whereas, the projects under the MDI will be subject to all applicable local, state, and federal laws;

Whereas, the MDI program is designed to accelerate near-term investments in clean energy and technology and is available through 2035;

Whereas, the MDI program provides necessary financial incentive for investments in clean energy and technology that accelerate emission reductions;

Whereas, the first application deadline is June 1, 2027, for MDI allowances provided in fall 2027 for the compliance period ending in 2028;

Whereas, preliminary third-party analyses indicate it is unlikely for more than 30 million MDI allowances to be awarded in the first year;

Whereas, the following requirements in the Proposed Amendments apply to the MDI program:

- The Executive Officer must ensure each application meets all requirements in the proposed regulation before any MDI allowances can be issued;
- The facility must be eligible for industrial allowance allocation and have at least one full year of verified emissions and production data;
- The project application must provide information upfront including:
    - detail on the proposed investment, including project equipment or fuels purchased;
    - project timeline with major milestones;
    - project cost estimates; and
    - projected annual GHG reductions based on the changes in fuel use or processes;
- A new project application must be submitted for each compliance period to receive additional MDI allowances;
- Only projects in the prescribed list of eight project categories in the proposed regulation are eligible;
- MDI allowance value cannot be used for the following:
    - administrative or overhead costs;
    - employee bonuses;
    - lobbying;
    - shareholder dividends; or
    - legal settlement costs;

- GHG reductions must be achieved by the investment deadline, and any MDI allowance value not used to achieve the stated GHG reductions by that time must be returned to CARB and retired from the Program;
- The total GHG emission reductions shall be based on comparing the projected GHG emissions with and without the use of the MDI allocation allowance value;
- The MDI program is subject to the same full oversight and enforcement currently applied to the Cap-and-Invest Program and reported and third-party-verified data under Mandatory Reporting Regulation (MRR);
- The MDI program is subject to the Cap-and-Invest Program requirements regarding bankruptcy and retirement of allowances; and
- The MDI program reporting must describe progress toward implementing the project, including updated spending estimates and achieved changes in fossil fuel use and GHG reductions, with contract or procurement documentation to verify spending claims;

Whereas, the analysis that will underpins the AB 398 report on leakage risk posed by the regulation, as called for under AB 398, will inform post-2030 industrial allocation;

Whereas, independent merchant refiners are unique in California and are not vertically integrated like most refiners in the state;

Whereas, SB 596 (Stats. 2021, ch. 243) requires CARB to develop a comprehensive strategy for the cement sector in California to achieve a GHG emissions intensity 40% below 2019 baseline levels by 2035 and net-zero GHG emissions by 2045;

Whereas, force majeure can significantly impact an existing manufacturing facility that results in changes in production;

Whereas, the GGRF supports activities that facilitate GHG emissions reductions and deliver a variety of important co-benefits (e.g., public health improvements, improved resilience to climate impacts), with a focus on providing benefits to disadvantaged communities and low-income communities and households;

Whereas, many of the activities currently being funded by the Legislature through GGRF, known as California Climate Investments, are ongoing and will continue providing benefits for years;

Whereas, $9.2 billion (73%) of implemented GGRF revenues are benefitting priority populations;

Whereas, an estimated 116.1 MMTCO2e GHG emissions have been reduced through GGRF projects;

Whereas, greater than 112,000 tons of criteria pollutants have been reduced through GGRF projects;

Whereas, CARB staff has proposed amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, as set forth in Appendix A to the Initial Statement of Reasons released to the public on January 20, 2026,

and proposed modified regulatory language that was developed in response to comments received since the Initial Statement of Reasons and that was released on April 14, 2026, that include the following elements:

Removal of 118.3 million allowances from annual allowance budgets through 2030 to align the Program with the GHG emissions reduction target for 2030 established by SB 32.

Removal of approximately 900 million allowances from post-2030 annual allowance budgets that decline smoothly toward the GHG emissions reduction target for 2045 established by AB 1279 and that align with the cumulative climate ambition put forth in the 2022 Scoping Plan.

A new mechanism to remove allowances from future annual allowance budgets, reducing the amount of allowances to State auctions, and retire them corresponding to the number of offset credits used for compliance, beginning with removals from the 2028 budget year, which implements direction from the Legislature in AB 1207 while limiting the predictable volatility in allowance removals due to increased offset credit retirements during full compliance period compliance events.

Allocation of 1% of post-2030 annual allowance budgets to the first price tier of the Allowance Price Containment Reserve (APCR), which balances availability of allowances for auctions and for cost-containment under more stringent future allowance budget, and which also balances the number of allowances available in each APCR price tier.

Adoption of two-year compliance periods for 2027-2028 and 2029-2030 and alternating three-year and two-year compliance periods thereafter.

Updating the corporate association measures, including for a common individual with shared roles, a common registered commodity pool operator, and a common commodity trading advisors, and providing a delayed deadline of December 31, 2027, for identifying purchase limit shares and holding limit shares for corporate association groups that are newly created due to these changes.

Clarifications to the prohibition on the beneficial holding of allowances and the requirements related to the reporting of compliance instrument transfers that are unpriced or zero-priced.

Updating registration requirements for voluntarily associated entities, and updated requirements related to disclosure of changes in individual users' Know-Your-Customer information and changes to government issued identification numbers and physical addresses.

Clarifications to the process and timing of requirements related to changes in entity type and Program exit.

Clarifications to the requirements related to the financial settlement date for an auction or APCR sale, the financial settlement process for an APCR sale, and the evaluation of account balances to ensure a transfer of allowance awarded at auction does not cause an entity to exceed its holding limit.

Updating allowance allocation definitions for aseptic tomato paste, butter, cement, dehydrated products, deproteinized whey processing, and plasterboard.

Updating benchmarks for liquid hydrocarbon fuel production and oil and gas extraction; new benchmarks for anhydrous milkfat processing, asphalt production, and light-duty vehicle assembly; and new methodologies for one-time new product allocation and allocation for industrial electricity purchases.

Increasing cap adjustment factors through 2030, which increase industrial emissions leakage protection relative to the current Regulation for most sectors while continuing to provide a larger relative allowance allocation for sectors with a high percentage of process emissions, high emissions intensity, and high leakage risk classification, such as cement manufacturing.

The new MDI allocation for 2028-2035, which increases emissions leakage protection for covered industrial facilities by providing no more than 118.3 million new allowances to covered industrial facilities for demonstrable investments in low-carbon technologies and fuels that reduce industrial covered emissions and support jobs and efficient manufacturing activity in California.

Requirements for facility applications, reporting, oversight, and spending limitations for the MDI allocation, to ensure that the value of these allowances is used in a manner that complies with the Regulation and aligns with the industrial decarbonization strategies described in the 2022 Scoping Plan.

Updating allowance allocation for electrical distribution utilities during 2027-2030, which reflects more recent data on electricity demand, electricity supply, extended generation from the Diablo Canyon nuclear facility, requirements of the Renewables Portfolio Standard, and continued need to support electricity affordability and protect electricity ratepayers from the Program costs.

Transitioning 70% of annual investor-owned natural gas utility allowances to electrical distribution utilities by the 2031 budget year, apportioned across both investor-owned and publicly owned electric utilities in proportion to their total residential retail sales, with 30% of natural gas utility allowances remaining to fund a California Climate Credit for low-income natural gas ratepayers under the purview of the CPUC.

Updating requirements for the use of allocated allowance value by natural gas suppliers and electrical distribution utilities to focus remaining natural gas allowances on support for low-income ratepayers, to prohibit the use of natural gas allowance value for new natural gas appliances and infrastructure, and to allow for the volumetric return of allowance value to support efforts by the CPUC to provide for a more equitable distribution of the California Climate Credit.

An accelerated phase-out of the Renewables Portfolio Standard adjustment for electricity importer emissions to avoid double-counting in the updated methodology for allowance allocation to electrical distribution utilities.

Updates to terminology for imported electricity and mechanisms to mitigate emissions leakage to reflect the California Independent System Operator’s new Extended Day-Ahead Market and to align with changes in MRR.

Clarifications to requirements for the treatment of imported biomass-derived fuels, including the list of fuels eligible for a covered emissions exemption and streamlined stacking of incentives among programs that support cost-effective procurement of biomass-derived fuels.

A new covered emissions exemption for a non-covered electricity generating facility that would exceed the Program inclusion threshold of 25,000 $MMTCO_2e$ due to increased generation during a State of Emergency from sudden and severe energy shortage as declared by the Governor.

A new limited covered emissions exemption for fuel cells through 2030, as directed by Board Resolution 18-51.

Updates to emissions exemptions for various categories of vented and fugitive methane emissions from natural gas supplier transmission, compression, and distribution infrastructure, which aligns these exemptions with similar exemptions in the oil and gas extraction sector and ensures these vented and fugitive emissions are not double-counted with emissions from the combustion of natural gas supplied to end-users.

A delayed full compliance period compliance deadline for covered emissions that occurred during the fifth compliance period for independent merchant refineries.

Updates to clarify and streamline implementation of the compliance offsets program, including updates to requirements related to offset project listing, offset project renewal, monitoring equipment, monitoring period activities, project verification, offset credit invalidation, and offset project registry activities.

A new section in the Regulation to address the treatment of sequestered or utilized captured carbon dioxide in the Cap-and-Invest Program upon incorporation of a Board-approved quantification methodology in a future rulemaking consistent with SB 905.

Whereas, CARB's regulatory program that involves the adoption, approval, amendment, or repeal of standards, rules, regulations, or plans has been certified by the Secretary for Natural Resources under Public Resources Code section 21080.5 of the California Environmental Quality Act (CEQA; California Code of Regulations, title 14, section 15251(d)), and CARB conducts its CEQA review according to this certified program (California Code of Regulations, title 17, sections 60000-60008);

Whereas, CARB prepared a Draft Environmental Impact Analysis (Draft EIA) for the Proposed Amendments, entitled "Draft Environmental Impact Analysis for the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation," and circulated it as Appendix B to the Staff Report on January 20, 2026, for a 45-day public review and comment period that closed on March 9, 2026;

Whereas, the Draft EIA concluded that implementation of the Proposed Amendments 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;

Whereas, following the 45-day comment period, modified regulatory language and supporting documentation were circulated for an additional public comment period, with the changes to the originally proposed text clearly indicated, according to provisions of California Code of Regulations, title 1, section 44 and Government Code section 11346.8, from April 14, 2026, through May 4, 2026;

Whereas, staff reviewed written comments received on the Draft EIA and prepared written responses to those comments raising significant environmental concerns in a document entitled "Response to Comments on the Draft and Environmental Impact Analysis Prepared for the Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation" (Response to EIA Comments);

Whereas, prior to the May 28, 2026, Board Hearing, staff posted on the rulemaking webpage the Final EIA and the Response to EIA Comments;

Whereas, prior to the duly noticed public hearing held on May 28, 2026, the Final EIA including the Response to EIA Comments, was distributed to the Board for consideration;

Whereas, staff conducted eight public workshops, two community listening sessions, and participated in numerous other meetings with various stakeholders to provide additional opportunities to participate in the regulatory development process;

Whereas, the Chair presented the proposed updates at the Joint Legislative Committee on Climate Change Policies and the Senate Environmental Quality and Subcommittee NO. 2 on Resources, Environmental Protection and Energy;

Whereas, over a dozen letters from Legislative members provided input on the Proposed Amendments;

Whereas, a public hearing and other administrative proceedings have been held according to the provisions of Chapter 3.5 (commencing with section 11340), part 1, division 3, title 2 of the Government Code;

Whereas, the Board finds that:

The Proposed Amendments meet the statutory requirements identified in section 38562 of the Health and Safety Code, including equitable and cost-effective distribution of allowances in a manner that addresses affordability, minimizes leakage, and maximizes total benefits to California and cost effectiveness;

The Proposed Amendments were developed in an open public process, in consultation with affected parties and relevant agencies, input from the Legislature, through numerous public workshops, individual meetings, and other outreach efforts, and these efforts are expected to continue;

The initial Proposed Amendments released for a 45-day public comment period on January 20, 2026, were further modified in response to stakeholder feedback and released for an additional public comment period from April 14, 2026, to May 4, 2026;

The Proposed Amendments are clear, consistent, and enforceable;

The economic and fiscal impacts of the Proposed Amendments have been analyzed as required by California law and the conclusions and supporting documentation for these

analyses are set forth in the Standardized Regulatory Impact Assessment and the Initial Statement of Reasons;

The Proposed Amendments are consistent with parallel proposed amendments to MRR;

CARB considered alternatives to the Proposed Amendments. No reasonable alternatives to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation considered to date, or that have otherwise been identified and brought to the attention of CARB, would be more effective at carrying out the purpose for which the regulation is proposed or would be as effective and less burdensome to affected entities than the Proposed Amendments;

The Proposed Amendments do not contain a scientific basis or scientific portion subject to peer review, and thus no peer review as set forth in Health and Safety Code section 57004 needed to be performed; and

The Proposed Amendments are consistent with CARB's environmental justice policies and do not disproportionately impact people of any race, culture, income, or national origin.

Now, therefore, be it resolved that the Board hereby certifies that the Final EIA, which includes the Response to EIA Comments, as released to the public prior to the May 28, 2026, Board Hearing, was completed in compliance with CARB's certified regulatory program to meet the requirements of CEQA, reflects the agency's independent judgment and analysis, and was presented to the Board, whose members reviewed and considered the information therein before taking action to approve the regulation.

Be it further resolved that in consideration of the Final EIA, the Response to EIA Comments, and the entirety of the record, the Board adopts the Findings and Statement of Overriding Considerations.

Now, therefore, be it resolved that the Board hereby approves for adoption sections 95852.3 and 95975.1, amendments to sections 95801, 95802, 95803, 95811, 95812, 95813, 95814, 95821, 95830, 95831, 95832, 95833, 95834, 95835, 95840, 95841, 95841.1, 95852, 95852.1, 95852.1.1, 95852.2, 95856, 95870, 95871, 95890, 95891, 95892, 95893, 95894, 95911, 95912, 95913, 95914, 95915, 95920, 95921, 95922, 95923, 95942, 95973, 95974, 95975, 95975.1, 95976, 95977, 95977.1, 95978, 95979, 95980.1, 95981, 95981.1, 95983, 95984, 95985, 95986, 95987, 95989, 96001, 96021, 96022, Appendix B, Appendix C, and Appendix D., and deletion of sections 95859 and 95990, title 17 of the California Code of Regulations, as set forth in Appendix A of the Initial Statement of Reasons released to the public on January 20, 2026, and Attachment A of the Notice of Public Availability of Modified Text and Availability of Additional Documents and/or Information released to the public on April 14, 2026.

Be it further resolved that the Board directs the Executive Officer to evaluate, consistent with AB 398 and AB 1207, other potential leakage minimization measures, to address the risk of emissions leakage related to both covered industrial emissions and products that are not currently covered by the Program, for potential inclusion in a future rulemaking.

Be it further resolved that the Board directs the Executive Officer to develop implementation materials as necessary and appropriate for public transparency and hold at least one public workshop on the implementation of the MDI program prior to the issuance of any MDI allowances.

Be it further resolved that the Board directs the Executive Officer to report to the Board by July 1, 2028, and to evaluate and propose, as appropriate, future amendments to the MDI incentive program if greater than 25 million MDI allowances are awarded.

Be it further resolved that the Board directs the Executive Officer to make publicly available summaries of approved MDI applications by facility, including information on the project type and expected emissions reductions, while protecting any confidential business information consistent with applicable legal requirements.

Be it further resolved that the Board directs the Executive Officer to annually make publicly available the number of MDI applications received and approved, and the number of MDI allowances issued in total and by sector, MDI allowances remaining, MDI allowances returned, and MDI allowances retired.

Be it further resolved that the Board directs the Executive Officer to ensure the MDI allowances are separately tracked in the registry system and included as their own category in the Quarterly Compliance Instrument Report.

Be it further resolved that the Board directs the Executive Officer to report to the Board after the end of each compliance period the following information:

- types of projects supported by the MDI allowances, projects' need for financial incentive, and how the incentive accelerated near-term project implementation;
- results in and progress toward project GHG emissions reductions as third-party verified;
- any unused MDI allowances still in circulation; and
- unused MDI allowances returned to CARB for retirement.

Be it further resolved that the Board directs the Executive Officer to make publicly available and report to the Board after the end of each compliance period the following information:

- how the MDI allowances supported project implementation as described in approved applications; and
- the results in and progress toward meeting the expected GHG emissions reductions.

Be it further resolved that the Board directs the Executive Officer, by July 1, 2028, to evaluate and propose future amendments, as appropriate, that would further align the MDI program with statutory climate targets such as sufficient support to help achieve the methane reduction targets under SB 1383 (Stats. 2016, ch. 395).

Be it further resolved that the Board directs the Executive Officer, by July 1, 2030, to evaluate and propose future amendments, as appropriate, that would ensure that the MDI program supports project types in need of financial incentives to proceed.

Be it further resolved that the Board directs the Executive Officer, by July 1, 2028, to evaluate and propose future amendments, as appropriate, ensuring that facilities that fail to achieve the GHG reductions specified in their applications shall be required to return the value of the MDI allowances for the portion of GHG reductions not achieved in their applications.

Be it further resolved that the Board directs the Executive Officer, by July 1, 2030, to evaluate the impact of the MDI program on the effectiveness in reducing covered facility emissions, and to propose future amendments, as appropriate, on the following:

- the overall quantity of MDI allowances;
- compliance period limits on awarding of MDI allowances;
- further award limits by sector;
- eligible project types prioritizing those that could achieve both GHG and criteria and/or air toxics pollution benefits; and
- any other appropriate changes to ensure the MDI program supports the program and continues to reduce emissions to help achieve the state's climate targets.

Be it further resolved that the Board directs the Executive Officer to evaluate and propose any future amendments, as appropriate, to further support new facilities under the MDI program.

Be it further resolved that the Board directs the Executive Officer to evaluate and propose future amendments, as appropriate, to the definition of an independent merchant refiner.

Be it further resolved that the Board directs the Executive Officer to evaluate and propose additional future amendments, as appropriate, related to independent merchant refiners to support reliable and affordable energy to meet consumer demand, including adjustments to compliance flexibility.

Be it further resolved that the Board directs the Executive Officer to evaluate the use of supplementary cementitious materials (SCMs) for cement production in state and to propose additional future amendments, as appropriate, to support the use of SCMs to reduce cement GHG emissions to the maximum extent feasible.

Be it further resolved that the Board directs the Executive Officer to evaluate and propose future amendments, as appropriate, regarding alternative allocation approaches in situations of force majeure to continue to minimize leakage.

Be it further resolved that the Board directs the Executive Officer to coordinate with the CPUC to ensure the remaining 30% of allowances allocated to natural gas utilities are focused on minimizing ratepayer impacts to low-income households through a Climate Credit after 2030, or evaluate and propose additional future amendments, as appropriate, to limit the use of value for minimizing impacts to low-income households.

Be it further resolved that the Board directs the Executive Officer, in consultation with the CPUC, to evaluate and propose future amendments, as appropriate, to equitably account for the historic (2024 through 2026) benefits of the Diablo Canyon Power Plant's extended operations and equitably distribute those benefits across the three investor owned utilities in their 2027 through 2030 allocations in recognition of respective rate payer contributions to the extended operations of the plant through 2030.

Be it further resolved that the Board directs the Executive Officer to begin a public process no later than July 1, 2028 to evaluate and propose future amendments, as appropriate, for industrial allocation for post-2030 including consideration of MDI investments and alternative, or additional, mechanisms to integrate into the program emissions related to manufacturing of products entering the state to minimize leakage for sectors with imports of high carbon products.

Be it further resolved that the Board directs the Executive Officer to report to the Board annually on the use of the value of allowances by utilities, in particular for low-income households, including any analyses and reports conducted by the CPUC on the Climate Credit by the Investor-Owned Utilities.

Be it further resolved that the Board directs the Executive Officer to continue working with offset project operators on cost-effective implementation and to continue to explore and pursue development of additional offset protocols, in particular for projects that prioritize direct environmental benefits, as well as updates to existing offset protocols, consistent with the direction included in AB 398, AB 1207, and SB 840.

Be it further resolved that the Board directs the Executive Officer to evaluate the impact of the MDI program on industrial sector emissions in the next AB 32 Scoping Plan.

Be it further resolved that the Board directs the Executive Officer to report to the Board within 60 days of the second auction, if two consecutive auctions for current vintages are undersubscribed.

Be it further resolved that the Board directs the Executive Officer to annually report to the Board and make publicly available trends in allowances sold at auctions and MDI allowances issued, and propose any future amendments, as appropriate.

Be it further resolved that the Board directs the Executive Officer to implement SB 905 and the corresponding changes needed to the Cap-and-Invest Program with all due speed.

Be it further resolved that if there is a possibility that any modifications to the regulation made available for one or more 15-day public comment periods may affect the conclusion of the environmental analysis, the Executive Officer shall prepare and circulate any additional environmental analysis to the extent required by CARB's regulations at title 17, California Code of Regulations, section 60004.

Be it further resolved that the Board directs the Executive Officer to determine if additional conforming modifications to the regulation are appropriate. If no additional modifications are appropriate, the Executive Officer shall take final action to adopt the regulation, as set forth in Appendix A of the Initial Statement of Reasons released to the public on January 20, 2026, and Attachment A to the Notice of Public Availability of Modified Text and Availability of Additional Documents and/or Information released on April 14, 2026. If the Executive Officer determines that additional conforming modifications are appropriate, the modified regulatory language shall be made available for public comment, with any additional supporting documents and information. The Executive Officer shall consider written comments submitted during the public review period and make any further modifications that are appropriate available for public comment for at least 15 days. The Executive Officer may present the regulation to the Board for further consideration if warranted, and if not, the Executive Officer shall take final action to adopt the regulation after addressing all appropriate conforming modifications.

Be it further resolved that because of the significant public health and welfare benefits of the proposed regulations and the time needed by the regulated community to comply, the Board hereby determines there is good cause for the regulations to become effective as expeditiously as possible.