MEETING

STATE OF CALIFORNIA

AIR RESOURCES BOARD

ZOOM PLATFORM

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

BYRON SHER AUDITORIUM

1001 I STREET

SACRAMENTO, CALIFORNIA

FRIDAY, MAY 29, 2026

9:13 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

BOARD MEMBERS:

Lauren Sanchez, Chair

John Balmes, MD(In-Person and Remote)

John Eisenhut(In-Person and Remote)

Eric Guerra

Lynda Hopkins

Gladys Limón

Tania Pacheco-Werner, PhD(Remote)

Cliff Rechtschaffen(Remote)

Miguel Santiago

Susan Shaheen, PhD

David Silva

Senator Henry Stern(Remote)

Paula Stigler Granados, PhD

Diane Takvorian

STAFF:

Steve Cliff, PhD, Executive Officer

Courtney Smith, Principal Deputy Executive Officer

Shannon Dilley, Chief Counsel

Rajinder Sahota, Deputy Executive Officer, Climate Change and Research

APPEARANCES CONTINUED

STAFF:

Matt Botill, Division Chief, Industrial Strategies Division(ISD)

Wesley Dyer, Senior Attorney, Legal Office

Rachel Gold, Manager, Program Development Section, ISD

David Hults, Assistant Chief Counsel, Legal Office

Abigail May, Deputy Counsel, Legal Office

Syd Partridge, Manager, Climate Change Reporting Section, ISD

Minh Pham, Chief, Program Planning and Management Branch, ISD

Mark Sippola, Chief, Climate Change Program Evaluation Branch, ISD

Michael Turegon, Staff Air Pollution Specialist, Climate Reporting Section, ISD

Sydney Vergis, Assistant Division Chief, ISD

ALSO PRESENT:

Cesar A.

Barry F. Boyd

Joaquin Castillejos

APPEARANCES CONTINUED

ALSO PRESENT:

Bryan Culbertson

Marven Norman

Ivan Ortiz

Reuben Rodriguez

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PROCEEDINGS

CHAIR SANCHEZ: Good morning. Good morning. Good morning.

The May 29th, 2026 public meeting of the California Air Resources Board will now come to order. Board clerk will you please call the roll.

BOARD CLERK: Dr. Balmes.

BOARD MEMBER BALMES: Here.

BOARD CLERK: Mr. Eisenhut.

BOARD MEMBER EISENHUT: Here.

BOARD CLERK: Councilman Guerra.

BOARD MEMBER GUERRA: Here.

BOARD CLERK: Supervisor Hopkins.

BOARD MEMBER HOPKINS: Present.

BOARD CLERK: Assemblymember Jackson.

Ms. Limón.

Mayor Lock Dawson.

Dr. Pacheco-Werner.

BOARD MEMBER PACHECO-WERNER: Here.

BOARD CLERK: Thank you.

Mr. Rechtschaffen.

BOARD MEMBER RECHTSCHAFFEN: Here.

BOARD CLERK: Assemblymember Santiago.

BOARD MEMBER SANTIAGO: Here.

BOARD CLERK: Dr. Shaheen.

BOARD MEMBER SHAHEEN: Here.
BOARD CLERK: Mayor Silva.
BOARD MEMBER SILVA: Here.
BOARD CLERK: Senator Stern.
Dr. Stigler Granados.
BOARD MEMBER STIGLER GRANADOS: Here.
BOARD CLERK: Ms. Takvorian.
BOARD MEMBER TAKVORIAN: Here.
BOARD CLERK: Chair Sanchez.
CHAIR SANCHEZ: Here.
BOARD CLERK: We have a quorum.
CHAIR SANCHEZ: Thank you. And can the Board Clerk please call Board Member Limón.
BOARD CLERK: Board Member Limón.
BOARD MEMBER LIMÓN: Here
BOARD CLERK: Thank you, Board Clerk.
I will cover a few housekeeping items before we get started with today's agenda.
We are conducting today's meeting in person, as well as operating remote participation options on Zoom and by phone. Anyone who test -- wishes to testify in person during the open comment for items not on the agenda should fill out a request-to-speak card available in the foyer out in the lobby. Please turn it into a Board assistant. If you are participating remotely, you will raise your

hand in Zoom or dial star nine if calling in by phone.

For safety reasons, please note the emergency exit at the rear of the room through the foyer. In the event of a fire alarm, we are required to evacuate this room immediately, go down the stairs to the lobby and out of the building. When the "All-clear" signal is given, we will return to the auditorium and resume the meeting.

A closed captioning feature is available for those of you joining us in the Zoom environment. In order to turn on subtitles, please look for a button labeled "CC" at the bottom of the Zoom window, as shown in the example on the screen now. I would like to take this opportunity to remind everyone to speak clearly and from a quiet location, if you are joining us on Zoom or by phone.

Interpretation services will be offered today in Spanish for both in-person and remote attendees. If you are joining us on Zoom, there's a button labeled "Interpretation" on the Zoom screen. Click on that button and select "Spanish" to hear the Board meeting in Spanish. If you are joining us here in person and would like to hear the meeting in Spanish, please speak to a Board assistant. They will provide you with further instructions.

Again, I want to remind our commenters to all speak slowly, perhaps slower than I am right now, and pause intermittently to allow the interpreter to accurately interpret your comments.

THE INTERPRETER: Good morning, Madam Chair. Good morning, Board members. The following instructions will be given in Spanish.

(Interpreter translated in Spanish).

THE INTERPRETER: Gracias. Thank you.

CHAIR SANCHEZ: Wonderful. Thank you.

Today is a continuation of the Board meeting from yesterday to hear Agenda Item number 26-3-2, public hearing to consider proposed amendments to the regulation for mandatory reporting of the Greenhouse Gas Emissions Regulation, and Item 26-3-3, public hearing to consider proposed amendments to the California cap on greenhouse gas emissions and market-based compliance mechanisms, also known as the Cap-and-Invest Regulation.

The record is reopened. As I mentioned yesterday, the comment period and the dockets for online submissions are closed, but I understand that our counsel will now make comments related to CEQA. Board members, you have copies of these comments with you on the dais today. Over to you, Counsel.

CHIEF COUNSEL DILLEY: Thank you, Chair Sanchez.

As I conveyed to the Board yesterday, we heard some further environmental comments at this Board meeting, including concerns regarding emission leakage, biofuels, the manufacturer -- Manufacturing Decarbonization Incentive, the GGRF and the stringency of the environmental analysis.

CARB staff prepared a written response to those comments and has provided it to the Board members, as you indicated, and it has been posted publicly online on the rulemaking webpage.

To give a quick summary of the key responses. We heard some comments that the amendments would result in environmental and emissions leakage. CARB disagrees, as the proposal before the Board includes many mechanisms for reducing leakage. CARB addressed these mechanisms in the EIA and in Master Response 1 in the original response to comments document.

Regarding the MDI, CARB disagrees with commenters that it has not been fully analyzed from an environmental perspective to the extent required by CEQA. The draft and Final EIAs both include appropriate analysis of the MDI, including the compliance responses that may result from the MDI incentive. The MDI is an industrial decarbonization measure and the Draft EIA heavily focused on potential impacts from industrial decarbonization compliance responses.

Regarding the GGRF, CARB heard some comments that the MDI would affect GGRF project funding. CARB disagrees with the commenters' assertions as to the potential scale of revenue impacts, and importantly CARB notes that GGRF funding decisions are made by the Legislature, not CARB.

Finally, we heard some generalized process type comments claiming that CARB's environmental review was rushed and did not follow the proper process. CARB disagrees respectfully. CARB followed its well-established and conservative environmental review process for this rulemaking and fully complied with all applicable process requirements under CEQA.

Thank you.

CHAIR SANCHEZ: Thank you, Counsel. And thank you to you and the entire legal team. I know folks were working hard on those responses over the past few days and months.

So, I will -- Board Clerk, could we please note -- call the roll for Senator Stern, who I note has joined us.

BOARD CLERK: Senator Stern.

SENATOR STERN: Here.

BOARD CLERK: Noted. Thank you.

CHAIR SANCHEZ: Good morning, Senator. Great to see you.

SENATOR STERN: Good morning.

CHAIR SANCHEZ: I will now close the record on these agenda items. However, if it is determined that additional conforming modifications are appropriate, the record will be opened and 15-day Notice of Public Availability will be issued. If the record is reopened for a 15-day comment period, the public may submit written comments on the proposed changes, which will be considered and responded to in the Final Statement of Reasons for the regulation. Written or oral comments received after this hearing date but before a 15-day notice is issued will not be accepted as part of the official record on this agenda item. 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 for the regulation after addressing all appropriate conforming modifications.

So with that, we are going to turn to Board discussion. Let me just walk through kind of the structure and schedule for the day. I will first ask our staff to walk through a summary of public comment that we heard yesterday. Again, thank you to all of the members of the public that spoke before the Board for eight hours of public testimony yesterday. I will ask the staff to walk through a little bit of a refresh on what we heard on a variety of issues. I will then turn to Board discussion, which I am planning on structuring in different buckets of issues. There will be the opportunity for Board members to ask additional questions of staff following up on our brief discussion last night. And after Board deliberation, we will move to vote on the two resolutions that are in front of the Board on this item. And then we will wrap with open public comment, which I will not forget today.

Questions, thoughts, considerations?

Seeing none. Okay. Staff, over to you. Can you please summarize for the Board, please, to the fullest extent of your ability, what we heard in eight hours from the public yesterday. Thank you.

EXECUTIVE OFFICER CLIFF: Absolutely. Thank you, Chair and good morning.

I'll do my best and I'll ask staff to help out, and, of course, any of you, if you think I missed anything. So I'm kind of referring back to those who spoke in person. And I know we have seven pages of in-person commenters. And I think many of those comments were also echoed in the online comments.

So in front of me, I would say that the comments fell into kind of four different cat -- well, five different categories. We've addressed the process one with both the CEQA and APA process. But we did hear from a few commenters that there was insufficient time to consider or that we did something inappropriate in our process. I think we've addressed that, but obviously happy to go back if there are additional questions and concerns regarding that.

Broadly, allocation was a topic of conversation. So from the industry perspective, they had concerns about insufficient allowance value being allocated to them to address leakage. So we heard from several commenters that they need additional support, especially as the cap declines. This 11 percent per year decline that we would observe starting in 2027 is extremely steep and it will continue through 2045 at seven percent per year thereafter. That is -- that exceeds many other programs that we are aware of globally. And I think that industry recognized those concerns in their comments asking for additional support.

We also heard from utilities regarding allocation that this was a decline in the amount of allowances that they would receive relative to today's regulation and that that would have impacts to them. They, overall, I think supported where we landed, but did note that there was a lack of -- that some of the credits -- or some of the allowances had been removed and therefore that could have impacts on the climate credit.

And then we heard a lot of comments regarding the Greenhouse Gas Reduction Fund and the potential loss of value in that fund as a result of allocation. And then I think there was also some comments regarding the impact on GGRF of MDI, which I'll get to in a second.

Another category that we heard from industry and utilities is the post-20 -- (clears throat). Excuse me -- post-2030 allocation. We've noted that this Regulation provides certainty in terms of allocation through 2030. But beyond 2030, because the default is that all allowances would go -- that aren't allocated to industry or to utilities would go to GGRF. And so there were several commenters that indicated a challenge with their investment uncertainty related to the fact that there aren't allocation methodologies post-2030. As we've noted, staff, in particular, did not go out that far, because of the current economic conditions and a lot of uncertainty there. But that is obviously a category that we're happy to discuss in more detail.

The MDI was another category that we heard. I think that it ranged from some industry support for that. And generally speaking, many of the industries that would benefit from potential investments to decarbonize that ultimately would prevent leakage is something that was supported by industry. We also heard a lot of comments related to concerns about the guardrails associated with the MDI, and a lot of comments related to how the MDI would impact GGRF. And we, you know, in our -- in our responses yesterday, did try and address that MDI really has nothing to do with GGRF, but, you know, obviously that's an area where I think we need to discuss that a little further.

And then I would say there were -- there were some other comments that were kind of throughout, that didn't really rise to a lot of discussion, questions about accountability for the climate credit and how that gets returned -- that value gets returned to ratepayers. And, you know, there were some other questions regarding some nuances and allocation that did come up in some of the comments, especially for the electricity sector and how to work with PUC on that. I think, you know, that was maybe one commenter -- one of the IOUs brought that issue up.

I'll note that I did not hear any comments on mandatory reporting. I'm not sure. One support. Thank you. Okay. And I don't believe that I heard any comments regarding the other program changes that would help us monitor the market, such as corporate associations and those sorts of things. But that's another area of amendments that we made. But again, I didn't catch any commenters that made comments on that.

So, yeah, stringency. I think related to the MDI in particular, there were questions about the stringency of the Program and how that relates to hitting the 2030 target. So that was another area of comment that relates to the -- what I'll call the MDI bucket.

Hopefully, that caught it, but please correct me if you think I missed things.

CHAIR SANCHEZ: Thank you for that staff. In the summary of allocation, appreciate the overview of kind of the industrial slice of the pie, the utility slice of the pie. The Board heard a lot testimony on GGRF. Do you mind recounting kind of the highlights of that as well?

EXECUTIVE OFFICER CLIFF: Yeah. I think generally there were many comments related to the loss of GGRF relative to some expectations. What I heard in particular were expectations that were set as part of the reauthorization of this program last year. I can't really speak to that in any level of detail. I don't believe that CARB provided any estimates of allowances that would go to the -- to auction or any suggestion of what that auction price would be. So I'm not aware that we've had a role in evaluating or predicting what sort of GGRF revenue might result from the Program.

That also kind of just brings up a general point, which is we have talked a lot about a potential auction revenue in these discussions, and even in some of our slides. And I wanted to just be clear that we're not trying to predict what auction revenue would result from the program. We actually don't know how many allowances would go to auction nor do we know what that allowance price at auction would be. There's uncertainty in both of those. So we've simply used a $30 per ton price and then our kind of best estimate of how many allowances could go to auction based on our knowledge of product output and our understanding of utility allocation to date. But, yeah, that was a broad area of discussion related to the Greenhouse Gas Reduction Fund.

Yeah. And I think generally -- that's a good point. So Rajinder brought up the affordability was brought up regarding, you know, the overall program and the trade-offs in various decisions and how that would relate to affordability.

CHAIR SANCHEZ: Great. Appreciate that summary. Another key part of the legislation that, as I understand it, is a part of the staff's proposal that we did not hear a lot of public comment on, was moving the offsets under the cap. Just wanted to clarify, was there, generally in the docket perhaps, support for the approach and that part of the amendments, even though it wasn't part of the public discussion? I know that was a key part of the legislative discussion last year.

DEPUTY EXECUTIVE OFFICER SAHOTA: Good morning, Chair, Board members. I can start and then if staff would like to add anything, I would welcome their input.

Just to back up a little bit. Offsets under the cap means that if there are offsets used for compliance, we would further remove allowances that would go to auction. And so there are general concerns that have been there, that that will further tighten the Program and increase the stringency through that mechanism. In terms of support or opposition, I'm going to turn back to staff and turn -- what comments we received.

ISD PROGRAM DEVELOPMENT SECTION MANAGER GOLD:

Yeah. Great. Thank you. We received general support for our approach of implementing the direction in AB 1207 on how to implement that provision. There were some suggestions, but overall supportive.

CHAIR SANCHEZ: Great. Thank you. Appreciate that. Appreciate the summary.

Board members, any items from public comment that you wanted to clarify before we move to discussion?

We are, yes, as part of the discussion.

Yes, Mayor Silva.

BOARD MEMBER SILVA: I have a number of questions. Would this be the time to do that?

CHAIR SANCHEZ: Not quite.

BOARD MEMBER SILVA: Okay.

CHAIR SANCHEZ: We're getting there. We're getting to Board discussion. Just as it relates to public comment and things. I want to make sure. Eight hours folks were in and I want to make sure we're all starting with kind of the same understanding of some of the issues that were raised yesterday.

Yes, please, Supervisor Hopkins.

BOARD MEMBER HOPKINS: Just one theme was sort of a lack of engagement, and the fact, you know, EJAC was essentially in between committees. And so I'm just wondering, you know, after the release of the proposed amendments in April, what was the engagement with our EJ communities, with ag, with environmental groups, many of the folks who spoke here yesterday?

DEPUTY EXECUTIVE OFFICER SAHOTA: Good morning. Happy to start on that question. So when we released the formal publishing of the regulation in January, with the 45 day comment period, staff was available to meet with members of the public, stakeholders, and others, in terms of what's in the proposal. Because it's a market program, there's limits to how far we can discuss certain things, because it can move the market. But to the extent that we had comments coming in, we will be responding to them. To the extent that we had engagement directly with other parts of the executive office, such as my colleague Chanell Fletcher who's unavailable for today over on the environmental justice side, there were conversations there. And I know that there were meetings that were happening with the Chair, the Chair's office and a few of us with the environmental justice advocates, and other advocates across the spectrum.

BOARD MEMBER HOPKINS: Let me repeat the question, because I did not hear concerns from the communities about the January proposal. I heard it about the April proposal. And so my question is sort of what was the engagement surrounding those changes from January to April?

DEPUTY EXECUTIVE OFFICER SAHOTA: Thank you for clarifying. So after the January proposal went out, we have that 45-day comment period. We took all that feedback and reflected it back out in April. During that formal comment period, we don't do further workshops. We just wait as part of that formal process to get the incoming to understand if any other adjustments are warranted. To the extent that folks had clarification questions or wanted to talk to us, staff was available to meet with them. And I know the same kinds of conversations were had multiple times with some of the same folks from the January time frame through the April time frame. And even as recently as this week.

CHAIR SANCHEZ: And maybe I'll just jump in here Supervisor Hopkins to share that I personally had a number of conversations with our environmental justice advocates. I see them in the room here, me and my team. And I think we have a -- we have both the EJAC considerations that are a part of the ISOR that maybe staff we can direct the Board to from the former EJAC, as well as ongoing conversations with many of the stakeholders. I would assume that environmental justice advocates also met with Board members ahead of this meeting. And I really appreciated our former Co-Chair of the Environmental Justice Advisory Committee, spending five minutes on her presentation yesterday.

I see. Great. Those were the questions on kind of public comment and the summary. We're going to do a few more -- yes, public comment clarification.

BOARD MEMBER GUERRA: Correct. Correct. This is regarding -- so in the public comment, and I want to -- I wanted to know whether this testimony is correct or incorrect. There was an assertion made that the Board could eliminate the MDI and add the benefits to GGRF. Can staff clearly respond to that assertion made yesterday during that time.

EXECUTIVE OFFICER CLIFF: Thank you for that. I don't believe that that's true. And let me ask colleagues for some help in explaining this. But generally speaking, what that -- what I think that's suggesting is putting 118 million allowances back into the market, which wasn't part of the original proposal. The original proposal was to take those out. Therefore, we would have analytical issues related to trying to do that.

I described yesterday what that would mean in terms of the reevaluation of the overall proposal. And so we've already done our environmental analysis based on the removal of those allowances and the MDI as part of the overall Program. So if I understand correctly, that would essentially increase the overall cap back to today's level or, you know, some version of that. And that would then result in a completely new analysis as part of this.

DEPUTY EXECUTIVE OFFICER SAHOTA: And I'd just like to add that I think underneath that question is this -- this idea that if the MDI wasn't there, that those allowances would go to auction and generate more money for GGRF, that is not true. Whether or not the MDI was included or not included, that pie that we see where we distribute allowances to industry, the Climate Credit, and what remains for GGRF appropriations by the Legislature, that pie would stay the same.

CHAIR SANCHEZ: Okay. As we're shifting into discussion, let's dive in. Public comment related clarification. Okay. Thank you, Board Member Limón.

BOARD MEMBER LIMÓN: Yeah. I thank you, Chair Sanchez. I appreciate the question about Supervisor Guerra. The way I heard the comment was a matter of like of procedure or process, not so much about the actual substance. That's the way I heard the comment. And I think what I heard was you have the authority to remove the MDI, not necessarily to put it back in, but just, you know, keep it under the cap. That's how I heard it. So I don't want to speak for my colleague, but I heard a -- I have that process question as well.

DEPUTY EXECUTIVE OFFICER SAHOTA: Because the current proposal in front of the Board includes an MDI, if there was direction to the staff to remove the MDI, we would have to do a 15-day change. And then that resolves -- that involves going back and do the analyses that Dr. Cliff walked through yesterday in terms of how long does it talk to do any analytics, to get out that 15-day, to take comment, and --

Okay. Thank you. Maybe that's better.

So then it would go back into that process, where we have to do the 15-day process, take any comments. If there's anything related to CEQA, we have to go through that process. So that means it takes us longer to get back to the Board on a change. It's not as simple as you direct us that you want to take the MDI out and then the regulation is still moving forward. We actually have to still go back and do the process under the APA process on a reg amendment and go out for comment, and any CEQA related analyses.

CHIEF COUNSEL DILLEY: And I'll just add that complete removal of the MDI would require another CEQA analysis. And so we would not be able to make the September 1st deadline.

BOARD MEMBER LIMÓN: Thank you for that clarification.

CHAIR SANCHEZ: Thank you, Board Member Limón.

Dr. Shaheen.

BOARD MEMBER SHAHEEN: Thank you, Chair and thanks to the CARB team.

On the MDI, there was so much discussion yesterday. I just have a quick clarifying question as we're getting ready to deliberate and vote. So can you please clarify how more allowances do not equal more emissions? The -- walk me through the -- how this works mechanically.

DEPUTY EXECUTIVE OFFICER SAHOTA: This is a question for maybe you, the Chair, is this the time to start putting up some of the slides and doing the detailed walk-through?

CHAIR SANCHEZ: The slides will help guide that part of our discussion. One last clarifying question.

BOARD MEMBER HOPKINS: Yeah, I'm just following up on the other questions about process. We also heard folks requesting to revert to the January version of the amendments. Was there sort of CEQA and an environmental analysis of that? Would we be able to go back to that version today?

CHIEF COUNSEL DILLEY: So we would have to go out for another 15-day, if we were to revert back to the 45-day. So you still have to follow the APA process in doing that. We would need to take this back and take a look as to whether or not additional environmental analysis would need to be done to revert back. I do believe we did account for the MDI in our environmental analysis, but I think we would still be challenging to meet the September 1st deadline with a 15-day.

BOARD MEMBER HOPKINS: Was there any analysis sort of done on that version that would maybe put us closer to a complete analysis?

CHIEF COUNSEL DILLEY: So the 45-day analyzed, you know, the initial aspect. And so if you were to try to revert back to that, you know, the initial environmental analysis would stand.

BOARD MEMBER HOPKINS: Thank you.

EXECUTIVE OFFICER CLIFF: Can I just add that --

CHAIR SANCHEZ: Thank you for the comment. I would just

EXECUTIVE OFFICER CLIFF: Sorry. I just was hoping I could add that going back to the January proposal would also impact the overall allocation scheme, which would result in impacts to utilities, and industrial, entities that they were very a opposed to in that in the Jan -- very opposed to the January proposal. So we heard a lot of opposition to the January proposal and we've heard some opposition to the 15-day proposal. But I just wanted to note, it would impact more than the MDI if all of those 15-day amendments were reverted.

CHAIR SANCHEZ: Any last clarifying questions?

Yes, Board Member Takvorian.

BOARD MEMBER TAKVORIAN: Oh, sorry. Thank you so much. Maybe this is related more to how we proceed with the next section, but I wanted to build on Dr. Shaheen's question and see if we couldn't see a side-by-side of January and April.

CHAIR SANCHEZ: Great. Well --

BOARD MEMBER TAKVORIAN: That would just be enormously helpful, because it seems like we're getting this in pieces and it would be nice to be able to see it together.

CHAIR SANCHEZ: As it relates to the MDI or over all?

BOARD MEMBER TAKVORIAN: Overall.

CHAIR SANCHEZ: Okay. Great. Let's put a pin in that, but I think that is the next slide we're going to show up to tackle allocation. I think the staff did a great job in putting the pie charts, the January proposal, next to the April proposal. So we'll be able to dig into that. So I want to shift us now into the allocation discussion. Staff, if we can pull up slides, I believe, 17 and then maybe we'll speak about 18 as well.

And I want to start this, knowing where we were on public comment, Dr. Cliff, I appreciated the industry perspective, the utilities, the testimony we received on GGRF. I'd really appreciate starting this discussion with staff walking the Board through these three different pie charts, specifically through the lens of minimizing leakage, cost effectiveness, affordability, some of the statutory requirements that informed staff's initial proposal, and also the amendments that are in front of the Board.

EXECUTIVE OFFICER CLIFF: Thank you, Chair. So what you see here on the left is the current regulation.

The pie is larger and the distribution is similar to what we did in the January staff proposal. So in the January staff proposal, the pie is smaller by 118 million allowances, and we used the same allocation methodology for that original proposal. And that is to protect utility ratepayers and to minimize leakage. So it's the same allocation methodology for the industrial sector that was -- that is in the current regulation, which is informed by legislation from 2017. It's also been part of the Program since the very beginning.

The nuance is in 2017, the Legislature directed us to keep the assistance factor at 100 percent through this decade. That's what was in the industrial allocation in the January staff proposal.

Moving to the final staff proposal, the pie is the same size, but utilities argued that both for affordability reasons and the fact that they have made investments, which had resulted in impacts to affordability to decarbonize the -- their electricity mix, that they needed more value. And in particular, there was this kind of nuance about the -- how the RPS adjustment was made with regard to that allocation.

So we adjusted that part of the pie - that's yellow in this slide - to increase that fraction that went to utilities. The industrial allocation was increased in two ways, one the -- in that formula that we've been talking about, industrial allocation includes the amount -- the fraction related to the cap and this assistance factor and the benchmark. So we changed both the fraction that's related to the cap and kind of raised that up, and made the -- made that decline a little bit less steep through 2030. So that resulted in about an increase in their allocation of about five percent here, relative to the total pie.

Again, I want to just point out, those two pies are the same size and the fraction of allocation there is what results in that light blue being a little bit smaller. That's the amount that would go to auction.

DEPUTY EXECUTIVE OFFICER SAHOTA: May I just add a few things on this. So in that January proposal where Dr. Cliff mentioned that we followed the methodology for giving allowances to the utility that are returned as the Climate Credit, that was status quo in terms of data they submit to us and how we do that allocation. In February, the Chair was asked to present the January proposal in front of Assemblywoman Jacqui Irwin, who was here yesterday, and her colleague who is also on that Committee, the Joint Legislative Committee on Climate Change, and we got direct incoming question and pointed questions about how we need to make sure that there aren't impediments to moving away from gas to electrification, and that we needed to go back and look at the data, work with the utilities to figure out how the data could support additional allocation to the utilities to protect ratepayers through more of a Climate Credit.

And the Chair of the Joint Legislative Committee was very direct in saying when we looked at this program as part of extension, we saw it as affordability. A new lens was very directly added on affordability, especially for electrification. That is what prompted staff to go back and look at what more they could do using data submitted by the utilities in terms of giving allowances.

Yesterday, you heard from some utilities that said that they lost allowances. They still lost allowances relative to the current regulation, but we couldn't keep them at that level, the data didn't warrant it, and it would have further eaten into what would go to auction for GGRF.

On the piece about the industrial allocation, we had additional incoming direction about the pressures of some of the industry, especially as we saw industries start to close in parts of the -- of California. We saw that there are announcements about the refineries to be sure, but even here in Northern California, our food processors are closing. We know glass plants are closing and there's the potential for a large manufacturing facility in Southern California to close, which is one of the largest employers in that region.

So we had more incoming directly on the industrial sector as well. And reflection that we needed to minimize for leakage from the impacts of this program. So again, the staff went back, looked at the data, took that all into account and found a way to give a little bit more to industry, not everything that they wanted, because they would love to have all the free allowances they can. So we went from about 60 percent to 70 percent. But because it's still the same pie, it had to come from somewhere, and that meant it had to come from the allowances that would remain that otherwise go GGRF.

CHAIR SANCHEZ: Thank you, staff. Very helpful overview. And I think even the pie charts in fact being smaller helps to illustrate that this is a challenging balancing act, and that it is becoming more challenging as we are removing allowances from the Program. So in the current regulation being 118 more allowances to feed the pie over to the final staff proposal. Thank you for walking us through that.

I want to move to Board discussion and questions, specifically on the issue of allocation for these three slices of the pie and any questions that may arise for the

APCR. Please feel free to raise microphones if you have questions.

Dr. Balmes, you caught my eyes first. Over to you. Oh, you didn't want to go first. Okay.

(Laughter).

CHAIR SANCHEZ: You were just observing.

Yes, Councilman.

BOARD MEMBER GUERRA: Thank you very much. So specifically this with POUs - and I'm obviously concerned more with SMUD - how does -- how does this -- how did the January proposal impact compare to the current proposal and how was that impact to POUs? And, you know, so, you know, in my case sometimes, this is the balancing act between, you know, a utility whose been one of our biggest champions on carbon reduction. How do we -- how do we -- how does make that differentiation?

DEPUTY EXECUTIVE OFFICER SAHOTA: I would like to invite the staff that are very, very more knowledgeable on this to weigh in on that very specific question.

ISD PROGRAM DEVELOPMENT SECTION MANAGER GOLD:

Yes. Thank you for that question. In the way that we allocate to utilities is that we look very closely at their demand and their supply to estimate the compliance burden of the Program. In SMUD's case in this case, they are seeing a reduction in the five to six percent from the current rate. And that is largely due to decreasing estimated load demand. We do use forecasts from the Energy Commission for that portion of our allocation. Oh, but they are receiving additional allowances under this proposal, their portion of the natural gas transfer

BOARD MEMBER GUERRA: And based on those allowances, do we know what level of impact to ratepayers that is?

ISD PROGRAM DEVELOPMENT SECTION MANAGER GOLD: So because our allocation is based on future projections of supply and demand needs, it should be calibrated in the next few years with the actual compliance cost burden that their ratepayers will feel.

DEPUTY EXECUTIVE OFFICER SAHOTA: And to be clear, the purpose of providing these allowances isn't to have a zero impact to ratepayers. It's to address the cost of compliance with this Program, because there are many other factors that are going into the costs that are being passed onto ratepayers across POUs and IOUs, even though the POUs are generally lower in cost to ratepayers than the investor-owned utilities. And so to the extent that we are trying to make sure that there is no cost pass-through for this Program, we are doing that for compliance with this Program and giving a plus up on that by increasing the amount of allowances from the January proposal to the final proposal. And then as Rachel said, they are going to get additional allowances, because we are transferring allowances from the gas utility in the region to the POUs.

CHAIR SANCHEZ: Board Member Santiago.

BOARD MEMBER SANTIAGO: Thank you, Madam Chair. And I guess I wanted to circle back around this issue of affordability. You know, as a young staffer, I watched the first version of this Program during my time in the Legislature. And I think my colleague on the line, we witnessed kind a little bit of a changing of the Program, so to speak, in 2017, which I was pretty heavily engaged in, as well as other folks here in the room, and my colleague on the Zoom.

And I was interested in this concept of affordability in the last legislative session. And if that's -- if that provides a lens. Now, we've got kind of a little bit of tension, right, which is like the primary mandate of the -- of the Program to reduce emissions. And I would argue, and I think most people would agree, that this is the primary reason for this program to make it a better world, to make it a better environment, to reduce emissions simply stated.

You have this concept of affordability now on the table. And I think there's a -- at least in my mind, I struggle with, well, what does that really mean. You know, we've heard arguments, well, GGRF funds also address affordability, which are valid arguments, no doubt about it. I've now been advised that that isn't a statutory ability that the -- that legislation has been given us to change allocations based on where funding is, because we've got two lens, one to reduce emissions, again the primary reason. The second is to take a look at affordability.

So I want to dig in this a little bit more on this question of affordability and walk through just a little bit more on the industrial and the MDI to see the direct links to make sure that we're -- that we're on the right path. And I said that yesterday, right? You get one shot at this and I kind of believe that you get several bites of it, because there's nothing statutorily that says you can't fix, you can't amend, you can't bring back better information, you can't make stronger guardrails, you can't axe if it's not going to work the way you want it to work at some point in time. So I don't believe this is the only opportunity whether -- you know, whether the MDX is included -- I'm sorry, the MDI is included or not, but let's say it is. There's still a lot of work that can get done around this. I don't believe that this is the final kind of act in a lot of different ways.

That said, that said, if you could walk us through the industrial portion in the MDI, because if you're going to make an argument that emissions are going to be reduced, we want to be able to see this in the most concrete way. I don't know how else to say it. And if you're going to say that -- not you, but general you. I have a habit of saying "you" to everybody, so I apologize to anybody I say "you". It means general "you". Maybe I should say "we".

If there's going to be an argument said that this is -- we're taking also a lens of affordability and you're taking a lens of affordability, you're taking a lens of reducing emissions, and we're doing this. Walk us through exactly how that then works, because that has to be stated. And it has to absolutely to the -- as concrete as can be with the information that we have today. That doesn't mean we can't change our minds. That doesn't mean that, you know, I'm saying this is the way to go, but dig in a little bit more on that, because this is what we're trying to do. So tell me how that results specifically for that.

EXECUTIVE OFFICER CLIFF: Thank you for that question. So I'll start with kind of the big picture, which is we have statewide mandates that we are charged with meeting both a 2030 -- originally a 2020, then a 2030, and now a 2045 target. So the mix of programs that we develop IN our climate planning effort, the Scoping Plan, is intended to minimize that overall cost burden to California and to the California economy, while maximizing benefits.

Specifically with regard to this Program, overarching the cap sets the limit on emissions that we can expect each -- over each compliance period and over the whole time period of this Program. So the affordability component comes in in two different ways. One, by returning that value to utility ratepayers, the allocation that goes to utilities is returned directly to ratepayers, either through a Climate Credit with the investor-owned utilities or in some other way that that's distributed back to ratepayers for the publicly-owned utilities.

On the industrial side, by minimizing the compliance burden, minimizing leakage, that minimizes costs pass-through of those products -- of the carbon price in products that Californians purchase. It also means that we're keeping those jobs and investments in California, which benefits the overall California economy and means that we're less subject to imports for those products.

By adding the MDI, that further minimizes leakage by decarbonizing those sectors over the long term and ensuring that over the long term we don't either see higher price of goods that would impact Californians -- I should say not "either" but "and" keeps those businesses in California where they have lower cost of transportation, and they're providing jobs, and economic benefit to the state.

BOARD MEMBER SANTIAGO: Madam Chair, may I?

CHAIR SANCHEZ: Yes, but Board Member Santiago part of your question got to the MDI and we're pausing on that. This is about the pie carts on allowance allocation.

BOARD MEMBER SANTIAGO: Okay. I'll table the question.

CHAIR SANCHEZ: If the follow-up is on MDI, then let's wait till we get to that section.

BOARD MEMBER SANTIAGO: It was still a pause.

CHAIR SANCHEZ: Yeah. Thank you very much.

Yes, Mayor Silva over to you on the pie charts.

BOARD MEMBER SILVA: Oh, yes. It's strictly pie charts. I just wanted to understand a little bit, when looking at this, I would say you see GGRF, we had a big conversation about how that is a benefit to our residents, and the utility allocation is intended to address affordability. When you look at how the percentages go, just keeping it very simple with it, the current reg -- or the current one sits at 86.2 percent of the pie chart is in GGRF and utility allocation. And then the January proposal goes to 83.4 percent when you add those two together. And then when you go to the final staff proposal, you're at 79.9 percent.

So, in shares of percentages, we see that the GGRF and utility allocation is getting lower as we transition across with that. And that's where we kind of heard a lot of the feedback being the intention of the GGRF is for benefit. And the intention for utility allocation is for affordability. Could you just speak to a bit of how, even as residents see that pie chart shrinking in share, it still is in the intention of being better for the California residents? I just want you to maybe speak to that in kind of layman terms, if that's possible

DEPUTY EXECUTIVE OFFICER SAHOTA: Thank you so much for that question. So part of it is building on what Dr. Cliff was saying in terms of keeping jobs, keeping manufacturing, minimizing for leakage, because part of this is making sure that in the regions where we have some of these covered facilities, people still have a job to be able to afford housing, afford energy, afford all the things that people need in their lives or want to have in their lives. And that's an important part of climate, which is making climate policy, which is making sure that public support also remains available for that politically and just through the regulatory process.

The pie and the shrinkage that you're talking about going to ratepayers, that changes really a little bit more that we get to industry, the April proposal. And that is predicated on how steep the cap is getting, the 11 percent for this decade, because I think it's hard to -- and I'm guilty of this. It's hard to internalize what 11 percent means with what's in the program now. And when we get to that part of the conversation, we'll put up those slides and talk through it. But part of the affordability is for the people that work in those industries as well.

BOARD MEMBER SILVA: And so just to understand staff's kind of ask of trust within the process, it's the idea that you're asking that the two -- from the societal benefit of emissions decreasing, from the societal benefit of industry staying in California, there's kind of this implicit trust being asked that the industry allocations have a benefit to the society based upon the idea that it's fulfilling what you just said right there.

So there's kind of idea that this staff and this

Board is asking community members to view that. Industry does not sit separate from them in terms of implicit benefit. There's a secondary benefit that needs to be analyzed and overall societal benefit.

DEPUTY EXECUTIVE OFFICER SAHOTA: That's correct. And then when we think about affordability, it's not just the first order jobs, which is the people that work in some of these manufacturing facilities. It's that money that then goes to service sector jobs and other goods and parts of the economy as the indirect benefits of keeping jobs in the region, the services for the communities, whether it's for schools, whether it's for fire services, or police services, or any of those other aspects that are really important to help, you know, protect people that live in these communities and neighborhoods.

I think part of the other issue here is that when we think about the industrial allocation and the way that we address it, the way that we're proposing to address it is not out of the norm of what other ETS programs do. So if you look at programs in the state of Washington in Quebec, what was in Canada at what point before it was rescinded, what's in the EU, there are many programs that have similar features where they are trying to minimize for leakage to be able to not have production, emissions and jobs leave the region. Make sure that they're addressing affordability on that side by giving some amount of free allowances.

Going back to what we had yesterday, we give 70 percent towards that compliance. We are the most strictest or the stingiest when it comes to giving financial support through free allowances to our industry, but we think that the data supports that 70 percent and strikes that balance.

Anyone that sees value in these pieces of the pipe is going to see a different way to balance this. We've done -- we've put forth a proposal that weighs all of the different legislative pieces. The way that these programs have functioned in other regions and here for 15 years, what's the best balance that we can bring forth to the Board that's supported by the data we have.

BOARD MEMBER SILVA: One final pie chart question and then I'll (inaudible) everything here. But my last one is just this is -- we had this discussion is this program revenue based? Is this program emissions based? And when we're looking at this, this is purely a revenue question, but can you just also map out -- you can't talk about the dollars without what those dollars impact are. Can you explain also how we're supposed to view this as also fulfilling that the emissions benefit from this is also a benefit to a community member, that by moving GGRF funds into utility allocations, and that the industrial allocation you see there, that that actually is something that the average day Californian would say I have a better experience of living, because this also correlates to the goal of reducing emissions a bit? Could you say how the pie cart is correlated to that?

DEPUTY EXECUTIVE OFFICER SAHOTA: I will start, or maybe Dr. Cliff wants to start, and I can -- all right. Yep. No, you go for it. No, you go for it.

(Laughter).

EXECUTIVE OFFICER CLIFF: Well, yeah, thank you for that question. Overall, because we're reducing emissions, we're investing in the future. We're reducing emissions impacts in communities by making -- by making all emission sources cleaner and we're, you know, setting ourselves up for a low carbon economy as we go forward.

That has benefits to all communities through economic means, which kind I'm of describing, but also very significant public health benefits associated with these programs. Overall, if you look at -- if you look at our climate programs writ large, which the Cap-and-Invest Program as a large piece, it's billions in public health benefit by 2045. I don't remember the exact number. So it's tens of billions I believe in public health benefit.

So these are real benefits to communities by reduced hospital visits, reduced doctor's office visits, lost work and school days and those sorts of things, as a result of these programs. They all work together. So this -- in analyzing the Cap-and-Invest Program, it does have its own analysis and maybe Rajinder can speak a bit to that.

DEPUTY EXECUTIVE OFFICER SAHOTA: So just picking up on the industrial piece, and I do want to talk about the climate piece as well -- or the Climate Credit. On the industrial piece, there was a 2022 OEHHA report that came out that rightfully indicated that many of the large industrial sources that are covered by this Program are mostly located near communities that have faced disparate air pollution impacts and have different levels of oppor -- have opportunity gaps that need to be addressed. And those are real challenges that need to be addressed.

And what that report found was that as we see the tightening of the GHG limits through the statutory targets and efforts to reduce greenhouse gases, those communities will get a larger share of air pollution benefits, because they just happen to be exposed to the air pollution from those facilities as it stands today by being located adjacent to those facilities.

So that report identified that if we can, continue to reduce greenhouse gases, if we can move away from fossil fuel, we will start to see, and we have seen, these facilities also reduce their harmful air pollution in these communities. So that's part of the industrial story.

On the Climate Credit, AB 1207 was very, very direct on thinking through low income households and what matters on affordability for low-income households. One of the reasons that we're proposing amendments and we're trying to hit September 1 is because there's also direction in AB 1207 to the Public Utilities Commission to restructure the Climate Credit with an eye towards affordability, because right now we have, in our regulation, a prohibition from giving more to low-income households because we didn't want to have the more you use, the more credit you get on your climate credit.

But because now it's clear we need to provide that additional support so that low-income households are not left behind from getting to electrification because of the cost of energy, the Public Utilities Commission is -- has opened a proceeding to determine how to get more Climate Credit for the electrification into low-income households and address affordability in that move towards electrification.

BOARD MEMBER SILVA: Thank you.

CHAIR SANCHEZ: Thank you, Mayor Silva.

I'm going to go to Dr. Shaheen and then I see Senator Stern you with your hand up. Please put the microphone up like this(demonstrating) and then we'll know. Okay. Thank you very much.

Dr. Shaheen.

BOARD MEMBER SHAHEEN: Thank you, Chair and thank you, Mayor Silva for helping to tee up my question. So, Rajinder it's a follow-on to energy affordability and protecting our low-income communities, because I see the yellow growing, which is great for energy affordability. But as the state transitions from electrification and we pursue climate goals, we have to ensure that we have gotten energy affordability, particularly for our low-income households who face the disproportionate energy cost burdens as we move towards decarbonization.

So in the context of the CPUC upcoming regulatory deliberations, how are you thinking that CARB staff could monitor, track, potentially work towards ensuring that the Climate Credit is indeed helping low-income communities and getting that priority?

DEPUTY EXECUTIVE OFFICER SAHOTA: So thank you for that question. Obviously, we don't have direct purview of the Climate Credit. It is in statute under the purview of the Public Utilities Commission. There is directive language in AB 1207 to use the Climate Credit to address low-income households. To the extent that the PUC has started the proceeding and it's continuing down that path, the staff at the table right behind me and I are very directly involved in conversations with the leadership and the staff over at the PUC as they work through that proceeding. Have we had direct conversations about what the changes to this regulation means, the timing? Absolutely

They have also been very forthcoming about some of the challenges that they may have and we've brainstormed on how we could think about it and talk about it to make sure that it's clear that the 1207 requirement is really about getting at this issue of low-income households and affordability on the energy side. And so, you know, I feel good, because I talk to them frequently. I know that the Chair speaks to their leadership. I know that Dr. Cliff also speaks to their leadership. And I also know that our staff speak to them regularly on making sure that we're coordinated.

In addition to that, we have reporting in regulation that the POUs, the IOUs have to report back to us every year how that money, the value of those allowances has been used. And we have been publishing that on our website. And so regardless of what reporting that might be there to the PUC under their updated Climate

Credit structure, these utilities still have to report to us on the value of that, and that is on our website. 1207 also requires us to submit that to the Legislature. And so that is additional oversight by the Legislature on how the value of that -- of those allowances is being used on the energy affordability side.

BOARD MEMBER SHAHEEN: I'm delighted to hear that you're already on it and going to be collaborating very, very closely with the CPUC on this. And I might have additional thoughts on other tracking mechanism we might use to ensure that we're getting at the data. You guys know I really like the data.

CHAIR SANCHEZ: Thank you, Dr. Shaheen. And I appreciate you drawing attention to this. It was such a paramount part of AB 1207 as we heard from the bill's author yesterday, the direct focus on energy affordability, electricity affordability. It's another good reminder of the work ahead. Right now, the Climate Credit gets distributed to all IOU customers at a slight flat rate. We know that that does not properly address the equity concerns we've had to protect low-income households, the volumetric prohibition.

So, really appreciate the collaboration with the PUC and you raising that issue.

Senator Stern, over to you virtually. Thank you for joining us.

SENATOR STERN: I'm so sorry I'm not there in person. Thank you, Madam Chair. And I appreciate everyone going through the long haul yesterday for eight hours. I spent, I don't know, maybe a -- on two "X" speed last night about four hours going through it all. So I tried to muscle through it with everybody, but I do appreciate your work on the Board here putting on all this time as well as staff.

On this -- on the chart before us and sort of the overall frame of the allowance allocation scheme, which really does set the parameters for so many other aspects here as we've noted, the implications for the Legislature's ability to appropriate dollars are obviously being directly impacted here. And so if you -- while you all were in the hearing yesterday, the Senate Budget Committee did approve an alternative -- an alternative proposal to the Governor's GGRF expenditure plan that sort of presumes that this -- if this action were adopted today that it -- it really does reset the GGRF deal from last year and requires us to revisit exactly how we're making those appropriation decisions.

So we did reject the current expenditure plan and are hopeful that, you know, whatever happens here today, if we do, in fact, make this significant of a change on the GGRF side indirectly, we don't -- again, don't know exactly what the amounts will be. We just know over all 269 versus 352, right? We know that -- we know that piece. So that's sort of my preamble to saying, you know, there's -- there is a -- this does necessitate a much deeper negotiation between I think the three parties on the GGRF side.

But I did want to get some clarity. I know we've spent a little time here talking about the utility allocation on sort of the energy side. Actually, I want to applaud you on that front and I think this -- the natural gas transition, I -- kudos to my Chair of the Climate Committee. I think that was a critical piece of our transition around electrification. And I think you've managed the affordability aspects on electricity with that transition in mind really well. And I think the CPUC collaboration to Dr. Shaheen's point will be welcome and provide that kind of concrete data that my old assembly member colleague of mine, Mr. Santiago pointed out, that we need -- you know, we needed to get concrete. We need real numbers. We need to quantify savings to households.

I think we can do that on power. I think you've set it up really well to be able to provide that. The Senate action yesterday dug in a little more deeply on the fuel side, specifically on retail gasoline. I wanted to see if staff had -- we really haven't dug into that piece of the pie chart, because it's sort of a sub-piece of the pie, if you will. It's within industry allocation, right? There's a refining allocation within that.

And what the Senate Budget Committee yesterday articulated was a desire to see the California Energy Commission actually weigh in here in some way. And perhaps that's a collaboration that could occur between CARB and the CEC, sort of similarly to what is being discussed with the PUC here to give it some of that kind of concrete data. But at a high level, I'm wondering here, staff, is it fair to assert that your presumption is that the final staff proposal versus the January staff proposal will result in lower prices at the pump, not just at the plug? Can you -- I know it's impossible to predict retail gasoline prices and obviously wars have a bigger impact, as we've seen over the years, than anything carbon does. So the Strait of Hormuz being closed still obviously being the major determinant.

But I'm just saying, setting aside those exogenous factors, which are the main drivers, within this sort of smaller narrow piece of the carbon puzzle, because of the proposed change in the industrial allocation, here it says, you know, from 14.5 up to 18, I get that we're talking about MDI later. But the way I view it it's actually -- it's potentially more, if enough folks from refining apply for the MDI. So it's really -- it' 18 plus whoever is qualifying for those MDI allowances that could get released, if I'm reading that right. But sort of taking all that into account, do you presume that this will have less pressure on retail gasoline prices say than the January staff proposal, and is that somewhere where we can put, you know, more pen to paper and really articulate it.

EXECUTIVE OFFICER CLIFF: Thank you, Senator, for that question. We -- because we're providing more allowance value to the industrial sector, and in particular you're talking about the refining sector, then that value could and, we would expect, would be passed through to consumers.

Now, whether it is another question, we don't have the ability to ensure that, unlike in the utility sector where you have a Public Utilities Commission that can guarantee that value is returned to ratepayers in the ways that are directed by Legislation. We don't have that same ability. That said, we are monitoring that. We certainly are working closely with the Energy Commission broadly related to gas prices, but also more specifically on that transition, and ensuring that there's adequate energy supply for the state.

I think it's helpful to also temper expectations just a little bit. The amount of carbon embedded in each gallon of gasoline or each gallon of diesel that's burned in vehicles is the primary source of the emissions associated with -- the carbon emissions associated with, you know, with petroleum fuel. So the amount of emissions associated with the refining part of it is significant, but it's not the majority, by any means, of that gallon of gas.

So by reducing the compliance impact on that portion of the overall cost will or should be observed by consumers. But it's not as though we would expect that you're going to see a decrease in the overall retail price of fuel, because that is informed by so many different factors, and this is a small portion of that. What's important is that it's not going up and it's not getting worse as a result of this Program.

So that's kind of a key piece of this. I would say that also by not just reducing that cost pass-through by also making the Program overall more affordable by investing early in emission reductions means that over the long-term, the overall price impact on fuel should be more steady and less extreme than we would otherwise expect, because we're doing those investments up front.

SENATOR STERN: So fair to say then inflated expectation to say that we can authoritatively say this will reduce -- will lower retail gasoline prices, but accurate to say that relative to the January staff proposal, this will reduce pressure in-state refining margins, and that the expectation, which should be a quantifiable one, is that that savings should get passed through to drivers in California?

DEPUTY EXECUTIVE OFFICER SAHOTA: Good morning, Senator. This is Rajinder. So for the in-state refiners, this is really about allocation to those facilities directly. It's not about the use of the fuel. So your assessment is correct that it takes off more pressure on in-state refining. And with that, you get the likelihood of in-state refining remaining competitive with imports, making sure that there's supply -- domestic supply and we're not so dependent on imports to helping to modulate the cost for California consumers.

SENATOR STERN: Is there openness at a staff level or possibility around this interface with CEC to, as they update their transportation fuels assessment and develop their -- I believe there's -- they just released their report in March or -- a few weeks ago, but they're updating it now for a winter, I believe -- another winter, but to integrate this updated regulatory proposal and to try to get some kind of -- yeah, some kind of validation of that from a CEC perspective? Is there openness to that kind of collaboration?

EXECUTIVE OFFICER CLIFF: Senator, of course, we're open to working closely with our colleagues at the Energy Commission and already do. Under State law, we're required to as part of the fuels assessment and the transition plan. So that is ongoing work. And I think the question you're asking is, you know, would we continue to do that and updating them with regard to this proposal? Absolutely.

SENATOR STERN: And to put a finer point it, because I mean, the challenge is -- and I know we're doing MDI in a bit, but a free allocation is a -- is inherently and sort of a leap of faith on the unregulated side. We know that the allowances allocated to the utilities side, because we have a Public Utilities Commission and they're regulated, will -- we can actually know that those savings will get passed through. We don't know exactly what oil companies will do with these allowances. And, you know, they could even take the allowance value, put it in their pocket, still drive up prices, and blame us again. We've seen this many times.

There's no requirement necessarily of good faith on the outside in the game of politics and posture. But just in the realities of it all, I think it will be very helpful to at least quantify the value here in the -- in this framework and what -- you know, what that sort of delta is that should be showing up at the pump, if the refiners actually pass that savings through. And so I would just encourage you to look at that and look to the -- as we -- as we sort of pivot over to the budget conversation after today's hearing, that expectation from the Senate.

The last thing I just wanted to ask on this one is am I right in that the industry allocation from the 14.5 to the 18 doesn't include what would be drawn down for MDI. In other words, that 118 added on top, if fully subscribed, could make that 18 percent much larger.

EXECUTIVE OFFICER CLIFF: Yeah. These pie charts are not inclusive of MDI. They're -- as we've indicated previously, the MDI and -- allocation are different mechanisms in the regulation.

SENATOR STERN: No. No. I appreciate that. I just think, you know, net result being the -- you know, if those allowances end up with these same industrial sector from the MDI drawdown, then overall that allowance budget, which includes both an allocation piece and then, in theory, an MDI piece could be larger than 137. Say it were, you know, say 40 million metric tons were pulled down by the refining sector there, you'd see the 137 wouldn't be 137. It would be 177. Is that -- is that a -- is that the right way to sort of understand how this chart will interface with that other piece?

EXECUTIVE OFFICER CLIFF: Thank you, Senator. I this it would be helpful to address that in the discussion of MDI and kind of overall how that result relates to the stringency of the Program.

SENATOR STERN: Yeah, great. Okay. Perfect. Let's do that in a bit then. I'll pause for now. Thank you so much.

EXECUTIVE OFFICER CLIFF: Can I -- can I just address one other part of the comments that you made regarding --

SENATOR STERN: Yeah.

EXECUTIVE OFFICER CLIFF: -- the cost pass-through. So that is reported required by State law. Refiners need to report the cost pass-through to the CEC, and that is included on their website. So this is something that anyone can observe. We certainly follow that closely and we'll have a good understanding of how our programs do impact the reported cost pass-through by refiners as reported to the CEC.

SENATOR STERN: Very helpful. Thank you for the reminder.

EXECUTIVE OFFICER CLIFF: Thank you.

CHAIR SANCHEZ: Thank you, Senator Stern for those comments and questions and for your leadership on our broad climate agenda. But on this particular program, I know you've been very engaged and appreciated your comments from the dais, when I testified in front of the Joint Committee to the January proposal. I do want to know -- I'm glad you raised the kind of cost savings pass-through question. We've gotten that question from a number of your colleagues in the Senate. You know, we did not hear a lot of public comment on gas prices yesterday, but we did get a lot of feedback on the January proposal related to costs and gas prices. So I think, as we continue this discussion on the pie charts, look forward to keeping that in mind and also thinking about the underlying work with the -- with the Energy Commission.

On our transition as a whole, you know, as my -- the Vice Chair over at the Energy Commission likes to remind us, we're in the middle of a transition off of petroleum fuels. A lot of the work that this Board does is driving down demand for those fuels, and making sure that we are at the table collaboratively with our interagency colleagues responsible for the supply side of the equation is really important moving forward. And I take your point on kind of updating a lot of that collaboration should this -- should these amendments be approved as well.

So thank you for that. I did want to just note -- Senator Stern, thank you for the update on the activities at the Senate Budget Committee yesterday. As you know, this Board is not one of the three parties that you mentioned. So we have full confidence in the Senate leadership, Assembly leadership, and the Governor throughout the budget negotiations to address some of the very real concerns that you and your colleagues have. So we look forward this Board supporting that work however we can. With that, I will turn to Supervisor Hopkins and then Board Member Limón.

BOARD MEMBER HOPKINS: I think Senator Stern was sort of getting at what my questions. But my fundamental question is why is MDI not part of this pie chart? I understand that it's a separate mechanism, but they are still allowances that presumably intersect with the marketplace. So it's like this is a pie. That's a brownie, or a cookie, or a special snowflake. Like why isn't it incorporated into it?

DEPUTY EXECUTIVE OFFICER SAHOTA: Thank you for the questions, Board Member Hopkins. So, right out the gate, we have to remove some allowances to make the program more stringent and to align with the target. And that's hundred 118 million. And we're kind of moving into the conversation on stringency and MDI. But once you take out that 118 million, what you have is the smaller pie and you have increased pressure, higher prices that are going to show up, because the Program is going to be getting very stringent from four percent year over year to 11 percent year over year.

When we saw that, we have to figure out how do we add back in something, someway to make sure that we're minimizing for leakage without actually taking more from GGRF, because the more expensive a program gets, the more potential for leakage there is. That's where we thought we could set up this separate pool of allowances, this incentive program, that doesn't interfact -- interact or take away from GGRF. That can help address what is going to end up being a situation that many other programs are facing right now, which as the caps get tighter, as the targets get more stringent, there's fewer allowances and there's more pressure and costs in the program and those costs are passed on to consumers.

So I'm happy to go more into detail, but we're getting into the graph on stringency and the graph on the MDI. But there's a very specific reason why it's not part of this and that is because this out the gate represents that immediate need to go to that 11 percent year over year cap decline to align with the 2030 target. But once you get more stringent, you actually cause other issues to present themselves and we have to figure out how to actually address those.

CHAIR SANCHEZ: Thanks, Supervisor Hopkins. And I think it's important to note as the staff has reiterated, the January proposal would have been in the pie charts, right? We were -- the January proposal was future GGRF allowances that were going into the MDI, not these pies, because these pies are till 2030, but we were taking from future allowances. And the April proposal in front of the Board, to your point, does not affect the allocation in the pie in front of us, but creates other issues that we will discuss as it relates to stringency, and the cap, and some of the questions Board Member Limón had last night as well.

Board Member Limón.

BOARD MEMBER LIMÓN: Thank you, Chair. I'll start by saying I appreciate the framing by Board Member Santiago of, you know, knowing what is concrete or like certain versus theoretical. And that's what I'm trying to discern, and I -- you know, with my questions, as I read all of the material. I do want to say there is a question by Mayor Silva about, you know, the benefits of reducing emissions to people. And I just want to note that that's a whole other conversation about the social cost or social benefits of carbon or carbon reduction. It's super complicated. I think outside the scope of what we're discussing, but do think it's important to note that what we're looking at in Cap-and-Invest does not -- so it doesn't directly necessarily lead to emission reductions in the location where the facility is located and thus not lead to the co-benefits. So, for example, like the offset program, right, you can by offset reduced outside of the site, so it doesn't lead to that direct front-line community benefit.

And then the allocations are permits to pollute, right? So it's allowing them to pollute not -- and which then results in the co-pollutants. So I just think that's like -- that's a much -- it's outside the scope and it's not as easy -- you know, it's not necessarily true that, you know, one allowance means then less co-pollutants in that community -- in that front-line community, for example, of a refinery.

But setting that aside and going to the pie chart. In terms of the industrial allocation, I think this isn't something that I fully appreciated yesterday, again as I'm understanding the various proposals of January and then now what's before us. So the industrial allocation increased it's reported by $800 million more. And using that $30 per ton for projections that's over 26 million additional allowances that were added to the industrial -- the free allowances, right? So these are not allowances that need to be bought in the auction marketplace, but these are free allocations, so -- and as I understand it, and this is -- you can clarify if this is incorrect, that refiners are part of and do benefit from that industrial allocation and the increased amount there. And I understand that that is for the purposes of, you know, to mitigate leakage. So I hadn't calculated yesterday that there is already an increase there. You know, and that's on top of or separate from MDI, which I know we're not discussing now.

And in going to Senator Stern's comments as well, in terms of this question that I also asked of like what is the benefit, what is the affordability benefit? And as I understood yesterday, you know, we don't know. It's unsubstantiated, and yet, there's historical data, including from the DPMO that shows a trend has been to continue to pass on the cost to customers. And then the second benefit that I heard is taking pressure off of in-state refining to remain competitive, you know, with imports.

And I want to note that, you know, one, there are I think other policy mechanisms to control for that, like including, and I'm not suggesting this, but just as a hypothetical, imposing a compliance obligation on importers. But what I think is -- what I hope can be helpful is like this analytical basis to help us understand like what's substantiates the assertion that this will take pressure off and they will remain in state. And, you know -- and I know that AB 30 -- 398 required a report by the end of 2025 to study this very issue. I couldn't find that report, but I think it would be helpful, you know, if there is that data on this very issue to understand, you know, what that analysis is based on.

EXECUTIVE OFFICER CLIFF: Let me start here and appreciate those questions and the comments that you made. I wanted to start with one piece of this, which is the allowances that are provided to industry are not based on how much they emit, they're based on how much they produce, how many -- how many, you know, tons of glass that they produce or those types of things.

So, the -- this is not related to how much they pollute and that's -- I wanted to sort of correct that, that this -- each allowance that's allocated is really based on trying to reduce the impact of the carbon market on their product when they face pressures from out of state producers.

So it -- they can -- they emit what they emit based on their total product output, and, to the extent that these are emissions of criteria pollution, based on their air permits. So they have other requirements on them that relate to the amount of criteria pollution that they would emit and toxic pollution that they can emit.

So I just wanted to sort of frame that in a slightly different way that the amount of allowances they get is not related to their pollution or, you know, even their carbon pollution emissions. It's related to how much they produce. And that's based on the idea that if they weren't able to receive those free allowances, that the cost pressure from out-of-state producers would be greater, and therefore production would shift out of state. That has the consequence of, you know, jobs, and tax base, and so forth in communities.

I know we're not talking about the MDI, but to the extent that those investments from the MDI do result in emission reductions, because those investments must, according to the regulation requirements, that would result in emission reductions directly in communities. So I know we'll get a little bit more into that later, but I wanted to at least start with that component. And then maybe, Rajinder, you can kind of continue to follow up on the rest of the question.

BOARD MEMBER BALMES: Forgive me for

interrupting, but it's an important clarification for me and I think probably other Board members. You were talking about the free industrial allocations. As a covered facility, the amount of allowances they're supposed to purchase is based on our emissions inventory from the past, no?

EXECUTIVE OFFICER CLIFF: So each year they must report their emissions. And that is veri -- third-party verified. And the amount of emissions that they have must be met with allowances and offsets up to the limit. So it's based on their direct emissions. The amount of allowances that they receive is not based on their emissions.

BOARD MEMBER LIMÓN: I appreciate that clarification. But I do want to note -- I was just getting to that point that I think we can't think of it, you know, in those simple terms of emission reductions equals co-pollutant reductions. And, in fact, you know, this has been an issue of debate and academic literature with some literature showing that co-pollutants have actually increased in some circumstances. So that was the point that I was, you know, trying to make is it's a -- it's a much broader conversation that's outside of this scope.

DEPUTY EXECUTIVE OFFICER SAHOTA: So, Board

Member Limón, when we did our environmental analysis and we got comments to this over probably the last decade on the Cap-and-Trade Program we went back and look at the literature. And you're right, there is quite a bit of literature, but one of the most recent studies has shown that from 2008 through 2017, since the time that the Cap-and-Trade Program was in effect, air quality in disadvantaged communities improved more than air quality in wealthier communities. And that's because the sources regulated by this program are located most often near disadvantaged communities. That is a fact. That is true. And there's a whole reason why that is how things are in the state and elsewhere.

But, to the extent that we're having tighter caps on greenhouse gases, many studies show that the tighter the caps get for GHGs, the more the stringent the targets that we have, the more these facilities are going to face pressure to get away from combustion of fossil fuels. And so to that extent, as soon as you start to think about getting away from combustion of fossil fuels, you get those direct air pollution benefits in communities. And that's one of the reasons why that 11 percent is important, because it's a very large signal to start reducing emissions in a very steep way. It's one of the steepest declines in an ETS globally right now. Even the

EU ETS is going to stay at about four percent through -- after 2028 and we're going to 11 percent here.

And the MDI, the projects there, are meant to get at the technologies to get away from combustion of fossil fuels at some of the manufacturing facilities. So, as we're thinking through this program, we're thinking through not only -- and we're -- and it's a balancing act. Like there's no statute that says maximize one aspect or another. We're thinking about how do we make sure we're hitting our targets in statute, how are we addressing affordability across multiple layers in the economy. And then how do we make sure that we're not cross wise, but we're supporting some of the actions needed to meet our federal air quality targets, because all of that got a lot harder when we saw that action against our vehicle regulations.

BOARD MEMBER LIMÓN: Thank you. Yeah. I think it goes to like again the question of stringency to ensure that all of that happens. But yeah, appreciate your response.

Yeah. So in terms of like this second benefit of mitigating against leakage, you know, and remaining competitive with imports, do we have the data from the 2025 study on this issue?

EXECUTIVE OFFICER CLIFF: The -- you're talking about the AB 398 leakage report?

BOARD MEMBER LIMÓN: Right.

EXECUTIVE OFFICER CLIFF: Yeah. That's something that we're working on. That's actively in production and review. We expect that that can help inform staff's assessment of the post-2030 allocation discussion.

BOARD MEMBER LIMÓN: Okay. So we should have the analytical basis at some point soon, but don't have it yet.

Okay. In terms of the other piece of the pie, the utility allocation, so -- well, two things. You know, Mayor Silva distinguished, walked us through the direct benefits or economic benefits from the Climate Credit and then the GG -- the rest of like the GGRF, I'll say Tier 3, as are currently allocated, those providing other benefits. And I just want to know that based on my understanding, those GGRF investments, you know, whether it's transit or, you know, housing, water, do provide economic benefits and carbon reduction benefits. So there's a whole host of benefits, you know, I would say are direct economic benefits as well.

But in terms of the amounts here, what's difficult for me to discern from the January proposal is there's a slice for net GGRF and a slice for utility allocation. And then in the final staff proposal, they are combined, so you collapse those two. So can you disaggregate them so that we know like what the utility allocation is versus the GGRF, so that we can compare apples to apples?

Oh, okay. Great. I haven't seen that.

DEPUTY EXECUTIVE OFFICER SAHOTA: Yeah. I think -- I think the point of the next slide where you combine what's going to GGRF and what's going to the utilities is to show how much of the value of the overall program is returned to the residents of the state in some form or fashion. And so it's really meant to demonstrate that this program continues to benefit residents directly, either through the Climate Credit or through expenditures by the Legislature for GGRF programs.

BOARD MEMBER LIMÓN: Okay. Thank you. And I was just told that there was a slide that does exactly what I asked, if I heard it correct -- no?

Okay. Yes.

DEPUTY EXECUTIVE OFFICER SAHOTA: Can we go to the next slide, please.

BOARD MEMBER LIMÓN: Thank you.

DEPUTY EXECUTIVE OFFICER SAHOTA: That's correct.

CHAIR SANCHEZ: Great. Any further questions on the pie charts, Board Member Limón, before we shift?

Thank you very much.

Yes, Board Member Takvorian and then Dr. Pacheco-Werner I know you have your hand up as well.

BOARD MEMBER TAKVORIAN: Thank you. So can you go back to the previous slide, sorry. So this is the one, Board Member Limón, that is separate that shows them separate, just to finish that, right? And then the next slide is the one that puts them together. I think that was -- so that made sense to me.

Okay. So back on this side, my question is -- and I think Supervisor Hopkins asked this question in regards to the relationship between this slide and MDI, and clarified that MDI isn't included here. I want -- I would love to know how it is not, given that the net for GGRF is projected based on the auction price and the projects for the revenue that would go into GGRF. So given that the LAO and economists are saying that the MDI allocation suppresses the auction price and therefore reduce GGRF by two billion, isn't that what's reflected here in the pie chart for the net for GGRF? And if it's not here, then where is that?

EXECUTIVE OFFICER CLIFF: Yeah. We don't predict auction prices, so I just want to reiterate that. We have used a fixed number in determining sort of the value when we discuss allowance value and -- in terms of dollars. So I addressed this a little bit yesterday, but I'll try again to maybe be a little bit clearer, so the question at hand is this kind of supply and demand economics. If you have a greater supply, then price is lower. Less supply, price is higher. And that's a nuanced part of what the LAO was asking.

What I responded yesterday is this Program, if -- you know, a "yes" vote today essentially means a program that is more stringent than the current program by 900 million allowances, give or take. So the expected -- if you're using that same logic about supply and demand, the expected price on -- you know, on a vote today would be a more stringent program, and therefore, you know, increased prices at auction.

So in the absence of, you know, any other changes, you know, the idea is that prices, you know, would go down if you had more allowances in the Program. But in no case would -- even if all of the MDI allowances were to come back into the Program, it would still be more than 900 million allowances, more stringent than today. So with the removal of 118, that's over one billion allowances more stringent than today's Program, 11 percent decline in the next four years, and seven percent decline through 2045.

So those are changes in the overall Program stringency that theoretically would increase prices relative to today. Again not trying to make a prediction about that, but the same argument about supply and demand that the LAO is using.

With regard to the MDI, the reasons it's not included here -- and I know we're trying not to get into that too much, but there's no guarantee that those allowances come back into the market. There's, you know, an application process, requirements, and, you know, the ability for us to ensure that those allowances were used appropriately, investments were made appropriately to correlate with the number of allowances. And so some portion could come back into the Program, which would be detailed and the market would understand very clearly.

But in developing that program, it was important for us to retire the allowances and then have the MDI be A separate part of the Program, because of the potential uncertainty about how many of those allowances would be available for the market. So that's something that then can be reported and would be reported as part of the guardrails that we designed into the regulation.

DEPUTY EXECUTIVE OFFICER SAHOTA: And I'm just going to add a little bit more on that to help put into contact the size of the MDI relative to the Program. So that 118, not all of it can come back in before 2030. And when you look at that value of maximum to come back in if it ever did come back in, it's five percent of all of the budget out to 2045. We've had larger swings with linking and de-linking with Ontario that only moved the market $0.50 when those happened.

So the likelihood of the MDI, one, is not possible to have all 118 come in before the end of this decade. And I think -- and I think that was not well understood in some of the early analyses that we saw from the LAO and then some of the more simplistic things that came out of UCSB. But if we dig into it more, it's a very small Percent of the overall amount of allowances in the Program. And when we've seen other shifts of allowances more than that, the market moved $0.50. It's not like it moved it and cut the GGRF value by half or even a quarter of the value of the allowance. It was $0.50.

CHAIR SANCHEZ: Staff, we have a request from Board Member Santiago to walk through the first part, Steve, of your explanation. And I think Board Member Takvorian, the important part about this slide is this does not touch revenue. This is number of allowances. And because we're the market administrator and don't project prices, that's why there aren't dollar values associated with this pie charts yet. But Steve, if I could ask you to walk back through that for the benefit of Board Member Santiago. And then Board Member Takvorian if you have additional questions, welcome those.

EXECUTIVE OFFICER CLIFF: Sorry. I was conferring with Rajinder, can you please repeat what the specific --

BOARD MEMBER SANTIAGO: I just wanted to better understand that first portion of your last answer, which tied what we were doing in the industrial area to the affordability of folks and gas.

EXECUTIVE OFFICER CLIFF: So the question that I was responding to is the assertion that the MDI allowances would result in lower GGRF. The question that I think came before us in part is that in the January proposal, there was an estimate that the GGRF could result in, over the next four years, 10 billion in revenue. So that's just sort of the number of allowances, 352, times a fixed price, $30 per ton. And that, you know, the 269 times $30 per ton would be eight billion.

So there was a separate question about this kind of how the auction price might change as a result of more allowances coming into the market via the MDI. To your point, and again reiterating we're not trying to predict auction price at all. That is not part of our job. And as the auction regulator, it would be inappropriate for us to do so. What the affordability question relates to with regard to the MDI and how this pie is related - we'll talk about the pie specifically - that moving more allowances to utilities that return to ratepayers is all going back to Californians that's, you know, the next slide that we talked about, and to the extent that we're reducing the compliance cost and the impact of this Program on industrial covered entities, that that reduces the cost burden on them, which has lower cost pressure in the cost pass-through, the carbon cost that might be passed through on all goods and products, as well as the potential for the complete loss of that -- you know, that manufacturing facility in California, which can have kind of big changes all at once, jobs, local revenue, you know, from tax revenue, tax base, and so forth.

Adding in the MDI by decarbonizing those industrial sectors, that further enhances the leakage protection long term, sets the program up for the future success to ensure that those -- the manufacturing facilities are not subject to leakage, because they have much lower emissions as opposed to getting more free allowances.

CHAIR SANCHEZ: Board Member Takvorian, back to you.

BOARD MEMBER TAKVORIAN: Okay. I was clear that I was walking the line between this chart and MDI. And Mayor Silva put a point on it by saying did we go to MDI?

No, I didn't mean to do that. I was looking at the relationship. And so we're going to come back I think to that. So I appreciate that.

So my other questions relate to affordability, which we have talked about in the context of this chart. Is that a separate topic?

CHAIR SANCHEZ: (Shakes head).

BOARD MEMBER TAKVORIAN: Okay. So in regards to the projected affordability benefits that we would get from this Program - and I think Dr. Cliff what you said is that there would be potentially not an increase in gas prices, but we couldn't expect a decrease in gas prices necessarily. I'm summarizing. That's the answer I got from my conversations with the oil industry, when -- because I understood this proposal initially to be saying that we could potentially expect that fuel prices would be decreased and that that was an element of the affordability benefits that we were looking for.

So if I understand correctly, we're now saying we don't expect necessarily a decrease in gas prices, but this could lead to not an increase in gas prices. I thought I just heard you say that. And I want to say in my conversations with them, they explained to me that gas prices were quite complicated, and that we couldn't really -- we couldn't expect that, that that was not a guarantee or even a slight promise or aspiration that they were making.

So I have an outstanding question about how this contributes to affordability. And I wanted to go back to I think a memo from you, Dr. Cliff, related to LCFS when were being asked what LCFS's relationship to gas price increases were. And the conclusion was it was negligible or quite minor. So what compliance costs are we avoiding or are we offsetting with this Program that would lead to more affordability or more affordable gas prices?

EXECUTIVE OFFICER CLIFF: Thought there. Let me -- let me try and -- you jumped to LCFS and -- my brain was on LCFS. That's all right.

BOARD MEMBER TAKVORIAN: Welcome to us. Two days you gave us to understand all of it. Sorry.

EXECUTIVE OFFICER CLIFF: No. No. Thank you. I appreciate the question. So let me start with all of this information is reported by refineries, fuel providers to the Energy Commission. So this is available on their website. So there's a lot of different pieces. I'm going to try and -- try and tease these apart. On the Low Carbon Fuel Standard, you know, when we were having this discussion related to how gas prices would affect -- oh, sorry, how the Low Carbon Fuel Standard would affect gas prices, our, you know, response was that it would have --

we would -- we were not expecting an -- on Board vote. That was the question that was before us, would prices shoot up? And the answer, you know, we addressed that and said no.

I have since provided a report to the Board about what actually did occur. I don't remember the exact numbers, but yeah, we did provide a -- you know, a report to the Board on the actual amount. I don't -- I don't know that I used the term "negligible". That's kind of a -- you know, a value statement that I wouldn't necessarily make, but I -- you know, the Program value -- or the amount of impact to the Program is really clear report -- clearly reported, and kind of what we would have expected based on how that program unfolded.

With regard to Cap-and-Invest Program, the January proposal, so that middle pie there, was essentially identical to the AB 398 requirements. So, with regard to how much allowance value industry would receive since that's the same as AB 398, which is today's Program, then the -- we would have expected it to be basically the same impact as today. So it should have no change in the impact on product prices, including gasoline.

I don't -- I'm not sure this -- you mentioned a comment that it would reduce prices. I don't -- I'm not aware that we have made those comments. But what I'm saying is because more value has been provided in the 15-day proposal, the April proposal, that that would result potentially in lower pass-through costs, because the entities face a lower carbon cost. There's no guarantee that that cost will be passed through.

And as you rightly note, for fuel in particular, the retail prices are extremely complicated, but there's no -- it would not result in additional cost pressure as a result of this Program. And because it's actually less compliance cost than the January proposal or then today's Program, it theoretically could result in some lowering of prices at the pump. That's again not guaranteed and we're not trying to predict that, because that retail output is something that's very difficult to predict.

DEPUTY EXECUTIVE OFFICER SAHOTA: And I just want to add on that -- and on that CEC data, it's clear that the biggest driver of retail impacts from gasoline is because of the crude prices, the global crude oil prices, and that the environmental programs are negligible relative to the overall cost at the pump. And they have been pretty steady. They're not the ones shifting up and down over time.

The other piece on affordability is competitiveness. We know that as markets shrink for suppliers of goods in the economy, there is the opportunity to have less competition and higher prices. And that has been borne out and discussed in various reports that the CEC has done in response to legislative action, economists have done in a response to legislative discussions on energy costs for Californians. And by making sure that this Program is not exacerbating leakage and keeping some in-state refining here, we helped to keep that competition at the level it is now, without actually impacting it further to where -- then we're being held to a smaller group of companies, even smaller than today, setting the price for consumer energy demand.

BOARD MEMBER TAKVORIAN: Okay. So that's helpful. And I think it puts it in the context of this is -- these are these theoretical benefits to affordability, because we can't really project them specifically. And so this probably does bleed into the GGRF conversation. But given that we can't put specifics on that, but we can put specifics on the amount of money a consumer, a renter would save from an affordable housing complex, perhaps paying half the market rent in a particular area or transit passes being reduced -- and I know in San Diego and I know other places there's a youth opportunity pass where youth and students are paying half or paying nothing and not paying at all. So those are real cost savings and benefits. And I'm trying to look at the comparison between those dollar-for-dollar reductions that we can have in people's lives that need them, kind of like you can do with the Climate Credit. I mean, those are dollars that we're passing out to ratepayers. And so it's very clear.

And it seems to me that some of the GGRF programs are, in fact, that as well. And we're also getting emission reduction data from the 617 programs. We get those reports annually. So that very concrete data, I'd really like to explore how we compare that, both emission reductions and the affordability benefits to the Program where we're looking at modeling and kind of predictions, but I know it's difficult to do that.

DEPUTY EXECUTIVE OFFICER SAHOTA: Board Member Takvorian, there's a couple of observations that I feel like I want to make, because one is nothing that we're doing here is setting the priority for how the Legislature may decide to appropriate funds. And when we go to auction and we get money that shows up in the Climate Credit or it shows up as money to the GGRF that is appropriated by the Legislature, somebody is paying into the Program for that money to be available. And all of that cost is passed through in some way, shape or form to the residents of the state of California.

So when we do an auction, you have industry buying there, you have utilities buying there, you have market participants buying there. To the extent that industry and some of the energy companies can pass on that cost to consumers it's happening. So it's moving money from one segment of the State into very specific programs that are then appropriated and green lit by the Legislature in the normal budgeting process.

I think the question that you're really asking is, and you can correct me if I'm wrong, is where do we think about affordability and how do we make sure it manifests itself across the economy and the different aspects of affordability, because it's not just one place we're affordability matters, it matters in all the things that you said, it matters in electricity rates, it matters in consumer goods, it matters in prices at the pump.

And I think it's just really worth recognizing that GGRF money comes from somewhere, the Climate Credit comes from somewhere and that's all of us that it's coming from, because it's getting -- it's pulling back from residents in the state of California, in some cost pass-through somewhere.

BOARD MEMBER TAKVORIAN: Yeah. No, I appreciate that clarification, but the amount -- the way in which this program is constructed absolutely influences how much revenue is available and that is projected to be. And I know there's not agreement on this -- I think there is actually some agreement a $2 billion difference per year. So that -- you're correct, that CARB is not dividing that up dividing up the full allocation, the full amount of revenue from GGRF. That's the job of the Legislature, but we are directing how the Program is developed in regards to how much revenue will be created for the Legislature to deal with.

So we're at the beginning of this process. So that's, I think, what folks were getting at yesterday. And I guess it does get more into MDI, Chair, appreciate that. But it's something that I think when we talk about affordability, really integrates, because we have very clear affordability benefits that are occurring from many of the programs that are threatened. And I understand that those programs are not being chosen are not chosen by CARB, but I do think that we need to acknowledge that the afford -- we're banking on, to use Mayor Silva's words, that we're having to trust some on banking on this Program that will result in these affordability benefits and, in some cases, trading those off for some that we are much more concrete in my view.

CHAIR SANCHEZ: Board Member Takvorian, thank you for those comments. And I just want to ask the staff to clarify, because we did hear in public comment that the impact to GGRF, understanding we don't project that, would be $2 billion per year. But I heard from the staff that the January staff proposal, the blue slice 352, would be $10 billion from here to 2030, and the final staff proposal is $8 billion from here to 2030. So that's $2 billion over the next -- through the rest of the decade. So, can staff help the Board understand, is this hit $2 billion per year or is this -- or is the projected impact $2 billion over the rest of the next decade?

And I do want to just put a pin in, I know we still have the question of how the MDI affects that analysis and we will come to that when we dig into the MDI.

EXECUTIVE OFFICER CLIFF: Thanks, Chair. Yes, you're correct. It's roughly 10 billion over the next four years in the January proposal and eight billion in the April proposal. And the difference there is the amount of value that goes to the yellow and the dark blue. So shifted from GGRF to those other sectors. So it is not two billion per year, it's two billion roughly over the next four years.

CHAIR SANCHEZ: Okay. Just wanted to clarify, because a lot of the public comment did say two billion per year. So by my math, that's 500 million per year, which to the point Board Member Takvorian is raising, it is an important significant amount of funds per year for the GGRF, but just to clarify.

Are there any additional clarifications on this point? Again, assuming the $30 flat fee -- there are a lot of assumptions based into that. I wouldn't call it a revenue projection, because again we do administer this market.

Board Member Takvorian, did have additional questions on the -- on this issue of affordability and the GGRF pieces?

BOARD MEMBER TAKVORIAN: (Shakes head).

CHAIR SANCHEZ: Okay. Thank you. We'll come back to you.

Dr. Shaheen and then -- pardon me, Dr. Balmes did ask. He had a very brief clarifying question, and then I'll come to you. Thank you.

BOARD MEMBER BALMES: Thank you, Chair. Could we go back to slide 18?

So I just want to point out that the 80 percent of allowances directly benefit Californians, that's a judgment call that I question, because that includes everything that's in the GGRF, including the high speed rail, the -- and the legislative slush fund - excuse me, Senator Stern - and Tier 3. And I question whether most

Californians would say that all of those things directly benefit them.

CHAIR SANCHEZ: Thank you for that clarification, Dr. Balmes.

Dr. Shaheen.

BOARD MEMBER SHAHEEN: Thank you, Chair. And following up on Board Member Takvorian's comments, something I've been really wrestling with and trying to figure out how to bring to the table here, but I think it really needs to be stated is while it isn't our role to divide the GGRF pie, right, or determine whether or not it belongs in a particular tier. Many, many comments were made yesterday about the implications for emission reduction and benefits to Californians of the laws of things like public transit, affordable housing, and AB 617. And this part of this conversation is very unsettling to be me as a Board member, an expert in transportation understanding the importance of these three programs, which have continually demonstrated benefits.

And so GGRF revenues are indeed an important implementation tool for us as at CARB to reduce these emissions and bring these benefits to all of our communities, including our disadvantaged populations.

And so how do we -- how do we continue to ensure that we've got the implementation tools to actually meet our targets and that we're not losing these valuable assets that we've come to really rely on?

And I don't know if you have an answer to this, but I feel like it's the elephant in the room that we're not talking about is are we potentially losing some of the most valuable tools to on the table?

DEPUTY EXECUTIVE OFFICER SAHOTA: So those are very good observations, because I agree the GGRF programs that have brought those quantifiable benefits, especially to the communities that have faced opportunity in health gaps have been very helpful and were only instituted after Cap-and-Invest money was made available. So I think that's where we are. When it comes to the design of this program and the regulation, there is no direction to us as an agency to maximize one trade-off versus another.

And so what we're trying to do is balance all of the pieces that we're getting and in all the comment letters all the conversation we had, we were getting pressure from the utilities and industry to give them more. But for us, trying to make sure that we also had enough for those critical programs, and available to be allocated by the legislature to those critical programs, that was in our minds at the time that we were coming up with a proposal. So what you see here is a pie chart that is our attempt to balance multiple directives and legislation, but if it was just based on what we heard from the regulated entities in this Program, there would probably be nothing left for GGRF. So we are doing our best to preserve and protect GGRF, while still meeting some of other mandates.

EXECUTIVE OFFICER CLIFF: And I'll just add, you know, from CARB's perspective, we are recipients of GGRF in our low carbon transportation program, so we really value the GGRF programs that we have received. To Rajinder's point, and to summarize that, there isn't direction in statute that says maximize the -- you know, the revenue from this Program. There is direction to minimize leakage, maximize emission reductions, minimize costs, evaluate and balance benefits in communities versus those costs. You know, all of those various things are part of direction in all of the legislation that drives how we develop this program. And we continue to use the word "balance", because we are trying to balance that.

If it was only what utilities and industry wanted, there would be nothing left for GGRF. If we were trying to maximize GGRF, that would have ramifications on the balance of ratepayer protections, energy affordability, and importantly leakage. And those are things that we're required to balance in the development of our Program.

BOARD MEMBER SHAHEEN: I really appreciate you acknowledging these trade-offs. And I've been struggling with the trade-offs, because really we're trying to hit a sweet spot, right between affordability, decarbonization meeting our carbon goals, serving society, delivering up those societal benefits, but I can't sit here and not acknowledge what has happened to our transportation tools, our mobile emissions. How are we going to possibly do this without tools like transit and affordable housing. We know that those linkages are there. And I just can't sit here and not state this. And I know staff are doing their best to balance it, but the proposal is dissatisfying in the fact that we do know where we get key emission reductions.

And affordability is absolutely paramount, but also making sure that people can get to their jobs and get to their workplaces, and do it in an affordable and emission-reduction manner really has to be discussed. And I am very grateful to the transit community and to the EJ community and others who came out in force to talk about these issues, but I just didn't feel comfortable not expressing my views on the loss of these important tools.

Thank you.

CHAIR SANCHEZ: Thank you, Dr. Shaheen for expressing those views. I think -- you know, I won't speak on behalf of a the Board, but there was a lot of the public comment that we've received. This administration has been proud to champion very important programs that we know are delivering benefits for communities. As Dr. Cliff noted, a lot of these GGRF funds come to CARB whether it's AB 617, or FARMER, or Clean Cars 4 All, or HVIP, and I had the pleasure in my prior role of negotiating the GGRF with the Legislature every year. These dollars matter. So I gratefully appreciate you expressing that and I think it's also worth noting that this is a declining source of revenue. If we achieve our climate goals and there's no pollution, there will be no GGRF. So we have to ask the questions.

And Senator Stern, maybe you and your colleagues are ready to tackle this. You know, what is a more sustainable funding source for some of these very critical programs. And what is the role of the Board in informing those discussions with all of the analytical work. And again looking at these trade-offs. So just appreciate those comments. I want to note that we are late into morning and our court reporter needs a break soon. But I have a hand from Dr. Pacheco-Werner and I'm going to ask for last comments on the pie charts before we break, come back to the MDI discussion. I think there's a lot of overlapping components of the pie chart and the MDI. So we'll look forward to that after a brief break for our court reporter.

Dr. Pacheco-Werner, the floor is yours.

BOARD MEMBER PACHECO-WERNER: Yeah. Three very concise questions. So one, you mentioned earlier that the potential, if we were thinking about a year-to-year loss to GGRF is about $500 million. And to clarify, in the Tier 2, there is a discretionary fund. And from the dollar figure I saw, it was $1 billion. Now, is that yearly or is that also kind of split up?

CHAIR SANCHEZ: My understanding is it is, Dr. Pacheco-Werner. The CARB staff I don't think are -- you know, we don't have the Department of Finance here to answer that question for you, but that is my understanding. Maybe Senator Stern you could help us clarify as well, given all of the new structure was laid out in SB 840.

SENATOR STERN: I'm happy to jump in for a sec. The one billion -- the one billion was just appropriated for '26-'27 initially and the Senate disagreed with the administration in their recent budget action that that -- that that one billion that was supposed to be negotiated by the Legislature has since been proposed to be backfilled for Cal Fire's normally generally funded operating budget. So in the near term, the administration has proposed to use that additional money that was going to be for all these other reductions to backfill what is general -- typically a general fund Cal Fire operating budget, but on a go-forward basis, that's still an open question. That hasn't been -- that wasn't part of the -- it wasn't an ongoing billion annually. I don't know if that helps.

BOARD MEMBER PACHECO-WERNER: Yeah. I think that is helpful, especially because we were thinking about these changes to GGRF or any impact to GGRF being part of a conversation in February and not now. So I think that is actually very helpful.

And then another question. When we're thinking about kind of going back to the pie chart specifically, there has been talk about reverting to the January proposal. And there is -- there's a specific increase from January to the April proposal on the Climate Credit. And so thinking about it from like a monetary value, what would the -- what are we talking about in terms of impact to households?

DEPUTY EXECUTIVE OFFICER SAHOTA: Board Member Pacheco-Werner, are you talking about what that means in terms of the amount that would be an increase on the Climate Credit on the bill?

BOARD MEMBER PACHECO-WERNER: No. So in the pie -- in the pie charts like we have the increased utility allocation. And then it says, a 7.4 increase for Climate Credit, right, in and there. From -- and I just want to note that that 7.4 increase is from January to the final staff proposal or is it from the current regulation to the final staff proposal?

DEPUTY EXECUTIVE OFFICER SAHOTA: It's January to the final staff proposal.

BOARD MEMBER PACHECO-WERNER: Okay. So if we were to revert to the January staff proposal, we are talking about the 7.4 decrease then to the Climate Credit than what is projected right now, the utilities and the PUC will have to work with?

DEPUTY EXECUTIVE OFFICER SAHOTA: That is correct.

BOARD MEMBER PACHECO-WERNER: Okay. Okay. And then finally, because I do think that there was a -- there was a very important point brought up on emissions reductions and industry allocation, but then there was also the question of offsets. I think it would be helpful for the newer Board members to understand kind of like the industry allocation as a compliance mechanism, and that the offset -- that there is a -- there is a cap to the offset aspect of this as well, right, that this -- that this industry allocation is, first and foremost, for emissions reductions, is that correct?

DEPUTY EXECUTIVE OFFICER SAHOTA: So the industry allocation is to help minimize for leakage, so that 18 percent in the pie covers on average about 70 percent of their compliance in the program. So they have an exposure of about 30 percent of their emissions based the data that we have on our website. That exposure can be met -- if they're going to produce and their production is going to have more emissions, they have to cover that by either buying from auction or buying from somebody else allowances to turn into CARB or they can have up to six percent of that compliance met through offsets. And that six percent is hardwired into the statute in AB 398 and in AB 1207. So there's a cap on how many offsets you can have.

BOARD MEMBER PACHECO-WERNER: Right. And I think in terms of like now translating that to emissions, there -- this Program is designed -- again, it's a leakage mechanism for compliance with our Program. So in essence, the compliance does mean reducing your emissions or buying into an ever decreasing market, right?

DEPUTY EXECUTIVE OFFICER SAHOTA: That is absolutely correct. Over time, every year, there are less allowances that are available, so you have to make a choice as a company program whether you want to keep buying allowances at higher prices to comply with the program or if you are going to make those investments now to reduce your emissions, which means you then don't have to buy as many allowances in the future.

BOARD MEMBER PACHECO-WERNER: Right. Yeah. I think that that's helpful to understand. And I do think that for us, I think in the value -- understanding, as we move forward, conversations, you know, the leakage -- anti-leakage mechanisms, their role in jobs is a real one. And I think that maybe later on bringing up some of the impact around the Del Monte impact on the communities I think would be helpful for the later conversation after the break. So thank you so much, Chair, for allowing me to ask those clarifying questions.

CHAIR SANCHEZ: Thank you, Dr. Pacheco-Werner and appreciate the kind of -- the discussion around minimizing leakage and different leakage mechanisms. As the staff team I think has articulated, different programs around the world have different levels of stringency and different mechanisms that are used for cost containment, and to address leakage, but I do -- to Board Member Limón's point earlier on needing to look at a few additional tools that may be needed, in addition to the free allowances, and kind of what the Program currently does to support industry, I do want to note for the Board on page 15 of the resolution, we direct the staff to evaluate other potential leakage minimization measures. So I think we'll really look forward -- given that we have a declining pie, a declining number of allowances, really important programs in the GGRF to protect, clear statutory direction to address electricity affordability, I think it's clear that this Program will need to get creative on additional ways to minimize leakage that aren't just free allowances and the increase in the dark blue part of this pie.

Supervise Hopkins and then Dr. Stigler Granados, yes, and then we will move to break.

Board Member Sant -- oh, Board Member Takvorian would like another -- and then we will move to break briefly and come back and dig into the MDI.

Thank you.

BOARD MEMBER HOPKINS: Thank you. I'm trying to dive down into the dollar value per year, recognizing that we can't predict sort of future prices, but if we say sort of set an estimate and keep that estimate constant across the different sectors. So like if you look at the increased industrial allocation from the slide on the left, current regulation, to the final staff proposal, what would be the increase in dollar value per year of the industrial allocation?

EXECUTIVE OFFICER CLIFF: It's about -- it's 800 million over the four years, so about 200 million per year.

BOARD MEMBER HOPKINS: Is this -- so this slide is cumulative, not annual?

EXECUTIVE OFFICER CLIFF: Correct.

BOARD MEMBER HOPKINS: Okay. And what is that sort of based, because I was sort of looking at like it's a plus 31 million, right, between left and right. And if you set like a $28 dollar allowance.

EXECUTIVE OFFICER CLIFF: Thirty is the -- yeah.

BOARD MEMBER HOPKINS: Okay. Okay. And then could you also sort of provide that for the utility allocation, which I know goes actually from 367 to 342, so it actually declines, is that correct?

EXECUTIVE OFFICER CLIFF: Yes, relative to today, it declines, but relative to the January proposal, it increases. So the question is what's the value increase to utilities? I think --

BOARD MEMBER HOPKINS: The value decrease from the current regulation.

EXECUTIVE OFFICER CLIFF: Oh, sorry. I don't know if I know that.

BOARD MEMBER HOPKINS: And then just to preview, I'll ask --

EXECUTIVE OFFICER CLIFF: We're doing -- we're doing math over here.

BOARD MEMBER HOPKINS: I'll ask the same question for the GGRF net based on this pie chart.

ISD CLIMATE CHANGE PROGRAM EVALUATIONS BRANCH CHIEF SIPPOLA: The cumulative value --

BOARD MEMBER HOPKINS: I feel like your transporting into space.

ISD CLIMATE CHANGE PROGRAM EVALUATIONS BRANCH CHIEF SIPPOLA: The cumulative value for the utilities is about 700 million.

BOARD MEMBER HOPKINS: And so is that possible that we would actually see a decrease in the Climate Credit available to customers compared to the current regulation?

DEPUTY EXECUTIVE OFFICER SAHOTA: So that's a -- that's a very good question and it's a bit complicated, because relative to everyone getting the same amount of Climate Credit today, we would all see a reduction potentially, because there's fewer allowances going to utilities, but AB 1207 gives direction to the PUC to use the Climate Credit to give more to low-income households. So we should expect, and the intention is, to have a higher Climate Credit for low-income households.

BOARD MEMBER HOPKINS: Despite having a lower overall amount of funding available?

DEPUTY EXECUTIVE OFFICER SAHOTA: That's correct.

BOARD MEMBER HOPKINS: And then in terms of the sort of GGRF net, right, going from, it looks like, 394 to 269.

ISD STAFF AIR POLLUTION SPECIALIST TURGEON:

Yeah. So -- sorry. Haven't warmed this thing up. So if you go from 394 to the 269 you multiply that by $30, that's about 3.8 billion. And then you can divide that by four to get the annual, which would be 900 million for each of those years decrease.

BOARD MEMBER HOPKINS: Okay. Thank you. I just feel like it's really important to be clear on sort of the basic math and the overall impact of what we're seeing in terms of increase to industry, decrease to utilities, and decrease to GGRF.

ISD STAFF AIR POLLUTION SPECIALIST TURGEON: And that also includes the 118 that we're taking out for aligning with the 2030 target.

BOARD MEMBER HOPKINS: Yes. And we are not talking about MDI, because that is brownie or a cookie and not a pie, so...

CHAIR SANCHEZ: Thank you. Thank you, Supervisor Hopkins, for walking us through that. I think one additional point. On the current regulation is prices are not at $30. So when you think about using $30 flat fee, flat assumption for the current regulation, part of that assumption moving forward is the removal of the 118 million allowances, to the point that Dr. Cliff made on tightening of supply and prices.

So we don't actually know that the 394, for example, would all sell at $30.

EXECUTIVE OFFICER CLIFF: Chair.

CHAIR SANCHEZ: Yes.

EXECUTIVE OFFICER CLIFF: If I could clarify also just -- I hate to complicate this further, but utility, that yellow, is essentially the sum of gas and electric utilities. And we're required to transfer the allowances from gas utilities over. So the net reduction that we're talking about is sort of the combined between your gas and your electric Climate Credit. You would expect that the electric Climate Credit, because it's -- even though its seen -- they're seeing fewer allowances than today, they're also getting a transfer of some allowances from natural gas. So that has some impact too that can be factored into how CPUC designs this Climate Credit.

CHAIR SANCHEZ: And my understanding, Dr. Cliff, is the Legislature's intent behind that transfer was essentially as part of achieving carbon neutrality, we are asking the fourth largest economy in the world to electrify, and asking Californians to plug in their cars and plug in their homes while electricity rates are such a high concern begs the question why does so much of this Program support subsidizing natural gas bills? So I would actually really appreciate the staff -- we didn't hear a lot of public comment on this yesterday, but we got a lot of feedback to the January -- on the January proposal. So if staff could walk through kind of the current regulation. I understand it is a breakdown to both natural gas and electric, what was proposed in January, what feedback did we receive on that and what is before the Board. And I think really importantly, as you're hearing from the Board, a focus on protecting low-income households from utility bill prices.

ISD STAFF AIR POLLUTION SPECIALIST TURGEON:

Yeah. So the current regulation doesn't so any transfer of gas allowances to electric utilities. That was direction from AB 1207. AB 1207 says to transition those allowances by 2031, not specifically what transition means like how fast, how many, that kind of thing. So in the January proposal, we put out a version for what that might look like. That transition does allowances through a little bit after 2030. I don't remember the exact end year. And then we got a lot of feedback after the January proposal to go faster. That was both from key members of the Legislature, also some of the environmental groups to expedite that transfer, get more of those gas allowances over to electric utilities earlier.

So where we landed was a 70 percent transfer of those allowances by 2031 and then we added parameters in that second round of staff changes to reserve that last 30 percent of gas allowances for low income gas ratepayers.

CHAIR SANCHEZ: Very helpful. Thank you. And appreciate the responsiveness to the comments.

Okay. I have my list. Thank you, Supervisor -- thank you Supervisor Hopkins.

Dr. Stigler Granados, good morning.

BOARD MEMBER STIGLER GRANADOS: Good morning, Thank you Chair. I'm trying to absorb all of this information and thinking about this from the lens of what I perceive to be CARB's main charge. And we've already mentioned this earlier is to protect public health by reducing emissions and also, you know, make sure we have a thriving economy.

And so my question is, as we're talking about shifting these pieces of the pie from the GGRF to the industrial allowances, we've been talking about money, and allowances, and numbers. But has there been a health impact assessment done on what those shifts would mean, and if so, what would -- what would those numbers be for a health impact assessment and shifting these funds to difference allocations?

DEPUTY EXECUTIVE OFFICER SAHOTA: So this is Rajinder and I can start. And then I will ask the staff to jump in if I miss any details, because I think I will. The overall package is evaluated for health impacts. Because they're by sector, by moving to non-combustion sources, especially in the industry sector, a reduction in combustion of fossil fuels, you would get air pollution benefits as well. And as Dr. Cliff mentioned earlier, there's different aspects of health. There's mortality. And I'm not a fan of this one, because it puts a price on human life, which I just have an issue with, but that's my thing. Then there's, you know, days missed of work, hospital visits, cardiac events, and probably I think 12 health impacts that we include in the analysis.

Based on that, the driver in this Program -- so there's many tools at CARB to get at public health and at air pollution. But in this Program, the main driver is that cap coming down, that removal between now and 2045 of over a billion allowances in the Program. And when we then apply some economic value to those health impacts, the cost of missing work, school, et cetera, what we calculated was $122 billion dollars in savings for health -- health related savings from the proposal for a more stringent program.

ISD CLIMATE CHANGE PROGRAM EVALUATIONS BRANCH CHIEF SIPPOLA: Yeah, that's exactly right. This is Mark. The -- we estimate the total, when we looked at the economic benefits, to be 122 billion across the future of the Program through 2045. That's really spread across two big bins. It's the health benefits, so savings as a result of the reduced asthma and other things, and it's also a savings from reduced use of fossil fuels.

BOARD MEMBER STIGLER GRANADOS: Just a quick clarifying question. You talked about earlier, there's a gap in the communities in terms of who benefits and who doesn't benefit. So are those health costs also broken down by like AB 617 communities versus others, considering I think I heard you say the air quality would improve more in some of these impacted communities, but I know it will take time? And so have you broken that down at all between how those health benefits are allocated?

DEPUTY EXECUTIVE OFFICER SAHOTA: So in the proposal, because this is about facilities that are located across the state and it's about GHG emissions across the state, and it's not like traditional air pollution permits that are still in place in these local facilities. What we know, and what's been documented, and what -- very well understood is that many of these are located next to communities who have historically and continue to face disproportionate impacts to air pollution and other opportunity gaps that we're trying to close.

And so if these sources, in response to this program, have faced that pressure to reduce emissions, they will start to see more benefits than areas where you don't have these facilities. And a retrospective study was actually done of that and it found similar things, that since the implementation of the Cap-and-Trade Program, we have seen more health benefits accruing in communities where there are these large sources that are regulated by this Program than communities that are not near these sources, because there's nothing to regulate there by this Program.

CHAIR SANCHEZ: Thank you, Dr. Stigler Granados. Board Member Takvorian, and then we will take a break.

BOARD MEMBER TAKVORIAN: Takvorian quickly.

CHAIR SANCHEZ: Pardon me, Takvorian. Board Member Santiago is your microphone up?

Perfect. Thank you.

Over to you, Board Member Takvorian.

BOARD MEMBER TAKVORIAN: So one follow-up on Dr. Stigler Granados's question. Is the 122 billion in health savings to 2045 on the final proposal, and if yes, then what is it for the current regulation in the January proposal?

ISD STAFF AIR POLLUTION SPECIALIST TURGEON: The January proposal wasn't much different because most of the reductions -- like the 122 billion in health benefits is driven by reducing GHG emissions achieving our targets for 2030 and 2045. To get the current regulation, you'd have to go back to the last time we amended this, which I think was 2018, right?

BOARD MEMBER TAKVORIAN: Yep. 2017.

DEPUTY EXECUTIVE OFFICER SAHOTA: Yeah, I'm sorry. I need to add a clarification that that 122 billion is relative to the current regulation. So if the Board chooses to adopt this regulation, then what we'd expect to see is 122 billion in savings in health costs from this regulation that is before you.

BOARD MEMBER TAKVORIAN: From the amended regulation?

DEPUTY EXECUTIVE OFFICER SAHOTA: In the amended regulation, yes.

BOARD MEMBER TAKVORIAN: Okay. Thank you. And then I just want to clarify. Supervisor Hopkins asked a question and in re -- in regards to the GGRF reduction. And in response what I thought you said was 900 million a year?

No.

CHAIR SANCHEZ: In the current regulation, which we don't assume the $30 flat allowance price for -- because allowances aren't at $30.

BOARD MEMBER TAKVORIAN: So it's 900 million in the current regulation and 500 million in the final proposal, just trying to get clear?

EXECUTIVE OFFICER CLIFF: I'm sorry. I don't think I'm following the question. Can you --

BOARD MEMBER TAKVORIAN: So we asked what -- I said that there was a $2 billion a year reduction in GGRF. I was corrected to be told that, no, that was over four years, so it was 500 million a year. Then I thought that Supervisor Hopkins asked a similar question, which resulted in a different answer. So that's what I'm trying to get at. And then just to finish, LAO says $2 billion a year based on CARB's report. So I would just like to get that all clarified as to what it actually is.

EXECUTIVE OFFICER CLIFF: It's a complicated question to answer, in part, because we have actual data from GGRF auctions that result in GGRF today versus what might happen in the future. Again, not trying to predict those outcomes. So, you know, the GGRF historically has been, you know, as much as five billion or close to five billion -- or, yeah, just under five billion a year. And, you know, today is around three and a half or 3.7 billion per year. So, in the future, you know, depending on what that actual outcome is, you know, it's hard to predict. But if you just took that fixed price, then there would be some difference between what we expect to add in the future.

It's not really apples and apples is why I'm saying it's a little bit complicated to answer, because it's comparing real data with, you know, some allowances that are imputed to be GGRF in the future, but we -- you know, we have two uncertainties in that number, one is the amount of allowances that actually go to auction and two is the price at auction.

BOARD MEMBER TAKVORIAN: Okay. Perhaps, we can come back to this. I mean, this seems like a pretty important point. And, Chair, you've tried to clarify with the 500 million per year. And to Dr. Shaheen's point of we're losing valuable programs here, we're costing people's lives, we're screwing over communities, sorry, if we do this. And so, I think we need real numbers. We can't just be saying I'm not sure what this is going to be, because the Legislature is responding in a pretty -- some parts of the Legislature are responding in a pretty negative way. And I think we have a responsibility to know - we're being asked to vote on this proposal - what the financial implications are or would be predicted to be. So you were quite precise in the 500 million per year. LAO was quite precise in the $2 billion per year. Kind of a big difference.

CHAIR SANCHEZ: Yeah. Thank you, Board Member Takvorian. Appreciate those comments. What I'm going to do is perhaps take a break for the next 15 minutes and ask staff to dig into these specific numbers that I think many members of the Board have been asking questions on and specifically if that LAO analysis on $2 billion per year, if staff does not concur with that, why not? Just get really clear and help to inform the Board on the revenue piece, of course, with the caveat that because we administer the Program, we do not project the revenue. But would really appreciate staff digging into this and us having further discussion on it after the 15-minute break.

Because it's 11:45-ish, let's aim to return a few minutes afternoon. Thank awe very much. We will return shortly.

(Off record: 11:47 a.m.)

(Thereupon a recess was taken.)

(On record: 12:15 p.m.)

CHAIR SANCHEZ: Okay. Thank you all for -- good afternoon. Good afternoon. Good afternoon. We will resume with Board discussion.

Hello. Hello. Good afternoon. Great. All right. We back online.

Let's dive in. Thank you all for the morning discussion, Board members. I'd like to dig in now on another big issue that we heard a lot of public testimony on yesterday. And I've heard from members of the Legislature. And I know staff have received a lot of feedback on this component of the proposal with -- which is the Manufacturing Decarbonization Incentive, or the MDI. All right. We're going to ignore the beatboxing.

Hopefully those joining remotely do not hear the -- gone. Great. It may be back.

Okay. We are diving into the MDI portion of our discussion. I would like to start this off, staff, by you all walking through what is currently included in the regulation. We heard a lot of public testimony about concerns about the MDI wholesale, concerns about the amount of guardrails and particular issues that were raised. So can you please walk the Board through the guardrails that are currently included in the regulation and then importantly the additional guardrails that are included in the resolution that was posted yesterday.

Thank you.

DEPUTY EXECUTIVE OFFICER SAHOTA: Thank you, Chair. I will begin and then I will pass it to the staff right behind me to go into any details that I may have missed. So I'd like to direct attention to the resolution starting on page eight, please. I'm going to go through a list of the whereases. And I will flag which ones are actually already in regulation.

I'm going to start with -- let me count the whereases. Starting with the eight whereas which is, "Whereas, California is the largest manufacturing state in the U.S. Whereas, the eligible project types include the MDI that reduce fossil fuels." And we are saying this because there is a bucket of eight specific project types that are eligible. And those project types were carefully chosen and added into the regulation to reflect transformative investments in technology and fuels that are to push harder away from the combustion of a fossil fuels. So it's not a grab bag or any project can apply and get these kinds of credits or the allowances. It's very specific and that is spelled out in the regulation.

The project types are also consistent with some of the technologies and energy that we modeled in the 2022 Scoping plan. So we're intentionally trying to do something that aligns again with that larger Scoping Plan on how to achieve the 2030 and the 2045 targets that -- the statutory targets.

The project types we've identified also will take significant incentive to actually move. So again, these project types are limited. They are also high cost for high capital costs to get going. Many of these project types were also going to get federal money, federal incentives from the previous federal administration, but we know that that funding is in jeopardy and undergoing some litigation as to when it or if it will ever be deployed.

The next one is just about the requirement on hydrogen to make sure that it's not out of line with the kind of clean hydrogen that was being supported by the previous administration. That is also in regulation. And then I will -- and of course, you know, the Program is a new future, so we just state that here.

Switching to page nine, because this Program is embedded within the larger Cap-and-Trade Program, these projects have to be in compliance with all applicable local, State and federal laws. So whether it's air pollution permits, water permits, or Health and Safety Code, or other federal laws or State laws, they have to be in compliance with them.

That's in regulation. And then again, this is about near-term investments in clean energy, and the Program sunsets in 2035, so it's not in perpetuity. It's meant to get money out there sooner, to get these near-term reductions that are transformative. The first deadline for the application in regulation is June 1, 2027. So it won't be until next summer that we actually know which projects are going to apply or which facilities will apply to make use of this program. And it wouldn't be until fall of 2027 in the regulation where we would be awarding any MDI allowances.

So there is a ramp-up to when this Program launches. We also know that there is a limit to how many can come in. So it says up to 118 million as the overall program cap, but even for the kinds of projects, the facilities that would be eligible to apply, which are also in regulation, we do not expect more than 30 million and other estimates have put it closer to 25 million in any individual year. And staff will speak to why that is. So I will kick it back to them in a second.

The next set of requirements in the resolution walk through the process for application. So in the regulation, it says that the Executive Officer has to approve the application and that it meets all the subsequent requirements in regulation. A facility has to be eligible to already receive allocation. So you're already covered by the Program. You're already receiving some kind of allocation. Your large manufacturing.

A facility also has to have at least one year of third-party verified data and already be in the Program.

So it's not that somebody shows up next year and says look at me, I want some allowances, and we give you some. That's not how it's structured. It's very tightly controlled because we need good data to understand and allocate any additional allowances.

There's project application reporting and information that must be included up front, which is a detail of the proposed investment, including the project equipment or fuels purchased, the project timeline with major milestones, project costs estimates, projected annual GHG reductions based on the changes in fuel use or processes. Those bullets are in regulation in terms of what must be provided for the Executive Officer to make a determination. The allocation for MDI allowances is only by compliance period. So it's not that every year the facility comes back and has to apply and get these. It's to cover one compliance period. And if they need additional support, they have to come back and reapply again to get additional support.

Only the projects in that regulatory list are eligible and then we have prohibitions on what the value cannot be used for. In regulation, the value cannot be used for administrative or overhead costs, employee bonuses, lobbying, shareholder dividends, legal settlement costs. Again that is in the -- in the regulation.

There's also a deadline by which you have to achieve the reductions for which you are awarded any MDI allowance value. And if you don't use that value to invest in reduced emissions as in your application, you have to -- those have to be returned back to CARB. And once those are returned back to us, we retire them from the Program.

So it's not a revolving door where somebody takes them, then gives them back, and somebody else can have them. It's a one-time shot, because what we're really trying to do is make it clear that if you're going to apply for this program, there are strings attached. And those strings are you're going to make an investment or you're going to have to return the value.

Emission reductions will be based by comparing the projected emissions with the project and without the project. The Program is subject to the full oversight and enforcement currently applied to the Cap-and-Invest Program and the reporting and verification requirements under the mandatory reporting program. So it's not just submitting a report back and no accountability. The emissions reductions have to be third-party verified and these facilities, because they're already in the Program submit an annual report under MRR that is third-party verified.

There was a question that came up at one point about bankruptcy. The program writ large has a process to deal with bankruptcy and return of allowances. The MDI Program is subject to those same full requirements, because it is again nested within the large Cap-and-Trade Program.

The reporting -- so at the end of every compliance period, there is reporting that has to be submitted on the project itself. And that must describe the progress toward implementing the project, including any updated spending estimates, achieved changes in fossil fuel use, an GHG reductions, and verification through any contracts that you may have or other documentation. So again, if you have a project that is going to take longer than a year to get on the ground and actually break ground, you still have to report to us where you are in that process at the end of a reporting period, so we know that there's something in the works and something is happening with that value and you're just not sitting with it letter and doing nothing.

And I think those are the total that I had here, but I want to kick it back to the staff here to talk through some of the facility limits, because there is a limit to how much any individual facility can receive as well.

ISD STAFF AIR POLLUTION SPECIALIST TURGEON:

Yeah. Thank you, Rajinder. So, yeah, the entire MDI Program is capped at that 118, but each individual facility when they apply to us there's a max number of allowances that they can get. They can't just say, hey, I need a billion dollars for my project and here you go. There's a variable that we set in the regulation. We call it a cap adjustment factor modifier, because it applies to that cap factor that we mentioned earlier, that feeds into that overall equation of how a facility receives industrial allowances, right?

So we looked at our whole range of regulated facilities, because again this is limited to facilities covered by the program that are registered with MRR that already have a year of verified emissions and products data reported to us. So we have that baseline to compare against, right? So then we looked at that full -- world of facilities and we wanted to kind of balance these how much do they actually realistically need to deploy some of these big capital projects because you're talking about big manufacturing facilities. The sort of transformative investments we're looking at are, you know, capital intensive projects. So how much would they need for that versus providing a runway for the MDI program, so we get multiple cycles, give everyone an opportunity to participate and, you know, not have the rush up front for everyone requesting, you know, a bunch of allowances at the same time.

So we set that cap with a cap adjustment factor modifier of 0.8, which means no matter what the project is, there's a limit to how many allowances that facility can get. And if you aggregate that total across the whole realm of facilities -- again, we don't think everybody is going to apply, but if you take that max, it provides that runway, so that the MDI Program will, you know, go after 2030. It's not all going to go out the door before 2030. And a lot of that ties back to that facility-specific cap adjustment factor modifier cap that we set in there.

CHAIR SANCHEZ: Thank you, staff, for walking us through that. And I just would appreciate also walking the Board through in the, "Be it further resolved", section of the resolution. There are number of these different elements that speak to the MDI additional process and guardrails. So if you could walk through those, that would be appreciated.

Thanks.

DEPUTY EXECUTIVE OFFICER SAHOTA: I would be happy to do that, so I will direct the Board's attention to page 15 -- starting on the bottom of page 15, please. So because of the concerns we've heard and because this is a new program, we understand that the Board and the public want to understand how this was performing, where we are in the steps to implement the Program, and what data is incoming to us at each of these steps. So, the first step is about process for issuance. So what we say is before -- we would develop implementation materials to help implement the program, so there is documentation for full public transparency on implementation. And we would hold at least one public workshop to take comments. And that would be prior to the issuance of any MDI allowances.

Again, the earliest that we would issue anything under this Program, if we got applications, is fall of 2027. So that runway provides enough time for us to have this interim period to develop that guidance and have that workshop and make sure it's transparent as to what the steps are.

At the top of page 16, we know that there is a concern and we don't think the concern is supported by the way the Program is constructed and the guardrails that we walked through And the additional information that you heard from Michael. But we understand there is a concern that there could be a flood of these allowances out in the marketplace. So what we added in was, "Be it further resolved, that the Executive Officer would report to the Board by July 1, 2028. So, it would be before -- it would be after we do the first tranche of issuance, we would be able to report back to the Board and -- especially if it's greater than 25 million, which we think is an upper bound on what's potentially able to go out.

So again, really recognizing that there is a concern out there that this is going to be 118 that goes out all at once. And so we put in a kind of break in that to say we will come back and report out where we are, if we hit that by July 1, which we don't think is likely, but we understand that folks want transparency as the public and the Board wants some insight into what's going on.

The next thing is just public transparency, and again Board transparency, that we would make available -- publicly available summaries of the MDI applications by facility, who's applying for this program, including information on the project type expected emission reductions, while protecting any confidential business information. So the Applications would come in by the middle of 2027. We would be able to make that information available in the latter half of 2027. We would not have anything until that application deadline has come to pass.

The next one again is about public transparency, that the Executive Officer would make annually available the number of applications received and approved, so not just the number that's approved, but also just the amount of interest in the Program, the number of iss -- of MDI allowances issued in total against that cap of 118 and by sector, because we understand that there is an interest again by facility and by sector, and how many allowances are remaining so kind of a running balance sheet, and that the MDI allowances -- and any MDI allowances returned and then retired from the Program. It means permanently out of circulation.

The next one is about tracking. So right now in the Program, we put out a compliance instrument report every quarter. Because this is a new allowance type, we want to make sure there's transparency to the market and to anyone that's actually running analyses against that tracking data in the Excel spreadsheets. And so we would be tracking these allowances separately, so that the Board, and the public, and anyone interested would understand who's holding them, are they in public accounts, are they in retirement accounts, are they in industry accounts? And so we would just integrate this reporting into the normal process to do the compliance instrument report every quarter.

There's also additional transparency and check-in here for the Executive Officer, which is to report to the Board after the end of each compliance period. The end of the first -- the compliance period where we would first issue these would be the end of 2028. We would get that data in 2029. And so that would be the first time we would be reporting to the Board on the types of projects supported by the MDI allowances in more detail. So in addition to the existing reporting on what's in the application, the demonstrated need for the financial incentive, how the incentive accelerated the near-term project implementation, how that provides progress towards the project GHG emissions reductions as third-party verified.

We would again report out any unused MDI allowances still in circulation, so not those that we haven't issued yet, but those that haven't been retired out of the Program, and the unused MDI allowances that have been submitted to us and retired out of the Program.

So again, thinking about the different milestones that we have in the process to get the application, to approve the application, to issue the MDI allowances, to then get the reports, and at each of those touchpoints having some kind of reporting out for public transparency and for the Board.

We would also make available at the end of each compliance period how the allowance is supported, what was in the approved application. So tying back to what was stated in the original applications, and how it -- how those map back together. And again, the results in progress toward meeting the expected GHG emission reductions. The next one is that by July 1, 2028, we would evaluate and propose future amendments as appropriate that would further align the MDI Program with statutory climate targets.

This is where we heard some of the conversation about the need to get reductions in state towards some of our methane targets. So this would be about how do we make the MDI program more aligned with the in-state emission tar -- reduction targets for things like biomethane.

The next one is, "Be it further resolved that the Board..." -- I'm getting into not reporting on MDI, but other follow-up actions. I'm going to stop there and take any questions on what I already read.

CHAIR SANCHEZ: Thank you, Rajinder. I think that was super helpful to walk through for the -- for the Board's awareness as we -- as we begin the discussion on this part of the proposal. And I will just say this part of the proposal is imperfect. The staff proposal in front of the Board is very thoughtful balance that is weighing a series of trade-offs, reducing greenhouse gas emissions, supporting affordability, as we've been directed by the Legislature, minimizing for leakage. And the challenge is becoming more difficult because of our success, right? As we reduce pollution across the state, there will be fewer allowances. There will be less revenue.

And I appreciate the creativity of this part of the proposal for several reasons. As Dr. Shaheen mentioned, we are losing tools to address our transportation sector emissions. This part of our inventory is 22 percent of the GHGs in this state for the entire industrial sector. We had billions of dollars in federal grants coming to the State of California, coming to these very facilities that we are regulating from the IRA and the IIJA, whether it was for clean hydrogen, or clean cement, or carbon capture. And the federal attacks on that funding are unprecedented and we are fighting many of them in court.

But this part of the proposal can help to backfill some of that investment and drive forward some of the reductions that we would have expected to see at the these facilities. I appreciate all of the guardrails that staff have put into the regulation and all of the frankly reporting and monitoring that is reflected in the resolution, but I still have concerns about this part of the proposal, in particular some of the public testimony we've heard on impacts on the market stringency, on the GGRF demand. This Board listened to hours of public comment on GGRF revenue. And we've been -- we have been given some analysis on how the MDI interacts with the GGRF, but frankly I think we need to do a little bit more work to dive into that part of our issue. And from Board Member Limón, this point of how this -- the MDI speaks to affordability and leakage protection and how that then factors into the pie.

So I am interested to get all of the feedback from the Board, as we heard from the bill author, Assemblymember Irwin yesterday, it is important to move forward on this regulation. The Board not acting on this would be the biggest victory to Trump's attacks on our climate agenda -- the President's attacks on our climate agenda, to paraphrase her. And it's also important to get the right. It's important to monitor. It's important to place -- put into place guardrails and for this Board to deliberate on that.

So I'm interested in the Board's comments and reflections on the guardrails. I -- you know, we are looking at a public workshop, should the Board approve this regulation today, as well as I would call it a threshold, staff walked through, after 25 million MDI allowances. Staff reporting back to the Board and evaluating any changes that need to be made.

Just based on the level of concern and I think the additional analysis that is warranted, my proposal would be that we ask for that report to the Board and propose changes ahead of any applications being evaluated and approved. That is a change to the resolution, so we'd have to, of course, walk that through legal. And I'm interested in how that sits with the Board and some of the -- just the testimony that you've heard, the feedback we've gotten in this particular part of the proposal, which is an important component of the Regulation. But again, need to get it right.

Councilman, I saw you come up quick.

BOARD MEMBER GUERRA: Great. Thank you. Yes. Because this reminded me of what, you know, our Board Member Santiago mentioned. So this -- your recommendation is -- prior to, as Rajinder mentioned, the issuance of the first tranche, it would come to the Board?

CHAIR SANCHEZ: That is my recommendation after listening to the feedback yesterday, the various stakeholder meetings, and the legislative engagement on this piece of our proposal.

CHAIR SANCHEZ: Dr. Balmes.

BOARD MEMBER BALMES: I was just, because I was distracted, what exactly are you proposing again? Sorry.

CHAIR SANCHEZ: My proposal -- well, first off, I'm interested in thoughts from our Board members.

BOARD MEMBER BALMES: Yes.

CHAIR SANCHEZ: But right now, we have a variety of reporting back to the Board as well as evaluating and proposing future amendments at different milestones. My proposal is to say that that come back to the Board before any allowances -- before any applications are approved after the deadline next summer.

BOARD MEMBER BALMES: But to go forward and approve the resolution including MDI.

CHAIR SANCHEZ: That is the -- that is the -- that is the decision before the Board, yes.

BOARD MEMBER BALMES: Well, as much as -- I have many questions about MDI. And I'm -- I totally like your proposal, but I feel it's important to move forward. I think that it will hurt the value of allowances if we don't move forward. And we're all concerned about how much money is available for GGRF, for example, which I am.

So I want to put in guardrails, oversight, and learn as we go along. So I'm totally supportive of your proposal, but I am going to support moving forward with the proposal. As much as I'd like dump MDI, it was left up to me I would and come back and redo it. I will say I'm totally supportive of incentives for hard-to-decarbonize industries, like cement, like food processing, like specialty metals. I am totally against giving any money to the refineries, but I -- we're stuck with that, I guess.

CHAIR SANCHEZ: Thank you, Dr. Balmes. Dr. Pacheco-Werner. I see your hand up as well.

BOARD MEMBER PACHECO-WERNER: Yeah. Thank you, Madam Chair. I think that that's very wise. I do think that there's some more analysis to be done on this. And I think part of that analysis and things that I would like to see before any applications is like a little bit of coherence about what we're hearing across the Board in terms of where the LAO analysis sits, what their assumptions were in that analysis, and then understanding what our staff's assumptions are and their analysis and how those compare and contrast. And mind you, by then, you know, some of this -- obviously, the Legislature will do their own work on this spending plan for the GGRF, but it's nonetheless helpful -- a helpful exercise to understand assumptions, especially moving forward, because the issue of a GGRF fund will continue to be an issue moving forward. And so I do think that understanding what the analysis assumptions are is critical as we move forward before any applications are given.

Thank you.

CHAIR SANCHEZ: Thank you, Dr. Pacheco-Werner.

And I know that echoes some of the comments before the break from Board Member Takvorian as well.

Board Member Eisenhut.

BOARD MEMBER EISENHUT: Thank you, Chair. I think recently in our political discourse, there was a quote that I will not claim credit for, but it's I believe Bob Mueller, don't let the search for the great preclude the continuance of the good. And I think that probably decently describes the conversation that we're having currently.

There are a lot of things about the guardrails and the resolution that are appropriate, and good, and provide the guidance that I think we need, spec -- and I won't review them, but there's one specific item that's omitted that I'd like to -- I'll raise the issue. I'm not going to request it be included in the resolution. I will defer to the -- to comments from my peers, and that is I have a concern about the allocation across industry sectors. And while there's a reporting requirement, I think it's assumed that the Executive Officer and the Executive Officer's team would ensure that there are allowances for each of those sectors, but that's not written into the -- at least I'm not aware of it, that there's a reporting requirement, but not an allocation requirement as I -- as I understand it. I stand to be corrected.

I'm specifically concerned about some of the minor sectors as food processing being one. Ag industry needs food processing. They're in jeopardy and producers of fresh produce don't have the option of hauling their product out of state. It's perishable. We need -- the ag industry needs those processors. And I just want to make sure there's space there that's allocated, so that any one sector does not suck up all the allocations.

Thank you.

DEPUTY EXECUTIVE OFFICER SAHOTA: Board Member Eisenhut, I failed to mention that even though there is a cap of up to 118 for the MDI program, it is separated into two bins, because we shared that concern. And so for medium and small sized manufacturing, they get half of it dedicated to themselves and then half of that 118 is dedicated to large industrial sources like the refining and hydrogen companies.

BOARD MEMBER EISENHUT: Am I on? There's a -- there's a 50 percent division. But within that 50 percent division, there's no -- there are no -- as I understand it, there are no additional guardrails. That's what I'm addressing.

DEPUTY EXECUTIVE OFFICER SAHOTA: Understood.

CHAIR SANCHEZ: Thank you, Board Member Eisenhut. And, yes, several different industrial facilities eligible for that 50 percent. So it would be helpful to know, staff, if we have data to inform different allocations, and if not, how we would go about collecting that data.

Dr. Shaheen.

BOARD MEMBER SHAHEEN: Thank you, Chair.

Exciting opportunity put before us to ponder. I've got other things to discuss at the moment, but I do want to revisit. You know, as a scientist and somebody who's done a ton of experiments, I do get a bit excited about new tools and techniques, and MDI could be a really leading large scale national effort to try to balance incentives and get to measurable industrial decarbonization investments.

And so on some level, I find it exciting, but I also find it scary. And so I like the idea of pausing a bit and being more methodical. I see Dr. Balmes there agreeing. I also wholeheartedly support Dr. Pacheco-Werner's comments, which I think I've already shared with the Chair here on the dais before we went live, of just the importance of seeing some analysis side by side of the LAO work compared to ours. I'd like to see the algorithms. I'd like to see the data that we're used in each. I'd like to see what those assumptions are. And I think that there was a lack of clarity around both, right? And in part, maybe that's nobody's fault, but I think we do need to get down to business and be able to look scientifically at those things.

In terms of the MDI, I did have some suggestions and I'd love to hear staff's ideas, and the Chair, and the rest of the Board's thoughts on this. But, you know, as we go to a workshop thinking about how we can prioritize or incentivize projects and program mechanisms that demonstrably reduce criteria pollutants while reducing greenhouse gas emissions. Board Member Limón was speaking to this very early on in the day, the importance of seeing where we can get these co-benefits, particularly around community air quality effects.

And I would love to see this in the context of disadvantaged communities and burdened communities in these MDI-related provisions. So that's sort of request number one. Request number two is during my stakeholder briefings, I had a lot of discussions about the importance of a sustainable and equity focused workforce transition. And so I'd really like to see some emphasis going into these MDI projects, particularly as we look to decarbonization at annual reporting and -- not just annual reporting on emission impacts, but on planning and ongoing efforts in these communities towards workforce transitions. And that includes both their economic and social benefits to those affected communities.

And I love that we have data, Rajinder, and I love that it's on our websites, but I really have to push for something more user-friendly. I think that this is a high stakes experiment trial that could go a long way. I'd also just like to see the -- some sunsetting of the authority itself around MDI in a resolution.

So I know that was a lot, but I've been thinking a great deal about the MDI, alongside these guardrails.

So thank you.

DEPUTY EXECUTIVE OFFICER SAHOTA: Thank you, Dr. Shaheen. So the sunset is already in the regulation. I think it's consistent to have it reflected in the resolution. Like, that's already there in the proposal.

On the data, we're willing -- we're happy to take feedback on how to make our websites more user-friendly. The fact that some of us have to Google them to find something says a lot already. So happy to work and take any input, and maybe that's part of the public workshop on how do we make sure there's transparency and easy accessible data on the Program.

On the types of analyses and the additional things that we're requiring, I think that there's some information along -- especially on co-benefits. We can do that, because it's about reduced fuel use and that's a simple thing that's -- we're very good at understanding how to translate changes in processes and technology, and how those are reflecting in criteria pollutant reductions and changes. So that's okay.

We're not experts on labor and workforce development, so we would be happy, I think, to go back and talk to our colleagues at the relevant agency, and see if they have tools or if they have recommendations on how we could potentially do that.

BOARD MEMBER SHAHEEN: Yeah. I would not expect us to have that expertise, but I think interagency collaboration with the Department of Labor on this I think really shows that we're thinking about a sustainable green job transition strategy. I do live near refineries and there have been some pretty heavy hits that we have to take into consideration, as we think about the decarbonization and electrification of our system.

So thank you so much for entertaining these ideas and I look forward to working on trying to make this program very resilient.

CHAIR SANCHEZ: Thank you, Dr. Shaheen, and for the science experiment analogy. I think that's how we're viewing this and important to set up the experiment for success and have the right guardrails speed bumps, check-ins with the Board and reporting.

Supervisor Hopkins.

BOARD MEMBER HOPKINS: Thank you. I really appreciate your suggestion to bring this back to the Board before it goes live. And for a little bit of clarification, would that be for a workshop format or would we retain some authority to provide direction at that point in time? Because from my read of the resolution, this really sort of delegates all of the authority to staff, which would limit our ability to, you know, actually bring new guardrails or new conversations forward if that were to happen.

CHAIR SANCHEZ: Yeah. I think it would be helpful -- maybe I'll ask our counsel to choose -- to weigh in on this. My thought was we have the workshop in the resolution, the public workshop. After that, we would specify that prior -- after the workshop, prior to any allowances being approved, a report would happen to the Board at a public meeting, and there would be proposed changes as appropriate. I think looking at the different date -- pieces of data and analysis, the issues that have been raised, the allocations across the -- I'm writing a list of things that I think -- some homework that we're giving the staff to come back to the Board while we pause on any applications being approved, mindful of the application deadline being next summer, so we have a little time to get it right.

BOARD MEMBER HOPKINS: Great. And then a couple of questions, if I may, you know, of staff. And I want to start out by saying that I could be a really enthusiastic supporter of a program like this. I think that every progressive leader in the country has used the phrase just transition at some point and no one knows what the heck that is. And no one has actually successfully implemented it. And this could truly be a just transition fund, if we could it right, but I do have concerns about, you know, cost effectiveness, and sort of the implementation side of things.

You know, sort of like on my dream list, I would love to see, right, all of our natural gas power plants in the state of California. I think we have over 300, right, replaced with geothermal energy plants that are sprinkled throughout the state. And we could do that, you know, utilizing some of the new technology. And I also want to highlight that I think that we could look at this through an ROI lens and also through an impact investment lens.

And so, you know, if we're looking at ROI, right, like what are the potential job creation opportunities, what are the economic development opportunities? But then in terms of impact investment, like how can we also mandate public health benefits, right, benefits to AB 617 communities and other fenceline communities, in addition to greenhouse gas emissions reductions looking at particulate matter reduction. So I guess, you know, one of my questions is how could we look at criteria to be able to prioritize projects that have those co-benefits that I think would be most appreciated by the Communities who are currently overburdened by pollution?

DEPUTY EXECUTIVE OFFICER SAHOTA: So many of the facilities that we're talking about are facilities that are already in existence that are already reporting to this Program. And many of those are located adjacent to communities. So if those facilities are applying and they are meeting all the requirements and approved in that process to get this additional allowance allocation, they would be required to invest in reducing emissions at those facilities bringing those benefits, because the project types are geared to specifically get at transformative high capital projects to move us away from combustion of fossil fuels.

So I think embedded in here is already some of that incentive. I think hearing the additional conversation here, we can go back and think about what more there is that we can kind of build around this to get more of a focus, but it was -- it was essentially set up to get some of the very -- the very outcomes that I think we're hearing from you all in the prioritizations, because by their nature, these facilities tend to be located near these communities.

BOARD MEMBER HOPKINS: Right. I'm very aware of that, but I think that even just within those sorts of, you know, industries, different projects might have different co-benefits, right, you know, kind of based on the, for instance, associated emissions with certain industrial functions over others, and so how could we prioritize the ones that say also have PM2.5, or NOx, or, you know, sort of ozone formation, ROG, all of these things that we could potentially dial down, in addition to greenhouse has emissions.

DEPUTY EXECUTIVE OFFICER SAHOTA: So we can go back and think about how to structure something around those pieces. I think in the early years, we won't see a -- well, let me put it this way. I think there is ample opportunity in the first phasing of this program to see the kinds of projects people are going to propose to do. So it's not like we're mandating that they do something, but they're going to come to us and tell us what they want to do. I think we have a time period in the first phasing to figure out the kinds of project people bringing, and what to prioritize and how to dial it down further.

So I think those regular check-ins will help us do that. I don't think we are running the risk of having not enough to get all the projects in the first phase done to where we have to maybe say one is less important than another one. And so I think as the data comes in, we have the opportunity to think through how to further dial this down to get at some of the co-benefits and really focus on those co-benefits.

BOARD MEMBER HOPKINS: You said, you know, they're going to come and tell us what they want to do. Respectfully, for free money, I think we should tell them what we want them to do, you know, and sort of have more of almost like an RFP process. Like we should be sort of judging projects against each other for cost effectiveness, and co-benefits, and our ROI, just in my opinion.

And the other thing that I wanted to flag is that, you know, I really appreciate that renewable and geothermal energy were both included on the list. A lot of the companies operating in that space are not necessarily covered facilities. And so are we essentially sort of giving away, you know, free investment dollars to existing polluters at the expense of small business startups who operating in that space and essentially kind of giving those -- large industry a competitive advantage over some of these, you know, startups that may be just a geothermal company or just a -- right?

And I recognize that maybe they could be subcontractors. I'm not a huge fan of trickle-down economics, but, you know, anyways, just a question of about that.

DEPUTY EXECUTIVE OFFICER SAHOTA: Yeah. That's a really good question, because -- because of the design of the Cap-and-Trade Program, it is, by origin, and by the original intent focusing on the largest emitters in the state. And so unless you trigger that threshold or you opt into the program, you're not going to have a natural nexus to be picked up under the regulation and be eligible to get these allowances. But there are companies, even without the MDI, that opt in, because they see an opportunity to be part of the Program, because they're very efficient, get allowances, sell those, and do something else in the Program.

But once you opt in, you're subject to the full reporting requirements, the verification requirements. And so maybe this is an area where we can do some additional outreach and see what the interest is outside of the covered facilities, the sites at which we regularly regulate and having access to this kind of a mechanism and what that looks like for them, which is being subject to the full program requirements, because the way -- it's nested within the full program.

BOARD MEMBER HOPKINS: Yeah. I just think that it would be unfortunate to create sort of a competitive disadvantage for some of the companies who are fully focused on decarbonizing California, but don't then have access to these funds.

CHAIR SANCHEZ: Thank you, Supervisor Hopkins. I'm going to turn to the right side of the dais. Councilman, and then Mayor, and Diane, and then John.

BOARD MEMBER GUERRA: Great. Thank you very much, Chair. A couple thoughts here. One on MDI. You know, not every -- to that point, not every industry is the same and I do worry about if the focus of this is to decarbonize difficult-to-decarbonize industries, so -- particularly with -- on the issue of concrete, and since that is an area that affects the Sacramento region, and particularly under home construction. So I do worry about the rising cost of that, because unless your -- you know, unless you're in a manufactured home that's on stilts and wheels, just about every home will have, you know, a concrete foundation. And even much more when we're talking about multi-family housing the cost of that impact to those.

So I understand the need to that. So to my point I think -- I worry about also the focus here of if it becomes too spread out. And there are industries that may seek this and are claiming leakage issues. Concrete may or may not leak. You know, if it does, that would be a travesty, because we'd have to haul that in from out of state and you could imagine what the costs are for us. But I do worry about others who claim that they're going to leave.

So, it's my understanding, AB 1207 had a leakage assessment. And this regulation doesn't have any -- at least any information about a full on leakage assessment. So when we come back for the first tranche, are we going to see any kind of data? And I understand that we're not trying to create a cookie cutter program for everyone, because the industries are different from ag, to concrete. But, you know -- but I want to see the one -- the industries that I'm more concerned about claiming that they're going to leave to see if that -- if that's truly and issue and whether it merits that conversation.

So Rajinder, leakage assessment.

DEPUTY EXECUTIVE OFFICER SAHOTA: Sure. So AB 398 did have direction to us to do a leakage assessment on this Program, because when AB 398 was signed into law, they -- there was a recognition that the cap decline was going to go from an average of two percent to four percent. And so the Legislature wanted to understand what that meant for leakage. We worked on that leakage assessment and we were almost finished with it when a new federal administration came in and then started implementing trade policy that kind of threw out all of the data and analysis that we had. And it shifted the landscape so much, that if we had published that leakage assessment, it would be completely out of date and useless in the context of what we're seeing now.

So we have the domestic and international policy around tariffs, we had disruption on some of the tax incentives, and now we have this global disruption around energy. And so, we want -- we give direction. "We", "We" gave direction to the staff to go back and make sure that we were getting as much updated data as we could to make sure that the leakage assessment when we complete it is reflective of this really big landscape shift that we see under this administration.

And so we are working to finalize that. We are hoping to get it completed in the coming months.

BOARD MEMBER GUERRA: Okay. So then where does that tie in the timing with -- say when that first, quote/unquote tranche comes out, because I do think that this is an opportunity for us to also address, and not exacerbate a problem that we have in California, which is the rising cost of housing. And that's not the charge of this Board. Our charge here is to decarbonize hard-to-decarbonize sectors. But we do have a responsibility in saying where are we focusing our revenue, you know, on the principle areas, right, you know, the -- you know, water, air, food and shelter. You know, those are the key things where I said -- I think are critical. So what's the timing look like for that leakage assessment?

EXECUTIVE OFFICER CLIFF: Thank you, Councilmember. So, in this proposal, we are allocating free allowances to those particular industries that you're talking about that have emissions that are affected by the Program in ways that minimize leakage, that prevent the exact concern that you're talking about. It essentially avoids a large carbon cost pass-through on those particular products.

I also wanted to mention that National Cement had a -- had a federal grant that was canceled that is the very type of thing that the MDI is intended, yes.

BOARD MEMBER GUERRA: But timing-wise, I guess. I mean, I think the -- what I'm -- and I don't want to dig in deeper here. To my good friend, you know, Eisenhut's point, like don't make the perfection enemy of the good here. But I think when we come back I think what I'm trying to express upon you that I think Board members are going to want to see these analysis before we execute that first tranche. So rather than asking and giving you --

pushing you on a timeline right now, I'd like to actually understand that well before -- unless you have that information, I'd like to understand what that timing is so that the information is ready for the Board's purview -- review.

EXECUTIVE OFFICER CLIFF: Yeah, so we're in the development of that report now trying to use the latest information that we have available. Our proposal would be to have that available for the Board when you consider post-2030 allocation. That means in practice that we would have the leakage report sometime ideally next year.

BOARD MEMBER GUERRA: I appreciate that. I think sooner is better.

(Laughter).

BOARD MEMBER GUERRA: But -- thank. That's -- Madam Chair, I'll leave it there.

CHAIR SANCHEZ: Thank you, Councilman. I think sooner is better is the message we've heard from a number this of the Legislature -- legislators as well who are looking to that study. I think it's important to emphasize, as Dr. Cliff noted, that will be an important data point for post-2030 pie charts and the discussion the Board will have about that, but I really appreciate the suggestion that that should serve as an input to MDI implementation as well. Yeah, much appreciated.

Okay. I'm going to go to Mayor Silva and then Board Member Takvorian. John, before I come back to you, I noticed that I have some Zoom commenters as well, so then I'll come back to you. Thank you.

Mayor Silva, the floor is yours.

BOARD MEMBER SILVA: Thank you, Chair Sanchez. I want to make sure I stack these in the correct one. We can talk about procedurally what we're doing and then we can also give feedback about our thoughts on MDI. Is that what you're looking for at this time?

CHAIR SANCHEZ: Yes, please do.

BOARD MEMBER SILVA: Okay. Okay. Great.

CHAIR SANCHEZ: And it's great to have you on the dais with us. Welcome.

BOARD MEMBER SILVA: I'm glad to be here. Okay. First question I had is just my understanding is as proposed with what you're making as a suggestion, if adopted with what your suggestions are, would the Board still have the authority to say, you know what, we don't want to move forward with MDI. It's not a good fit. I'm just curious, is that what's being suggested right now?

CHAIR SANCHEZ: What's being suggested is that the Board would approve this regulation, which would essentially establish the MDI, but no applications would be approved until it's brought back to the Board.

BOARD MEMBER SILVA: So at -- when brought back when we come through, because we're bringing up suggestions of how we'd like to see MDI structured our kind of feedback about what are some of our concerns, would the Board be able to say this Program doesn't muster what our intentions were from this feedback and thus we don't want to administer any -- or like we don't want to -- we don't want to accept any of the applications?

CHAIR SANCHEZ: That is a great question. I'm going to have to turn to our legal counsel just environmental analysis, regulatory process. Shannon, can you please?

CHIEF COUNSEL DILLEY: Yeah. So if you were to direct us to not approve the applications, I think that would violate the regulation. The purpose of coming back would be for us to present on the applications and what our recommendation would be. But if you were looking to essentially not go forward with the MDI, we'd have to do a further rulemaking. But I think we are considering some language that could be helpful in terms of the different types of things that we could report back on and then you could give us direction on what you wanted to do in a future rulemaking on the MDI.

BOARD MEMBER SILVA: Gotcha. And then further question is, is there a need to -- I know we have a

July -- or June 1st 2027. There's so many of the conversations have been this time crunch that's going on procedurally with so many things. In understanding a movement today with that we're talking about, does the delay of an MDI adoption impact the ability to fulfill the goals of administration to it, knowing that the application deadline is June 1st, 2027?

EXECUTIVE OFFICER CLIFF: Let me try and answer this. So I think -- I think the point of what the Chair was suggesting is putting the onus on staff to figure out how to make that work. In other words, prior to the issuance of any of those allowances, that we would have to go through some public process, bring that report back, and to the extent appropriate, propose amendments. So if, a that point, the Board were to say, you know, no way. We don't like this, then essentially the regulation would be on the table for that type of consideration. But it wouldn't be as part of this regulation as Chief Counsel said. You know, it would -- it would establish the Program. And then the direction to staff would be go through and kind of work through this a little bit more, get some more feedback, do some analysis, bring that back to the Board, understanding that there's a timing crunch. So we're not moving the dates. It's just staff has to work a little faster to make sure that we can comply with the dates, because we know that we're running up against a time clock.

BOARD MEMBER SILVA: I think I'm getting there. So I'll move to the other questions and see if I marinate better with procedural questions there. My other ones are just about feedback, the general concerns about MDI. I think we received a lot of feedback about how we're worried about stability on a lot of different items here. And I would be curious to just kind of explore the stability of how does MDI connect with stabilizing, you know, communities that fall under our 617 Program and really tying back that value to them. I feel like we sat here and we learned that -- you know, we've heard from air districts and we heard from transit that they are concerned about the GGRF funding. And this is a first in -- this has never been done before. This is a great shine -- sign of creativity of what the Board is looking to do and what CARB staff has.

I would say that we need to, one, embed with that the ingenuity how can this Program create maybe a first -- if this is the chance to do these edits, how does this tie back to some of the concerns that were brought forth to us, that if we can be this creative with MDI, how can we be creative to not say like, well, unfortunately, GGRF Tier 3 funding is out of our purview? Is there any means of showing that tie back to value to community members? So I just -- I think that when we're discussing this, making sure that there's this continued narrative of how does a average day citizen feel like MDI is working for them and not working just purely for industry? And I think that that's something that would be really helpful for understanding a bit more of this fulfills that Cap-and-Invest promise that we've made to everyone.

The other question -- or understanding with it all was right now we're talking about MDI with 30 million allowances additionally per year, is that correct?

EXECUTIVE OFFICER CLIFF: The total for MDI is 118 million.

BOARD MEMBER SILVA: But no more than 30 million per a -- no. Okay.

DEPUTY EXECUTIVE OFFICER SAHOTA: Per compliance period. And a compliance period is either two or three years, depending on the schedule in the reg. So it's not every year.

BOARD MEMBER SILVA: Gotcha. So -- and my understanding too, we have our free allowances that are kind of business as usual. This is how you function within the State. And then these MDI allowances have greater restrictions to that just so I'm following -- Okay. Great. I just want to make sure I stay within the line here.

I'm curious if there's been any examination of how could we see that as MDI allowances are being introduce with these restrictive terms? Could there be a correlation with seeing some of that offset from a reduction in unrestricted allowances over time? Has there been any exploration of that?

DEPUTY EXECUTIVE OFFICER SAHOTA: So that is a great question, because when we're looking at post-2030 allocation, if these -- if these industries are using the MDI allocation and they are going to reduce their emissions per product, because it's about efficiency per product, the carbon per product, then we can go back and look at the benchmarks -- update the benchmarks in the equation as to how many free allowances then the sector should be receiving. And so there's a direct feedback in that over time you want people to become more efficient in the production of goods in California and keep production in state.

To the extent that MDI is utilized, we should see that manifest itself in the reported data that is given to us every year. That allows us to think about post-2030 how much does this industry or this sector actually need, in terms of support when we know they're compliance is going to be less, they're going to be more efficient, and that could mean more that is staying with GGRF. I'm sorry, that would be more that is staying with the allowances going to auction which then fund the GGRF.

BOARD MEMBER SILVA: Thank you for catching on that one. I appreciate that. And then my only other question I had, if I can follow through all of this -- of the things that -- is that -- oh, it was just kind of in the terms of the guardrails. I was curious a number of the ways that this is framed is kind of based around the intention of and not in the results of piece to it. I was hoping you could speak to -- you know, there's the -- there -- like one of the lines, "Their projected annual GHG reductions based on the change in fuel use of processes under the application process." What would be the enforcement or clawback opportunities, if you could just maybe dig a bit more into that if they intend to lower GHG, but then it does not materialize, what is the enforcement opportunities of CARB to ensure that these allocations are really being held accountable?

DEPUTY EXECUTIVE OFFICER SAHOTA: So the language about having to show -- there's a section in the regulation about reporting and return. And so the application is prospective. It's about what they hope to do, what they think they need, and then they get allocated some allowances. Similar to GGRF, you get money first, and then you do reporting after implementation. So here with the MDI reporting happens after the implementation of the project every -- after every compliance period, you're telling us what you've done. Every year, these facilities still have to report and have third-party verify their emissions on-site. So we get data in our existing framework under the mandatory reporting regulation what is changing year to year in these facilities.

BOARD MEMBER SILVA: And if they aren't meeting the standards, what is the clawback opportunities for that or is there -- is there a monetary penalty or anything?

DEPUTY EXECUTIVE OFFICER SAHOTA: Oh, absolutely. Just like if we would give free allowances for minimizing leakage now, if that value is not needed or if you do not use that value, for the MDI in the way that you were provided that under the regulation, you have to return that value back to us - that's in the regulation - and then we will retire that -- those allowances. That is in the regulation.

BOARD MEMBER SILVA: Thank you very much.

CHAIR SANCHEZ: Thank you, Mayor Silva for those comments and questions. I particularly liked one issue you raised about the MDi and the reporting and the data being a really helpful data point for post-2030 allocations. As the councilman was just referencing, that leakage study being very important for post-2030. We heard from industry concerns that we did not essentially give them a pie cart for what beyond 2030 looks like. And I think throughout the Board discussion, we're discovering there are very important data points and analysis that needs to be done to inform that. So appreciate you making that connection.

Okay. I am going to turn to Board Member Takvorian and then Board Member Rechtschaffen, Senator Stern we're coming to you online.

BOARD MEMBER TAKVORIAN: Thank you, Chair. I just want to say that I really appreciate the enormous effort that's been put forward by all the stakeholders that were here yesterday and who have engaged over this period of time, especially those from impacted communities, and to digest and evaluate the massive changes in these amendments is in an extraordinarily short period of time is quite a feat. So I just want to express my strong appreciation for that.

I also appreciate the partner engagement that we have here today and yesterday from transit, from the air districts who have traveled this pollution reduction path with us, and who have been here for these two days to ensure that we understand the impacts our action will have today on the work that we have both asked and required them to do.

So that's extremely important to me. I also appreciate my fellow Board members and the great questions and analysis that I think everyone here has done, not just in these two days but over the last couple of months. And we don't talk about it. It's been -- it's been a lot. And I appreciate the incorporation by staff of the good guardrails I think in the resolution. But given the many analyses that I think we've all looked at, that I've looked at, it seems quite clear that the addition of an experimental MDI program potentially jeopardizes California's ability to meet our 2030 and 2045 climate goals. And that it would significantly reduce GGRF revenue for critical programs that actually have a track record for reducing climate pollution, like transit and AB 617. And they also mitigate affordability and climate resilience, like affordable housing. So that's a huge benefit for disadvantaged communities that are subject to the impacts of climate change, that don't have air conditioning, that don't have housing that helps them to withstand the impacts of climate change.

So I appreciate the suggestion by Chair Sanchez for a -- for a pause, and I would support that. However, getting data after the approval of a program seems really backwards to me. There's still -- there are still such enormous questions that keep coming up and that everyone here acknowledges about how the MDI program would work. And we haven't had time to consider some of the suggestions, like those that Supervisor Hopkins have made about putting out an RFP, putting out a Request for Information of what are the kinds of programs that some industries, both small and large, would come forward with?

And I'm also concerned about the response to Mayor Silva's question that the Board would not be able to pull back the Program after we get this very detailed report.

So my proposal would be actually a small change I think, if we're get -- if we're serious about getting this right, and that would be to remove the MDI from the amended Cap-and-Invest Program now and direct staff to do all the things we've just talked about, to revise the proposal based on stakeholder and Board feedback, incorporating the requirements and guardrails in the current resolution, and direct our Executive Officer to conduct a full rulemaking process that would be -- could be incorporated within the post-2030 allowance allocation rulemaking.

It seems to me that that's the right way to do this, that we don't invest in and give our approval, which is important to a Program that is untested, and unverified, and where there isn't evidence clear that we -- that it will be successful. I'm hopeful that a program like this would be successful. And I want to see the data that shows that it will be. We don't have it yet. And I think all of the suggestions that have been made here today and for the past two days, for the past several months, could be incorporated into a much more meaningful proposal that we could be proud of. So that would be my suggestion for a change to your proposal, Chair Sanchez. And I'll make that into a motion at the appropriate time.

CHAIR SANCHEZ: Thank you, Board Member Takvorian. As shared repeatedly, as Chair of this Board, I really welcome the diversity of opinions and perspectives, and welcome that suggestion and proposal.

I just want to come back to a part of the discussion that we had last night in response to a question from Dr. Shaheen. It is my understanding that a full removal of the MDI, such a substantial change, it would necessitate another 15-day public comment period, which I understand you are supportive of. I just want to ask staff to walk through again the timeline for that and to make the Board aware of some of the challenges that that would present as it relates to our timeline for allocation, the evaluation of linkage for Washington, the proceeding at the Public Utilities Commission, and a few other issues that were raised. I know we have several Board members joining us for this part of the discussion that did not hear staff's response.

EXECUTIVE OFFICER CLIFF: Thank you, Chair. So it would not mean a new 15 day. It would be a 45-day package at this point, because of the impact to CEQA. So when we talked about this yesterday, I was sort of talking in depends on what the proposal is. But if it essentially is the 15-day proposal that's on the table, but remove MDI, that would require recirculating the environmental analysis, which is -- you know, would have to be fully analyzed, developed and then recirculated.

The question for me, and I don't know the answer if that is, could we do that under the current rulemaking in time before the one-year clock runs out? I don't know the answer to that. We haven't fully evaluated it, but it -- potentially, but it's likely that, in effect, we would just be doing a new rulemaking.

CHAIR SANCHEZ: Got it. Helpful. So we may run into the one year APA clock. But again, just for the benefit of the Board members who are joining us today that didn't hear the September 1st allocation deadline, and that being separate from the APA process, but an important milestone in our regulatory process and again the impacts on the Public Utilities Commission, could you walk through that again?

EXECUTIVE OFFICER CLIFF: Yeah. So the Public Utilities Commission has already opened a proceedings on the Climate Credit. That would need us to finalize a regulation by September 1st in order to impact the allowances that utilities have, as well as to remove the provision in the regulation that requires non-volumetric return of value. That means right now, the way the regulation is written, you can't give more value back to those who use more electricity, which is sort of, at this point in time, worked well in the beginning of the regulation, but at this point in time, inconsistent with the idea that we're trying to transition folks to electricity from gas. So it would have all of those kind of negative impacts and we would miss essentially another year of the ability to do that, so -- with their current proceeding open.

It would also impact linkage, which you mentioned, you know, and the evaluation of that, because we wouldn't have a final program for which other jurisdictions could then analyze relative to that linkage conversation.

DEPUTY EXECUTIVE OFFICER SAHOTA: And Chair and Members of the Board, I want to make sure that the full landscape is known in terms of missing that deadline. What we're trying to do is also make sure the caps are aligned with the 2030 target. So we have four years now in which to remove that 118 million. And that's resulting in 11 percent cap decline year over year. That number doesn't change. It's still 118 through the end of this decade. So if we go from four years to three years, that cap decline, that 11 percent becomes a lot steeper.

And at that point, we're going to get industry saying their leakage risk is even more, because of how steep and how quickly the caps are declining. And then when you think about that pie chart, that pie chart means that in '28, '29, 2030, it's even smaller, because now you're delaying the -- making that change in the size of the pie until a year from now. And that will also have knock-on effects for GGRF. That pain point of a more stringent program goes from four years to a more focused three year.

CHAIR SANCHEZ: Thank you, Rajinder. And I believe we heard from one public commenter yesterday that since the rulemaking was opened here at the Air Board two years ago, we've had depressed auctions for over two years speaking to that lack of a regulatory certainty. That would be a part of today's vote as well.

Board Member Rechtschaffen, thank you for your patience.

BOARD MEMBER RECHTSCHAFFEN: Thank you, Chair Sanchez. The benefit of going late is I can say "me to" to a lot of things that were said. I agree with many of my fellow Board members about the MDI that it has considerable potential, but could also have considerable drawbacks, if not implemented properly. It is a program with real benefits. This is a hard-to-abate sector and it's the second largest source of GHG emissions in the state. It often faces investment hurdles. And if the Program is done correctly, it will have direct on-site reductions achieved.

So like many of my colleagues, I this the Program should be unveiled slowly, and carefully, and deliberately with a lot of monitoring and verifications -- verification and with guardrails to ensure that the emission reductions are actually occurring, and that they are incremental to business as usual, that they are concrete as Board Member Santiago said a while go.

I very much support the Chair's suggestion that we proceed slowly and require a report back to the Board after the first workshop before any allowances are actually issued. I think that's a very important way to make sure that we're doing this methodically. I appreciate their -- many of the guardrails that have been put in about notice and potential amendments if MDI exceeds 25 million allowances, as well as some other things. I just want to highlight and I have a couple comments and suggestions.

One is the issue highlighted by Board Member Silva, where he asked what is the enforcement mechanism if things don't work out as intended? And I want to highlight the resolved clause of the last paragraph of page 16 of the revised resolution, which requires that the EO propose amendments as appropriate, ensuring that CARB clawback the value of allowances if the projects do not achieve GHG reductions that were promised in the application.

I think it's very important that -- to do this to ensure that we get the benefit of the Program. And just to be clear what this additional guardrail says is if you make an investment and you don't achieve the -- it's -- well, excuse me for a second. It's not simply if you don't spend the money that you proposed in the project application that you have to return the allowances value to CARB, but if you have an application and you project and propose certain reductions, but those GHG reductions don't materialize, you also have to return the value of those allowances to CARB. Again, we got the benefit of the bargain that way.

I also want to focus on the paragraph right above that. That's the second to last paragraph on page 16. And that also directs the executive officer to propose as appropriate amendments to it -- that ensure that MDI allowances support project types that need financial incentives to proceed. We heard Rajinder went through some of the elements of the Program that speak to this. It's a very important concept to make sure that the reductions achieved by the Program are ones that are incremental to those that would have occurred naturally. Otherwise, why are we doing this? Otherwise, we're not achieving the reductions we wanted.

But I think -- and I'm going to propose, since we're tweaking the language in the resolution, that this paragraph should be amended to say, "Projects that need financial incentives to achieve[SIC]," as opposed to, "project types that need financial incentives to proceed."

I'm not proposing a strict "but for" additionality test, but this is -- this kind of -- this change is necessary or it would be helpful to ensure that only projects -- specific projects that need financial assistance to proceed are funded, so that we are playing an important role in bringing projects to happen, because of our financial assistance. So again, there would be a simple change to that second-to-last paragraph on page 16 that simply just strike the word "types" and instead say that, "The MDI Program supports projects in need of financial incentives to proceed."

I want to echo what Dr. Shaheen said about the importance in future amendments of the -- of us considering prioritization or projects that can achieve criteria and air toxics pollution benefit. That's also in some of the resolution language. I think that's very important.

And then finally, I want to ask the staff a question kind of confirming - maybe this was discussed yesterday at the end of the meeting. I wasn't on at the very end about the resolution language at the -- that starts at the top of page six of 17. And it's got five bullets. It directs the Executive Officer by July 2030 to evaluate the impact of the Program on the effectiveness in reducing covered facility emissions and to pro -- and to propose future amendments on several issues.

And I want to ask, just to conform, as I read this, including the bullets, this would give us -- give the Executive Officer authority to propose amendments on anything related to the Program, reducing or delaying the number of allowances, limiting the number of allowances by sector, and more importantly, anything necessary to ensure that the integrity of the cap is ensured an that we can achieve our statutory targets. So

So I violated a cardinal rule of being a lawyer, which is I've asked a compound question, and I've asked three questions, but I just want to -- if you could go through and confirm that that's the intent that it really give -- it really opens up the evaluation to anything that's necessary to ensure the integrity of the cap, and that we meet our statutory goals, and that the MDI program doesn't undermine those purposes.

EXECUTIVE OFFICER CLIFF: To the -- thank you, Board Member Rechtschaffen to the -- to the last question regarding the top of page 17, I would only correct that it doesn't -- it doesn't give the authority. It gives the direction for the Executive Officer to do this evaluation and bring back amendments as appropriate. We would, you know, have the authority to do it, but I think it's clear direction from the Board that all the things that you say would need to happen in that evaluation.

BOARD MEMBER RECHTSCHAFFEN: Thank you.

So that in other words, everything is on the table, if appropriate.

EXECUTIVE OFFICER CLIFF: That's right.

BOARD MEMBER RECHTSCHAFFEN: By the way, I just have a -- and this is -- this is a less friendly question, I guess. I don't want to do cross-examination, but where -- if we repeatedly say we don't think all 118 million allowances are going to be use. That's a very, very conservative number, why exactly did we pick that number? And understanding now that we're going to be going back and looking very carefully, require a report back after -- if we exceed 25 million in the first compliance period. So could you just remind me where that number came from and what was the magic in that?

EXECUTIVE OFFICER CLIFF: Yeah. Essentially as folks have noted, we reduced the cap by 118 million allowances. And in thinking through the Program and how to -- how to sort of supercharge and expand this MDI Program, the same number of allowances is used to put into the MDI bucket with the understanding that those may come in over the time period through 2035, but are not guaranteed to come in.

The per -- the per year per compliance period numbers that you've heard are just based on our understanding of looking at the potentially eligible entities that the facilities that could be eligible for this, if they were each to essentially maximize the request for allowances, that would be the total that we expect that could come in over that time period.

BOARD MEMBER RECHTSCHAFFEN: Okay. That makes sense. So that confirms what I thought. It wasn't bottoms up analysis of what we thought the potential emission reductions would be from different technologies. It was more that we were -- that was the number that was being take out of the cap.

EXECUTIVE OFFICER CLIFF: That's right.

BOARD MEMBER RECHTSCHAFFEN: Thank you. Thank you. That's -- those are all my comments, Chair Sanchez.

CHAIR SANCHEZ: Thank you, Board Member Rechtschaffen.

Senator Stern.

BOARD MEMBER RECHTSCHAFFEN: Oh, Chair Sanchez.

CHAIR SANCHEZ: Yes.

BOARD MEMBER RECHTSCHAFFEN: I'll defer to you on the appropriate time and process for consideration of that change to the resolution language that I mentioned.

CHAIR SANCHEZ: Yes. Thank you. I have a running list of a few things to reflect in the resolution. So will we come back to that and summarize once we've heard from all of the Board members.

Senator Stern.

SENATOR STERN: Thank you, Madam Chair. I started out skeptically about this MDI tool. I think a number of my colleagues did, a couple dozen of them who all weighed in with you guys. But I -- you know over time here I've seen this conversation evolve to a point where I feel like there's actually a lot of hope, and excitement, and interest that -- about this mechanism, that this is a potentially very productive tool to ensure that we don't just have taxpayer dollars funding pollution reduction in our most polluted communities, but at a -- at its most wonky manifestation that this is actually polluters pay in full effect. If we do this right, it will be the compliance entities investing in these decarbonization projects not the Legislature or those communities paying with their lungs and their lives.

So I actually think this has serious potential to be a core accountability tool for our justice community looking for not just GGRF to take care of their problems, but for the polluting entities themselves to pay for them. And I frankly don't think we're going to be able to hit both our targets and the sort of broader transitions that we want to see unless we bring serious private capital to the table.

My concern about sort of how we pace all this. And if you were to say, well, let's make sure this MDI will work before we adopt it, let's find out what the interest would actually be from the regulated entities and actually making these investments. The whole point of this is to get them to the able and to see what kinds of projects or project types could actually be delivered in the near term.

I'd actually like -- I mean, I think it would be a good outcome, if this was a fully subscribed program, if many, many millions of the MDI allowances were being issued, because that means that those private sector investments are being made in pollution reduction. So I worry about delaying the mechanism, but I do think the Chair brings up a really smart version of that sort of deliberate approach where we sort of look before we leap to have that workshop actually then come back through a report to the Board to take further action. I don't this resolution is necessarily going to do enough.

And to Mayor Silva's point, which Dr. Rechtschaffen, you know, did a good job of sort of putting a finer point on at the bottom of page 16 that -- the returning the value provision, those teeth, I think that enforceability will be really important. And one thing I was wondering is if, as you're sort of working on how to modify the resolution based on your, what I think is a very helpful suggestion, Madam Chair -- right now, that final clause suggests that -- that that sort of -- that -- those teeth about how they have to return the value and sort of how the clawback works would have to be prepared by July 1st of 2028 to have that sort of evaluation done.

I'm wondering if that evaluation can be conducted in some way, shape or form through those workshops, and if that enforcement tool, if you will, or that clawback mechanism, however we want to sort of call that, can be integrated into the report back to this Board. So that was the first question just for you or staff to ponder.

Any initial feedback on that? Is that kind of -- when you -- when you all contemplate what could be in this workshop and what could sort of be brought back to the Board, are those teeth, you know, the entity that says they're going to do a bunch, then doesn't deliver, communities left behind. They have the allowances that we know we can get those allowances back and retired, if there's sort of bad faith.

CHAIR SANCHEZ: Yeah. Thank you, Senator Stern. And I know a number of your colleagues in the Senate raised this as well. So I think directing staff to include that as a part of the public workshop that this resolution directs is great. So thank you for the suggestion.

SENATOR STERN: Okay. Okay. Great.

One other one, just building on Supervisor Hopkins' excellent points and her unique purview into the air quality challenges we're facing. I appreciate she was looking for sort of a -- you know, a more prescriptive kind ranking or RFP system, but, you know, barring that kind of evaluation model for projects, or project types, or -- you know, depending on how that's going to work, I do think that just basically having air quality reporting be part of this, and to understand not just the GHG emissions reductions that are projected from these projects, but to require as a part of the project application the co-benefits that are anticipated and to make that a really concrete part of what the project's expectations are would be helpful, so we can quantify not only then for, you know, this -- our climate change purposes, but also from a Clean Air Act perspective and from an AB 16 -- 617 perspective, you know, what are those sort of -- the PM2.5, NOx, the SOx, all those sort of co-benefits. So is that something that could potentially fit within our framework as well is more concrete air quality benefit data for those environmental justice communities?

EXECUTIVE OFFICER CLIFF: Thank you, Senator. So we do have a -- what's called the CTR, the Criteria and Toxics Reporting requirement that was directed under statute a few years ago. So that information is actually reported to us and the air districts, and so we could incorporate information from the CTR into the evaluation and reporting here.

SENATOR STERN: Got it. So you all could do that, and, in theory, the project applicant themselves could, you know, given that they're already subject to those reporting rules, could put some kind of projection of air quality co-benefits of their project, say -- you know, I'm thinking of, you know, you've got a natural gas boiler at your food processor and you want to electrify that heat source, you can come up with a NOx estimate of what swapping that boiler out would be.

So maybe -- am I being -- and maybe I'm being too simplistic about it. But in theory the applicant could also be required to submit that data. So in other words not just after the fact CTR stuff, but up-front estimates, so that the communities would have a better sense of what they could see from a clean air Perspective as well.

EXECUTIVE OFFICER CLIFF: Thank you for that. The regulation doesn't currently have a requirement for such a thing. We could, you know, certainly evaluate that, and as part of the bring back that we've been discussing make that part of the -- part of the consideration.

In terms of the estimates you're talking about, changes in fuel use, would -- you know, would already, you know, require them to do that sort of thing. So I don't think it's out of the realm to do the analysis. I believe also to the extent that they would do any project under

CEQA, they would already have to be doing that and, you know, to the extent that they would have to be modifying any permit or anything like that, they would already be doing that analysis. So the regulation doesn't already require it, but other require -- other State requirements would have them do that analysis.

SENATOR STERN: Yeah, and thanks for making that point. That was actually going to be my third question, which is I don't see anything in here that bypasses either Title 5 or CEQA. So in theory -- and/or local permitting. So in theory all these projects, you know, some major industrial project that's going to trigger that threshold are going to have go through those permitting processes as well.

EXECUTIVE OFFICER CLIFF: That's correct, yes.

SENATOR STERN: So I think that will be -- that will be hopefully some assurance also to those who have questions about this that this isn't sort of just the be all, end all sign off should the Board adopt this mechanism today, but that there are numerous other stage gates. And, in fact, I mean, from my perspective, we want -- we want these projects to happen. I think this whole bored and the whole Legislature should be rooting and trying to do what we can to bring private capital again to the table to undertake these projects.

So I'm really hoping what comes out of this meeting today and of the vote today is a -- is a real invitation and something that is going to bring industry closer to the table, so that those workshops can be meaningful. So that's my sort of -- I do -- I am concerned about sort of rescinding that invitation until we've done a bunch more analysis. I think we've got to -- we've got to do what we can to get industry to actually come forward with some proposals and make that workshop as robust and sort of, you know, enough meat on the bone there as possible.

The last point I just wanted to make or question I guess that I had, going back to Dr. Pacheco-Werner's line of questioning about sort of squaring the initial LAO estimates with what the actual reality of this MDI program would be in the near term, again with the caveat no one knows exactly what allowance revenues would be and we don't exactly how it all fit together. But, you know, we're doing this sort of broad ballparking exercise where we've got the $30 a ton as this sort of just baseline, you know, factor as a multiplier here to figure out what we might get here.

Can we go back through that and just verify. I'm wrestling with that two billion projected loss from GGRF with what I just heard today from staff, which is that it would -- it would not be the full -- the full 118 could not be pulled down pre-2030. And then, in fact, under this compliance period, the maximum would be 30 million metric tons? Did I -- I'm not sure -- over a -- over a two-year period, and that -- so in that case, if you're assuming a $30 a ton price on carbon, that the most you'd be losing overall is somewhere south of a billion, not two billion. So you'd be more in like the -- say it was full, full subscription. You're -- my rough back-of-the-envelope was it's more like a $750 million loss as opposed to the full two billion. I know you don't want to get ahead and do the speculation, but can you give us those -- using your sort of 30-day a ton, you know, rough hypothetical, can you -- can you square that with what you all have articulated about a much more limited use of the MDI in the near term, and how that -- what the sort of -- what the -- at $30 a ton, what that value would be?

DEPUTY EXECUTIVE OFFICER SAHOTA: Senator Stern, this is Rajinder. I think that there is this notion that somehow the MDI will result in less auction participation or reduced prices at auction. The MDI has no bearing on how many allowances go to auction. And so I think that there's been some simplistic examination saying that if we give out one MDI allowance, then that's one less bought at auction. And I don't think that premise is correct.

And so what we want to do, and I think our Board Member Pacheco-Werner was asking for, is go back through the LAO report the way that we've structured the Program and then go through, line up the assumptions, line up where they have the dollar values and where we think that there are some places where we don't believe that the LAO is reflecting accurately how the MDI program is designed.

And so it's hard to do that comparison, because what we're talking about is the size of the pie and how to divide up the pie. I think what they did was assume, okay, you divide up a pie a certain way, but for a year versus four years. I think the time frames are different. And I also think that there's this premise that for every allowance that's issued under MDI, there is one less bought at auction. And we don't believe that is accurate.

SENATOR STERN: Okay. So even if you don't have a sort of alternate take on, you know, it won't be a two billion, it will be -- fair to say that you believe it will be a far, far smaller impact on auction revenue than what LAO is projecting?

DEPUTY EXECUTIVE OFFICER SAHOTA: So if go with the -- if we go with what -- how we see this Program, which is the MDI would add to the number of allowances in the Program and it's maximum is 118 through 2035. And what we believe would be is up to 25 to 30 maximum if a hundred facilities applied for it and were successful in any compliance period, it's going to take into 2035 to exhaust that 118.

So what we have is historical data that showed that when Ontario's program linked with us and then de-linked with us several months later, I believe, that Program was moving in and out of our Program about 150 million allowances. The market moved $0.50 per allowance.

SENATOR STERN: Right. Maybe what I'll do on my end based on this -- and I think LAO may have been operating from some mistaken assumptions and analyses that doesn't -- didn't sort of take into account what you just said, we might -- my office, and maybe some others, will request that LAO concurrently revise their analysis. And if we can sort start to square that, I think it will help, because I do think there's some conflation that this is sort of operating like a free allowance, and that it will have a diluted effect in that regard.

There's also the integrity question, which I think is a slightly different one. But from a revenue and price perspective, I do think LAO should redo their work. And hopefully you all can, even before the workshop, help us get that clarification, just so in the Legislature here we're working with more accurate information.

So I would just ask that of all going forward. And that's all I got for now, so thank you.

EXECUTIVE OFFICER CLIFF: Thank you, Senator. We'd be happy to work with LAO on that.

SENATOR STERN: Thanks.

CHAIR SANCHEZ: Thank you, Senator. Okay. We approaching the time to need to give the court reporter another break, so I want to make sure that I capture feedback on the MDI piece of our discussion on my proposal to essentially pause and bring this back to the Board, so that over the break we can ask the legal team to work on some resolution language that the Board could --

BOARD MEMBER LIMÓN: Madam Chair, if you could -- I also have some comments on the resolution.

CHAIR SANCHEZ: Yes. No, I -- well, and so does Board Member Santiago, so don't worry. So -- but I will ask that we work on some language for the Board to review, so that when we come back from the break, we will have that. And Board Member Takvorian, I have not forgotten your motion as well. So those are all the things that I am tracking, alongside different resolution issues that have been raised by Board members and suggestions.

Board Member Santiago and the Board Member Limón.

BOARD MEMBER SANTIAGO: Mine might be a little bit lengthy. So if you're looking for immediate relief for the court reporter, I probably would suggest you do that first.

CHAIR SANCHEZ: Not immediate relief. I think we -- in about five or ten minutes. Yeah. So, please.

BOARD MEMBER SANTIAGO: Thank you.

Just looking at the resolution before us, this is one of those times where, you know, I remember you've got to walk gum[SIC] and chew at the same time, but now we're saying you've got walk gum[SIC], chew at the same time and dribble a ball, and then some.

And I guess I'm looking for a -- maybe a response from staff in term of the tools before, should this not be, as I mentioned earlier, concrete or it's not doing what it's supposed to be doing. And, you know, to quote somebody who spoke a little bit earlier, I think it may have been to good Senator, you know, not only -- I guess I'm looking not just for teeth, but bigger and sharper teeth, in terms of making sure that this program does what it's supposed to do.

And I think sometimes in my mind I struggle, well, the entire Cap-and-Trade Program from the very beginning had very clear climate goals by 2030, 2045. I recognize we saw some slides yesterday. But when you take a look at this, like how does this -- maybe this is not the moment for, but we've got to address like how does this fit into the bigger picture of then reducing -- I'll sorry meeting those climate goals. I think that really is kind of the central question here, right, meeting those climate goals by 2030 and 2045.

And there's a lot of different things that are said out there and I don't want to go, you know, go back through every single comment that has been made, in terms of putting teeth on there. Some of me hesitates to say, hey, define immediate teeth today because then you create a program that doesn't work, best on the base think -- based on the best thinking and intentions of those suggestions. But at the same time, I don't want to -- I don't want to walk away from here not creating those bigger and stronger teeth, guardrails and very concrete plans, so that if this doesn't work, where are the off-ramps.

And I recognize that you have said, hey, we're going to take a look at some of these -- some of these metrics in 2028. But during the submission of plans, is there things that you can do to ensure that beyond what you've done -- because I'll recognize that you've done some work there, but beyond what you've done to make it a little bit more ironclad. Like okay, we're expecting these reduction in emissions. We're expecting the MDI to do this. What else could we do before any of these plans are launched, because there's kind of the question before. What can you do before it's launched? What can you do, you know, during the time that you're in the -- in the air so to speak? What are the things that you can do after it's launched? And I guess what I'm asking is like what can you stretch your ability to create accountability, using the tools that we have -- that we have. What can you stretch a little bit further the limits to make sure that just looking at the resolution before, not proposals or anything, that we can do to create the kind of certainty in the Program, based on the goals of the Program.

I know I've said a lot, right?

I mean, I could go back and take a look at -- and I did, right? All the different things that are said on there, I could put more teeth in there. But if we were asked to take a look at it again, right now, before launch to ensure its concrete, that there's bigger and strong teeth to it, that there's an off-ramp if it's not going to go the way we think it should go or result in the outcomes that we want. What can be done?

EXECUTIVE OFFICER CLIFF: Thank you for that. Let me start and then we did put a slide, so it my helpful to kind of walk through how this works together with this -- the statewide target in 2030 with -- so with regard to your question about the teeth, there are -- there are very significant guardrails already included in the regulation. Rajinder walked through that earlier. And that includes the return of allowances. And I know that maybe doesn't sound like a lot of teeth, but that's a lot of teeth, because effectively what it says is you have to return the equivalent amount that you got, if you don't meet the requirements that are already in the regulation.

Now, what we've heard is some suggestions about some additional things that could be considered as part of, you know, a future consideration. That would be like, you know, making sure that project types or, you know, whatever have this need for the additional -- or have a need for this particular investment, or to have an estimate of the potential criteria benefits, or to ensure that those benefits are maximized in certain regions or certain areas of the state.

So that's not part of the current package. But the part of the current package that is there, because it is tied to the industrial allocation methodology is if these allowances -- and to the extent that they're not used for the specified purpose, you have an application process that's very clear in the regulation, the evaluation of that does not give -- there's no ambiguity or a lot of discretion. That is absolutely here is how these will be evaluated. And then if they're not utilized in the way that your application and the regulation specify, you have to return those allowances.

So there's provisions in the regulation that require third party verification of emissions, as well as the other parts of the data that you have to include, including your product output. So it's essentially looking on a product basis have you actually improved the efficiency, the carbon efficiency of that production? And so the regulation already has really significant guardrails with regard to returning the allowances, if the conditions in the regulation are not met.

To the extent, as I say, that there are additional conditions upon which they should apply to this mechanism, you know, that could be part of a future rulemaking and as part of, you know, what I understand the Chair's suggestion is, is require us to go back and kind of think about what those would be, do some public process, and bring that back to the Board for amendments as appropriate.

BOARD MEMBER SANTIAGO: Okay. Would that be considered an off-ramps or what kind of off-ramps can be put in place should it not result in the outcomes that we expect?

DEPUTY EXECUTIVE OFFICER SAHOTA: So, Board

Member Santiago, this is Rajinder here. And I'm going to look to our counsel to talk about discretion and off-ramps, because that -- those have to be built in to a regulation with a high degree of specificity to be appropriate with the Administrative Procedures Act.

But embedded in this package, it's not just the MDI in terms of hitting our targets. We are proposing to remove 118 million allowances between now and 2030. And then over a billion between now and 2045. That cap decline, which is that green line, of 11 percent, that is the most stringent cap decline in an ETS system that is being proposed.

The EU ETS is set at about 4.4 percent from 2028 thereafter, and it's currently at about a 4.3 percent. And just at that level, they are giving almost 84 percent of the allowances to their industry and they are also giving an additional four billion in Euros to support their industry.

So I think what's getting lost here with the conversation and really important questions on the MDI is that as part of this package, there is a huge cap change that's happening to keep us on track towards our target.

The other piece is that if you see the yellow line on there, those are the emissions that are cover by this program. This program isn't the only thing that is necessary to reduce emissions in the sectors under the Program. We have regulations and statutes on electricity targets, biomethane, et cetera, but there are also emissions that sit out of -- out of this Program that have to also be reduced with other policies.

And so if we're talking about hitting our targets, it's a combination of programs and policies that have to work together. When we look at that yellow line, which is what this Program covers, what you see is that the covered emissions in this program are already below the 2030 target. And based on some of our projected modeling from the 2022 Scoping Plan, if we continue to decrease at just four percent year over year through the rest of this decade, we're going to hit our targets.

And so the Chair was asked at the Senate hearing are we on track? And, yes, the data shows we are on track. What we're really doing is trying to move up and bring forward more emission reductions in the industrial sector and have -- and reduce the uncertainty of hitting those, because we have challenges to our vehicle programs.

CHAIR SANCHEZ: Thank you, Board Members Santiago.

Board Member Limón and then we will again break for the court reporter and reconvene.

BOARD MEMBER LIMÓN: Thank you. I also had that misunderstanding. I thought we were breaking at that point. Okay. Yeah. So I also very much appreciate that we need to decarbonize the toughest industries and am grateful for the various views and creative work that has done into tackling this question, you know, through this experiment. And I appreciate that description of it, because that's really what it is here.

And I also really appreciate the suggestion from Chair Sanchez of a process like what is the process for design purposes of this experiment. And I -- you know, I think that a robust design of a program of this kind can create a successful pathway forward. But currently as we stand, we're moving from something that is known, and proven, and familiar to something where there is a promise, you know, and we haven't discussed or seen underlying data to substantiate and give informed -- what that promise is.

And so, you know, I think that's just like a reflection of the complexity and there's still major gaps, you know, and it's still tangled up and unclear for me. So -- and so the questions of like the resolution I thought it was really helpful to go through it, you know, like how to make it more aligned with the Scoping Plan, what are the qualifying projects, what are the cap limits, you know, or the limits to MDI allowances over time, you know, if and how the allowances can be sold, if they're sold, and we try to clawback what's the value that's being returned to CARB.

This question on sunset, you know, the business community, at least the few comments that were fully supportive of it, nevertheless they expressed a lot of concern about certainty. And these large-scale projects require going beyond 2030, right? So they require -- the certainty is like for this Program to continue and grow, and not have that off-ramp.

But even then like the design features I think would provide more certainty to industry. And, you know, maybe those design features impact. Also, like the cap decline projections, right, they -- and so, you know, the MDI allowances, as I understand it so far, is that there's a different transaction formula. Like CARB would be providing value for the investment rather than in the -- we're not rewarding emissions reductions, we're rewarding a value of investment.

And again, if they're traded or sold, there's a secondary market that's created, like how do we clawback those dollars? So -- and Board Member Santiago, I really appreciated your description of things. And I'm going to refer back to, you know, one thing you said is you pointed out sort of the precarious nature of like building a plane while you're in it -- while you're flying in it. And nobody wants to do that. Like we -- you know, he said we need a runway, but I don't think any of us would want to be even on a runway, you know, as we're still building the experiment, especially one without an off-ramp.

And so I feel like we're discussing these guardrails in a way that we're moving past the fundamental framework design. And like the questions, you know, even what does it mean to have an MDI Program outside of the cap, right? So the guardrails that I primarily have seen are about transparency and providing for a subsequent process to review, but that's -- there's sort of a premise that we've settled on the merits of the framework as it is now. And I feel like we haven't had the opportunity to properly do that.

And that goes to these like fundamental questions of what does the current design mean to the statutory duties of emissions reductions and affordability benefits? And even what does it mean for the entire infrastructure of Cap-and-Invest over time? Like what's the relationship between these two?

And so I feel uncomfortable. It doesn't feel like sound decision-making on an experiment that's so uncertain and possibly has profound impacts. It could be either completely successful or not, but we don't know that yet. It depends on the design. And so, you know, a lot of the questions that we're raised, you know, go to the design.

And as I understand it now, the current MDI framework that's outside of Cap-and-Invest is of a different kind, right? It's like it's never been done before. It's not a difference of degree. It's a different kind. And it could be a competing policy mechanism, if it's successful, which we would want it to be successful, you know. And so I also have questions about the relationship to the Cap-and-Invest infrastructure.

And it seems like this is a clean and investment subsidy program. It's not price driven. It's not a carbon market instrument that, you know, seems to compete with the Cap-and-Invest design, which is like the price signal and revenue generator, right? So it's just a separate instrument that we all have -- I've heard so many questions about and it feels like there may be attention. And so I feel like we do need, you know, like a runway or a different space to explore the experiment and not just for the like process and transparency, but really like the fundamental design of it.

And, you know, CARB is a global leader in bold, innovative climate policy. So I appreciate the innovation you know that we're exploring here. And we're setting standards that can be studied and replicated and modeled, you know, around the world. And again, as it stands now, without a more robust design and safeguards, it feels like it's a pretty stark departure from that legacy.

So, you know, I have this question of like what is that dedicated space to allow us to have a more rigorous process and understand like the design, in addition to other safeguards and transparency. And so I heard, you know, an amended -- adopting the amended regulation without the MDI, you know, is one way. I think that's, you know, the cleanest sort of purest way. Perhaps another sort of spacer or one way is, you know, adopting it with a January MDI proposal. That's still within the Cap-and-Invest infrastructure that, you know, isn't of a -- it's of a different kind, but it has -- it's within the existing, you know, program.

And, you know, the process that was outlined of like we're going to go through questions based on topics, you know, initially we limited our questions to the pie charts and reserved other questions. And so I do have questions as to like the timeframe and process, so some of those, like the September 1st deadline, you know, 45 days versus 15 days. And then also questions as to again like just the fundamental design of this framework, because, you know, I still have questions about what does it mean for GGRF impacts, what does it mean for the cap decline?

You know, on the cap decline, again because these allowances are not provided for reduced emissions before investment dollars, it -- I think it dilutes like the realized decline over the period. So like that 11 percent -- you know, I think there's a question of like the integrity. And so I think it's no longer a meaningful measure of the emission reductions and sort of as I'm struggling as I'm listening to answers, it feels a bit circular, in that we're saying well, we are declining, because we're retiring 118 million but then we're creating a new pot of the same 118 million. And again, there are these questions of what it means.

So I would appreciate just in terms of process before we even get to talking about like what is the correct base for design purposes is just to ask these questions based on what we have now, you know, up to the cap decline and impacts to revenue.

EXECUTIVE OFFICER CLIFF: Thank you, Board Member Limón. So with regard to -- there's sort of a lot there. I can -- I can answer process questions, if you have those. I can also answer -- try and answer the question regarding the integrity of the program.

As Ms. Sahota said that there's -- these allowances would not come in before 2030 -- not all of them would come in before 2030. The anticipation is that the -- this program would be able to fund applications through the time period that those are eligible, which is through 2035.

And then the -- there's a spending deadline that's kind of built into the regulation. So projects have to be sort of expeditiously undertaken and get through a process. But at the same time, those allowances we would not anticipate based on everything that we understand today that it could possibly -- they could possibly all come in by 2030. There's just not enough eligible facilities for that to be the case.

So the reduction in allowances of 118.3 million for 2030 at a -- at a time when, as you see that yellow line, the covered facilities are already trending down at about four percent per year. They are already at the statewide target today and continuing to trend down. And even if more allowances did come in, that won't mean more emissions. In fact, these allocations for the MDI would be paired with emission reductions, because they're investing in project types that would guarantee that emissions are reduced. So we would expect that that line is going to continue to come down.

Now, that's only 80 percent of the inventory.

It's not all of the inventory, and a that's why there's the kind of difference between the yellow line and the black line. But it's still a very significant trend, and expectation that we would continue to see reductions. And as funded through these investments, they would necessarily get emission reductions that would continue that trend down.

DEPUTY EXECUTIVE OFFICER SAHOTA: And I just want to add that the kinds of projects that were identified from the 2022 Scoping Plan that this would fund are the projects that need to scale and be deployed to put us on track for the 2045 target. So the Program is not just meant to be about 2030, it also is meant to be about getting scaling and deployment of clean technology and fuels to put us on track for 2045. And they are high capital investments that, you know, were -- most of them were depending on federal incentives, federal grants to actually happen, but that has been -- that landscape has changed.

And so that is where we've try to look at, well, what else can we do within our own Program to get at the industrial sector. And like I said, especially at a time when it is 22 percent of the overall inventory and we know that 40 percent is our vehicle on-road/off-road emissions. And those are going to be challenging or delayed in the next couple of years. So the next sector that we looked at was the industrial sector. So how do we buy ourselves a bit of an insurance policy that we're going to continue to stay on target to hit 2030 and deploy that technology? It's to figure out how to do something for the industrial sector, but also not take it away from GGRF or allowances that go to State auction.

BOARD MEMBER LIMÓN: Thank you. I appreciate that. And that's why I said that I think that this could be, you know, a promising mechanism, you know, still questions about its overall long-term relationship to Cap-and-Invest. But I think that maintaining the integrity of that decline is dependent on the design features, right, on the restrictions. So, for example, if those allowances can be sold, right? So there's an investment for a particular technology to reduce emissions, but those allowances can be banked or sold, so then they're sold to, you know, a third party. That increases their emissions or now they're buying from GGRF.

You know, so it just depends. So, also if these are -- we're not including the same sort of guardrails -- or I would not even say guardrails, like real requirements in the offset programs of permanence and additionality, you know, and durability. So again, I think that if the integrity, you know, and not destabilizing the decline depends on those restrictions.

And I feel like as the Board in order to understand the relationship to the decline and funding, and the relationship over time, we need to discuss the design features and not reserve those until a later time, because as you indicated, there's no off-ramp. That would need to be included now. Yeah, and we're not having that scope of discussion at the moment.

CHAIR SANCHEZ: Yeah. Thank you. Oh. Thank you, Board Member Limón. I think many of the -- many of the issues you've raised and concerns were things that I raised in my opening comments. And we came back here and said that, you know, we need staff to do a little bit more work on this, the public workshop, the public engagement, more data and analysis, and bring a proposal back to the Board. And that was my suggestion when we started this afternoon. I understand that there is at least one Board member who would like this piece of the regulation removed entirely.

And I think that, you know, the -- essentially recommendation I am making is we move forward, because of all of the reasons we've outlined with the proposal in front of the Board and we put a pause on the MDI and essentially ask the staff to come back to us for further deliberations. And I think we are -- again, I'm -- I don't want to cut this off. We -- and I'm going to come back to you. We do have to take a break for the court reporter and we're about 20 minutes over time, but I think as we look at language to add to the resolution that would inform that additional staff work in coming back to the Board, we will try to capture a lot of the issues that have been raised, and specific direction on design features, on project application criteria, on co-pollutant benefits, on workforce transition, so we can try to capture that over the break as well.

BOARD MEMBER LIMÓN: Can I?

CHAIR SANCHEZ: Yes, please.

BOARD MEMBER LIMÓN: Okay. Yeah, I think that it's difficult -- are we going to discuss the actual design features, like -- or are you talking about a process during which we would discuss the design features?

CHAIR SANCHEZ: I think the process would be us giving direction to staff to go do additional analysis on things like design features and propose amendments to the Board after the workshop and with additional data.

BOARD MEMBER LIMÓN: Okay. Yeah. Thank you for that clarification. Yeah, the additional question we can take this up when we return is on the impacts to GGRF. You know, I did find a market, ClearBlue Markets, which is a company that helps with compliance in voluntary carbon markets to achieve decarbonization goals. They -- their analysis is that the changes, the current MDI, would create a bearish market compared to the January ISOR. You know, that's how they indicated the changes will have an impact on the long-term supply and demand outlook for the program. And, you know, it is bearish compared to the original ISOR. And that their views will be reflected in the market. So, yeah, I'd like clarification again on, you know, how we meet that statutory duty.

CHAIR SANCHEZ: Great. And thank you. And I'm not familiar with that analysis, but I assume our staff will and can speak to that. And I apologize, we have a great momentum going. I really appreciate all of the thoughtful engagement, but we do need to pause, Jim. I apologize for the delay. BARCU team 10 minutes, 15 minutes what is -- 15 minutes.

Okay. So we will return in 15 minutes sharp. I'm going to ask the legal team and staff to work on some language that the Board can review that reflects a lot of the discussion which we will continue in 15 minutes.

Thank you.

(Off record: 2:23 p.m.)

(Thereupon a recess was taken.)

(On record: 2:51 p.m.)

CHAIR SANCHEZ: Good afternoon. Welcome back.

We -- okay. My understanding is we have a version of the resolution, be it further resolved, that has been amended with my proposal. And the BARCU team -- yes. Thank you -- with the lawyers. The BARCU team is going to project that behind us on to the screens. We'll give Board members a chance to review this. Essentially, as I described, instead of having a trigger after 25 million MDI allowances are awarded, after which the Executive Officer would report to the Board and propose, as appropriate, future amendments.

Instead of doing that, acknowledging the concerns that we have heard from the public, from a wide variety of stakeholders, and from members of the Board, this would direct the Executive Officer to report to us and propose amendments prior to the issuance of any allowances. So before any applications are awarded, before any allowances come back into the market, the staff would go do the analysis on potential impacts on GGRF an allowance demand on this issue of flooding the market and cap integrity on a variety of other guardrails that different members of the Board have raised, that different allocation buckets within sectors.

We -- so let me just pause here and give people a moment to reflect there's a change in the resolution.

I'm going to also direct attention, Board Member

Rechtschaffen suggested striking "types" as a part of the clause around financial incentives. So that change has been reflected here.

Staff, there was a question about sector-specific allocations that Board Member Eisenhut raised. And also, I heard a lot of discussion on the prioritization of projects that deliver co-benefits, chiefly air pollution reductions, but also the nod to workforce transition and other societal benefits. So can we -- Rajinder, could I ask you to direct staff -- direct the Board to where those parts are as well?

DEPUTY EXECUTIVE OFFICER SAHOTA: So, I see the edit made for Board Member Cliff Rechtschaffen's piece. And then on page 17, there is a requirement to look at just the overall design of the program and proposed changes. We had in their prioritization of criteria pollutants, but understanding that workforce development and other pieces might be important as well, we added that into that part of the resolution. I think the flexibility of looking at all the different types of benefits is really helpful, because in the GGRF Program, it took years to figure out how to quantify and how to capture those additional benefits and be able to report on those.

CHAIR SANCHEZ: Thank you for the clarification, Rajinder. If we can go back up to the proposal in front of the Board that I made a fewer hours ago on page 16. This would importantly allow the Board to vote on the amendments that are before us, while also -- I'm going to frame it as putting -- pushing pause on the MDI, acknowledging that more analysis, more data, more public engagement, the public workshop that we've directed, the inclusion of the data points from the leakage study, as raised by the Councilmember, all of those would feed into the analysis that is then reported back to us, as a Board and any changes and amendments that are needed.

Councilman, I see you on the mic. Please.

BOARD MEMBER GUERRA: Yes. I wanted to ask a process question here, because I know we're still finishing up on MDI here, but then I wanted to figure out if we were going to go further back to the full resolution itself. So I'm not sure what -- if that is the case.

CHAIR SANCHEZ: Yes.

BOARD MEMBER GUERRA: And if that is the case, I just have one question on MDI to ask.

CHAIR SANCHEZ: Please.

BOARD MEMBER GUERRA: So this relates to, you know, a question that -- and I apologize, this should have been at the very beginning when you asked about questions about testimony that was brought forward in the beginning. And I -- if I recall yesterday. Now, it's getting kind of long and fuzzy, but there was a concern about entities that would look at renewable natural gas getting access to the MDI from out of state, but yet a situation and scenario where maybe that natural gas would never even make it into the State. And so, you know, is -- and again, my notes are now fuzzy to begin with, but how does that make sense, if that's the case? So I'm just trying to go through back -- back through all those -- all the points here. So question to that point.

EXECUTIVE OFFICER CLIFF: Thank you, Councilmember. I think that's addressed on page 16. If this hasn't changed, it's the third from the bottom.

BOARD MEMBER GUERRA: I'm here on page 16.

EXECUTIVE OFFICER CLIFF: It's right there. It's the second one from the bottom. The one above where we've edited project types. It directs us to evaluate the climate targets under SB 1383 and how this would fit in and provide support sufficient to continue to reduce emissions under SB 1383.

BOARD MEMBER GUERRA: Very good. Okay. Thank you. That will be -- that concurs -- that concludes on MDI, so...

CHAIR SANCHEZ: Thank you. Any other questions on MDI or feedback on the specific language on the screen, which tried to capture my proposal?

Yes Board Member Takvorian. I acknowledge that you would still like to make your motion. I have not lost track of that on removing the MDI entirely.

BOARD MEMBER TAKVORIAN: Okay. Yeah. No, that's not what I was speaking to. I just wanted to get clear on the timeline here for the change that's at the top of the page. So if the Board directs this report to come back by July of 2028, the applications would still go out in July of 2027, is that correct? That was the original date, but when the applications would be released, the opportunity to apply?

EXECUTIVE OFFICER CLIFF: Sorry. Yeah, that's correct. The -- I think our attempt here was to minimize the amount of edits to the language. So prior to the issuance is the operative, which would be before the summer of 2027.

BOARD MEMBER TAKVORIAN: But I thought there was an application period that would --

EXECUTIVE OFFICER CLIFF: Right, in July of 2027, that's right.

BOARD MEMBER TAKVORIAN: Right. And then there was a period where you would evaluate those applications.

EXECUTIVE OFFICER CLIFF: And then it would go during the normal allocation time period, which is that fall.

BOARD MEMBER TAKVORIAN: So during that period when -- during which you would have, prior to this amendment, issued the allowances. Didn't you think that you would be doing those in early 2028?

When were you going to -- Rajinder, you took us through the whole timeline. Weren't you going to issue the allowances in early 2028 after approval of the applications that came in in 2027?

EXECUTIVE OFFICER CLIFF: The allocation would -- for MDI allowances would be with the normal allocation period in the fall of 2027 for applications put in in 2027.

BOARD MEMBER TAKVORIAN: Okay. So those would not happen now.

CHAIR SANCHEZ: Correct. Until --

EXECUTIVE OFFICER CLIFF: Correct.

CHAIR SANCHEZ: Until the report is brought back to the Board and any changes that need to be made are brought to the Board. That was goal of this.

BOARD MEMBER TAKVORIAN: Right.

CHAIR SANCHEZ: Yes.

BOARD MEMBER TAKVORIAN: I'm just trying to clear on what that is. So you would delay that. You would do the application period per the original timeline.

CHAIR SANCHEZ: I'll -- my goal would be that this comes back to the Board and we are able to evaluate it in time to give certainty to the regulated entities that are going to submit those applications on July of 2027, otherwise they don't know what applications -- what the criteria are for those application. We're putting -- we're putting a pause on the program. If it's the date that is in that paragraph that is driving some of the confusion Board Member Takvorian, we can strike that. The goal of this paragraph again was to put pause on the program, so that the staff could do some additional work.

BOARD MEMBER TAKVORIAN: So pause on the whole program. Pause on actually issuing the applications, the opportunity to apply?

CHAIR SANCHEZ: Yes.

BOARD MEMBER TAKVORIAN: Because it doesn't say that. So if that's what you mean, then I think it needs to say that. This is the issuance of the allowances, which --

CHAIR SANCHEZ: The approval of the applications, yes.

BOARD MEMBER TAKVORIAN: I think there's a difference, right? You approve the application and then you issue the allowances.

CHAIR SANCHEZ: What is the time frame for the approval and then the issuance?

DEPUTY EXECUTIVE OFFICER SAHOTA: So the proposed amendments in front of the Board today -- not in the resolution, but in the Regulation are that the applications -- the first applications would be due by July of 2027. And we would review and evaluate them. And the first time, if any applications are approved that we would give any allowances is fall of 2027. I -- we don't know if we're going to get any applications the first time or not. And I think the operative thing here is that we're coming back to the Board with any updates before we issue any allowances under MDI.

BOARD MEMBER TAKVORIAN: Okay. So my thought is that's way prior to July 1 of 2028, because --

CHAIR SANCHEZ: Yes.

BOARD MEMBER TAKVORIAN: Right?

CHAIR SANCHEZ: Yes. So I -- it --

BOARD MEMBER TAKVORIAN: You might want to just strike the date.

CHAIR SANCHEZ: Great. I support striking the date.

BOARD MEMBER TAKVORIAN: Great. Clarity (inaudible)--

CHAIR SANCHEZ: (Inaudible) Confusion

BOARD MEMBER TAKVORIAN: Okay.

Second question is, and then I think it's back to

Board Member Silva's question, what is the authority or what are the options in front of the Board to do with that data? Should it come back with additional concerns that folks may have around the Program, what are the amendments that could be made to the Program?

EXECUTIVE OFFICER CLIFF: Yeah. At this -- at this time, I don't know exactly how to answer that question, because, you know, we would need to go through a public process and get more information. But the point here is that to the extent that we are proposing amendments, then the Board, you know, could make changes based on those. So we're going to have to kind of figure out this process between now and then. I don't have all the answers to that.

The point is we want to give certainty to industries that would be applying by dates that are already in the regulation and be true to the direction from the Board. So we're going to have to accelerate a process to make sure that we can get through a, you know, Board discussion related to this, and, you know, any direction based on potential amendments. It's a little too speculative to know what those would be at this -- at this time.

BOARD MEMBER TAKVORIAN: Okay. So unclear, except I think I heard from counsel that the rule itself could not be amended. So the changes would be restricted to the framework of the -- not to put --

CHIEF COUNSEL DILLEY: The rule can be amended through a rulemaking process. Yeah.

BOARD MEMBER TAKVORIAN: But that's not what's in front of us in this proposal -- no, in this revision. Is that what you would imagine is that could kick off in a rulemaking process for amendments?

CHAIR SANCHEZ: I think part of the issue here, Board Member Takvorian, is we have Board members weighing in with very level -- very detailed level of guardrails based on concerns that have been raised and concerns that we have. And what fundamentally we need is a little bit more public process and public engagement and staff work, and analysis, and data to inform what those future amendments could be. There have been a number of issues that have been raised, some of which are addressed in the resolution, but frankly again additional staff work that we'll bring back to the Board for discussion, deliberation and direction.

BOARD MEMBER TAKVORIAN: Okay. Thank you. And last point. And wouldn't that -- would that also include other information, because if that -- if that work -- if those workshops don't happen until let's say this fall, then the Legislature would have been through their budget deliberations. There might be differences in terms of how GGRF is allocated. There may be -- there would be results from the next auctions that occur. So all of -- that would be a more comprehensive report --

CHAIR SANCHEZ: Yes, which --

BOARD MEMBER TAKVORIAN: -- that would occur.

CHAIR SANCHEZ: Yes, which I think is the -- certainly a benefit of going in this direction as opposed to the prior version of the resolution, yes.

BOARD MEMBER TAKVORIAN: Okay. Thank you.

CHAIR SANCHEZ: Additional data points that are critical for us to understand in our decision-making process.

Dr. Shaheen.

BOARD MEMBER SHAHEEN: Thank you, Chair. So I really appreciate you capturing, Rajinder, some of my earlier feedback. I've got a couple suggestions on the user-friendly dashboard, because I am one of the people who has to Google to find stuff on the website. So, I would just like to suggest that we add language -- so I'm working with two different copies of the resolution, so bear with me. The BIFR is the third down on page 16. I was wondering if we could add to that suggested language about, "Staff shall also maintain a publicly accessible and user-friendly reporting dashboard detailing applications received, allowances distribute, emission reductions achieve and geographic distribution to ensure program transparency and public confidence." I mean you could obviously truncate that. Is that too much, Shannon?

BOARD MEMBER SHAHEEN: Repeat. Did you guys get --

CHIEF COUNSEL DILLEY: Could you please repeat that?

BOARD MEMBER SHAHEEN: Yeah. So I'm at the BIFR on -- third down on page 16. And so that one is addressing the publicly available data. So what I was just suggesting was that we add some text around the user, publicly accessible and user-friendly report dashboard. "Staff shall maintain a public accessible and user-friendly reporting dashboard detailing applications received, allowances distributed, emission reductions achieved and geographic distribution to ensure Program transparency and public confidence." I can also provide that text to you via email, if that would be helpful. Okay.

DEPUTY EXECUTIVE OFFICER SAHOTA: Yeah, the only thing -- I think all -- I think almost all of that is picked up in some of the BIFRs here. I think the only thing we're missing is the geographic location on a public website.

BOARD MEMBER SHAHEEN: Okay.

DEPUTY EXECUTIVE OFFICER SAHOTA: So there's no issue with what you're suggesting in terms of implementation. It's just how do we drop it in here.

BOARD MEMBER SHAHEEN: Got it. Okay.

CHAIR SANCHEZ: Let's have staff give that some thought on how it's reflected and where it's reflected. Thank you, Dr. Shaheen, for this suggestion.

BOARD MEMBER SHAHEEN: I've got just one more.

CHAIR SANCHEZ: Please.

BOARD MEMBER SHAHEEN: Okay. So just one more. I've given a lot of thought to this, so the big reveal, just to be helpful. Again, I'm working with two different copies of the resolution, so bear with me. On top of page 18, first BIFR on -- this is the piece where I wanted to suggest some possible data points to assist us in the climate credit understanding of the implications for low-income households.

So suggestion here is, "Staff shall also annually report to the Board on impacts of the California Climate Credit payments for low-income California Alternate Rates for Energy..." -- so that's the CARE Program -- "...and Family Electric Rate Assistance, FERA, customers," which give us, you know, specific data points that already exist that we'd be monitoring.

DEPUTY EXECUTIVE OFFICER SAHOTA: So this is -- I want to read the version of the BIFR. I have to make sure we're on the same one.

BOARD MEMBER SHAHEEN: Go it.

DEPUTY EXECUTIVE OFFICER SAHOTA: "Be it further resolved, that the Board directs the Executive Officer to report to the Board annually on the use of value of allowances by utilities, in particular for low-income households, including any analyses in reports conducted by the CPUC on the Climate Credit by the investor-owned utilities." And so you would want specific language that speaks to those low-income programs.

BOARD MEMBER SHAHEEN: That we could use as actual data points for locking in where we would be getting those data points from.

DEPUTY EXECUTIVE OFFICER SAHOTA: They would be from the CPUC. So they carry all of those reports. And so, I feel like it's already included in some of the public information they require the utilities put out.

BOARD MEMBER SHAHEEN: Okay. So clarifying on CARE and FERA as our data points is not necessary.

DEPUTY EXECUTIVE OFFICER SAHOTA: Right. Right. Because we don't have the ability to track that level of what's happening with energy bills with customers. The CPUC regulates and collects data directly from the utilities on how that money and ratepayer benefits are accruing and who they're accruing to on their website. So as part of their reporting, we would just include that in anything we give back to the Board.

BOARD MEMBER SHAHEEN: You would grab that data and that --

DEPUTY EXECUTIVE OFFICER SAHOTA: That's right, because we don't have -- we don't have a reach into that data, like the PUC does.

BOARD MEMBER SHAHEEN: Okay. Thank you for that clarification. I just want to make sure that we've got actual data points that we can use for monitoring the impacts of the climate credit on those particular populations, so thank you.

CHAIR SANCHEZ: Really appreciate that suggestion, Dr. Shaheen. And I think as staff mentioned earlier, we do have the annual reporting broken down by IOU and POU, but that for the specific categories of CARE and FERA is very important, particularly given the Legislature's direction, emphasis on energy affordability and the direction around the low-income household protection. So thank you.

Dr. Stigler Granados, and then Supervisor Hopkins, and then over to Board Member Limón.

BOARD MEMBER STIGLER GRANADOS: Thank you. And this is just so I'm piecing all these pieces together trying to understand what we're proposing right now of this public workshop, and grateful for this idea of putting a pause on things to look. I kind of -- I have two parts. Well, one, I'll just ask the question first, could you just define for me what triggers a 45-day versus a 15-day time frame? Because it sounds like this wouldn't trigger those, but what would? Like if, just say for example, we decide -- we wanted to go back to the January proposal and process this MDI plan as more of a pilot with that original propose language, would that trigger a 45-day time, or would it just trigger a 15-day, or would it trigger anything?

CHIEF COUNSEL DILLEY: Yeah. This -- I can answer that. This is Shannon Dilley.

The thing that triggers the 45-day is CEQA. So because -- if you go back to -- if you go back to -- if you remove it altogether, the MDI, that was not analyzed in the CEQA analysis, so we would have to -- we would have to recirculate a whole new analysis.

If you were to go back to the January, then that would be a 15-day, but we'd still have to -- we'd still have to take additional look at all the environmental just to make sure, but...

CHAIR SANCHEZ: And process aside, I would just reiterate that the January proposal for the MDI was funded by the GGRF, borrowing from future GGRF allowances. So in -- the Board heard a lot about the importance of the allowances going to State auctions. So to go to the January proposal would, in fact, be a direct hit to GGRF, as opposed to the proposal that's in front of the Board that admittedly needs additional analysis what the interaction would be with GGRF, which staff is planning to do and report to us on.

Board Member Limón.

BOARD MEMBER LIMÓN: Thank you, Chair Sanchez.

I have questions about MDI. Can you explain what -- well, I guess -- I was going to ask about financial additionality. But I think would be helpful, particularly for the public, to first understand how -- what value would be provided to project proponents for their investments? How would that value be calculated?

DEPUTY EXECUTIVE OFFICER SAHOTA: The way the MDI works is that you would get allowances that you would be able to monetize and then use that value to invest in a big capital project. So these are large capital intensive projects that are in those eight bins in the regulation, so it's not something like I upgraded my 20-year old boiler for a two-year old boiler for an industrial facility. That's not the kind of projects we're talking about.

We're talking about getting rid of a boiler for something like a heat pump. And so, you would get that value to be able to do that investment. And there would be reporting tied to that and emissions reporting with third-party verification tied to that as well. If you don't do that investment, and you -- and you applied for, and were eligible, and received MDI allowances, you have to return that value back to the State, and we retire those allowances. So it doesn't matter if you sold them, or if you used them, or what you did with them, if you didn't follow through with what was in your application, you have to give that value back to the state and we retire those allowances out of the St -- out of the MDI.

BOARD MEMBER LIMÓN: Okay. But particularly again for the public's understanding, what -- how is that value calculated, because it's not per emission reduction, right, it's base on the investment?

Go ahead.

EXECUTIVE OFFICER CLIFF: Yeah, the Regulation specifies that the value is calculated based on eligible expenses. And then it specifies how the value of the allowance would be calculated, so it's based on the average auction price over the last year for the allowances for what the kind of value of each allowance is and then that's for eligible expenses. And then as we have in the resolution, there are many expenses that are not eligible, but eligible expenses could include things like permit costs, and construction, costs and so forth.

BOARD MEMBER LIMÓN: So the eligible costs would total -- is it a particular sum that's being presented in the application, and then CARB would look at what, as I understand it, the average price based on the last four years, and then provide that many allowances to equate to the investment-eligible costs?

EXECUTIVE OFFICER CLIFF: Last four quarters, but yeah, essentially that's correct.

BOARD MEMBER LIMÓN: Okay. So we're rewording the investment, not necessarily the emissions reductions. So how do we -- this concept, at least for me is new, I think in our instruments is financial additionality. How do we account for that?

DEPUTY EXECUTIVE OFFICER SAHOTA: So the first thing is that the projects that the staff included in the regulation are high capital cost -- projects that were mostly going to happen, if there was federal funding available. They were not going to happen on the natural in the next few years because they are high capital.

The second thing is when we designed this Program, we thought about what we needed to do in the industrial sector. These -- some of these projects were going to get federal money. And that federal money was going to let them do big investments to move forward. And the result of those investments was going to reduce their emissions, and they were going to reduce their compliance under the Program. And so that same premise is here, that they take the value, they reduce emissions at their facility, and they get that benefit of reduced emissions and a reduced compliance obligation, not for just one year, but for many years into the future.

So, it's really about the categories that we have slated for the project types in the eight bins, and it's making sure that when we look at the applications, they are very closely tied to those very specific projects.

BOARD MEMBER LIMÓN: Okay. That's the process, but I'm struggling with this concept, because in the offset program, we have requirements and -- meaningful requirements of what -- or some people would say that's arguable, but requirements for additionality and also for -- you meant -- you're talking about long-term benefits, and that's the permanence or durability. So what requirements do we have here to ensure that these are additional and that they are durable or permanent?

DEPUTY EXECUTIVE OFFICER SAHOTA: So offsets are for emission reductions that happen not within the covered activities in the Program. What we're really talking about is reductions in covered activities, so it's very unlike an offset, which is somewhere else, it's -- you're allowing that to count towards your compliance. This is about on-site reductions for projects that you do here, very similar to like the food processor incentive program that was funded over at CEC, very similar to how the federal incentives would have been used to reduce emissions here.

And what we do is we recognize those investments as a reduced compliance in the Program. So they're not offsets, because offsets are outside the --

BOARD MEMBER LIMÓN: No, I understand that. I'm just -- like what -- how do we know there's additionality and permanence?

DEPUTY EXECUTIVE OFFICER SAHOTA: So additionality, there are many programs, there are many funding streams, there are many tax incentives that some of these sectors are subject to. This functions the same way. There is -- we allow for all of those incentive programs, whether it's federal money, tax breaks or other grant programs at the State level to have the ability to take that money and count it towards your emission reductions. This works the same way. It's a complementary policy that helps reduce emissions in that same sector. It's not a additionality in the terms of an offset, but again, the project types that we identified, they are projects that would not happen for decades in the future that we're trying to get to happen sooner now, because they are high capital. And that is getting to this idea of when would they happen, do they need support to happen now?

BOARD MEMBER LIMÓN: Okay.

CHIEF COUNSEL DILLEY: And I'll just -- I'll just add that the legal additionality requirement is limited to offsets.

BOARD MEMBER LIMÓN: Correct. That's why I'm asking what legal requirement we're including into this new experimental program on additionality and permanence.

EXECUTIVE OFFICER CLIFF: There's also --

BOARD MEMBER LIMÓN: And I haven't heard a response to that, but I'd like to include that in the resolution -- in any resolution here is that we add restrictions where we are legally requiring additionality and permanence.

CHAIR SANCHEZ: Thank you, Board Member Limón. I believe the issue you are getting at has been addressed on page 16 near the bottom when staff walked us through the resolution changes that put guardrails on the MDI. This very clearly asks the Executive Officer to evaluate and propose amendments that would ensure the MDI program supports with Board Member Rechtschaffen's edit, "Projects in need of financials to proceeds..." -- "in financial incentives to proceed. This is really getting at how do we make sure that this Program isn't funding upgrades at facilities, heat pump installations at facilities that would have happened otherwise without this additional financial support.

BOARD MEMBER LIMÓN: Okay. Yeah. I actually don't have a copy. Thank you so much. Or is it this one? Is it -- yeah. Okay.

It says in need of financial incentives. I think that's -- I don't understand how that assures additionality and permanence. It just ensures that they are projects in need of financial incentives to proceed.

DEPUTY EXECUTIVE OFFICER SAHOTA: So the permanence shows up when you report on those eight categories, because you've reduced emissions, and those emissions haven't happened in the absence sense of making that investment. So permanence is it didn't happen. It's not like you're sequestering and you're trying to hold something. It's about making sure that it actually doesn't get out of that smoke stack.

BOARD MEMBER LIMÓN: Okay. Madam Chair, can we add language in there, additionality and permanence?

CHAIR SANCHEZ: I believe the BIFR that we're referring to addresses the issues that have been raised. Again -- and adding additional legal requirements in a resolution, we would have to consult. If we want to include -- if you want to strengthen that language, I welcome language proposals that you can work on. We'll run by counsel. We can also include this as direction to the staff to look closely, but this, "Be it further resolved," already directs the Board to evaluate amendments on this issue.

BOARD MEMBER BALMES: And if I could just interject. I know that from discussion with Mr. Rechtschaffen that he was concerned about additionality and he is happy with this particular language.

CHAIR SANCHEZ: Board Member Rechtschaffen, we don't mean to speak on your half, but I see your hand raised on Zoom. Yes.

BOARD MEMBER RECHTSCHAFFEN: That's okay. Dr. Balmes can always speak on my behalf. He's --

BOARD MEMBER BALMES: You'll be sorry about that.

BOARD MEMBER RECHTSCHAFFEN: Yes. If you could pull up that language again that -- the language here is designed to get at this -- Board Member Limón, to get at this issue that you raise, which is we really -- we don't want to be funding projects that would happen in a business-as-usual scenario. So while we're not using the term "additionality", and I wouldn't suggest doing that exactly, because that suggests a whole nother set of statutory requirements. The notion here is that these investments are incremental to what happened otherwise, and that -- and you've got -- if you could put that back up, but that -- the projects need the assistance provided by MDI in order for them to go forward, so that's the -- that's the -- that's the guardrail, that's the language that this guardrail is attempting to achieve.

If you just go down a little. I think you've got to go down a little on the screen, right? So that's the -- it's the second from the bottom. This is direction to the -- to the Executive Officer to propose amendments that would make that more -- even more explicit than it is in the current -- in the current rules.

And the change from project types in need of financial assistance to specific projects makes it a project-specific analysis, that those specific projects are incremental to what would occur under the ordinary circumstances, because you have to show that they're in need of financial assistance in order to go forward.

BOARD MEMBER LIMÓN: Yeah. Thank you. I appreciate the spirit and the intent. I just think this language of -- in need of financial incentives to proceed is very broad and open to broad interpretation. And a host of projects that are currently underway or even, you know, there's a plan to proceed are in need of financial assistance. They may have private capital and looking for additional support, governmental or otherwise. So I was hoping to tighten that language, so that we'd have a clear definition and not such a, you know, broad -- left open to such a broad interpretation where it's not resulting in additionality, but these -- in need of financial incentives to proceed can encompass a wide range of projects that are currently underway or, you know, are being -- already being planned. And so it's not resulting in any additional emission reductions. And it doesn't -- it also doesn't reflect permanence.

BOARD MEMBER TAKVORIAN: Chair, may I ask if that could be verified by third-party? Is that one of those things that could be required to be third-party verified?

CHAIR SANCHEZ: Lets take a pause and a beat. I hear the concerns, Board Member Limón. I'm going to put a pin in this and return to the -- and also put a pin in Board Member Takvorian's third-party request. I'm going to ask the staff to do some work on this particular language. I hear you on it being broad and any additions and edits that could be done. So thank you for raising the concern.

BOARD MEMBER LIMÓN: Thank you. Yeah, the additional -- I have some additional suggestions, but would like to learn a bit more about these allowances through the MDI. You know, my understanding is that they can be sold and can create a secondary market and unclear about what that means to get that value returned to CARB, given that, at that time, there could be a different value. And especially if that -- if those allowances have already been sold, there could potentially even be a profit margin. Again, this goes to the secondary market. So I'd like to understand what the guardrails or restrictions that are being considered, you know, so far could be what those options are.

EXECUTIVE OFFICER CLIFF: So with regard to additionality, I think we're all struggling a bit here, and, you know, very much appreciate what you're asking and the request. The challenge that we're having is because these emissions are already covered by the program, that reductions from those sources cannot be additional by definition. And to the extent that the emissions didn't occur, then there's no -- there's no permanence required, because the emission didn't actually happen.

So I think we're just struggling a bit with trying to understand that. Conceptually, I can appreciate and as Board Member Rechtschaffen walked through that the idea is, you know, we don't want -- like we understand that this is sort of paying for future compliance, which, you know, is not going to be additional. There's no way for that to happen, but that doing so sin't paying for compliance that kind of just would have happened.

So that's the intent behind the language that is on page 16 and that the Chair has pointed out. And, you know, we might have the ability to have a better understanding of those types of projects, because they would have really high abatement costs and wouldn't otherwise be motivated by the price under the program.

But to the extent that they're additional to what otherwise would have occurred is because it's all under the cap, I think we're just struggling with the notion of how to reflect that or how to even understand what that might mean. So it's -- I can't say in good faith that we could do that analysis, because I don't have a framework for understanding how we could do that.

BOARD MEMBER LIMÓN: Yeah, I appreciate that. And I think that's what I'm struggling with as well, is that these are all new concepts and it's also theoretical. And so what -- I'm trying to understand what those real safeguards could look like. And I wasn't speaking about additionality for the emissions, because I understand that those, you know, are -- this is a different kind again, but of financial additionality, to ensure that these are investments that otherwise wouldn't have been made, right?

Again this is a new concept. Like how do we guarantee that this huge investment that the State is making is actually for a project that otherwise wouldn't have happened, isn't already sort of like on deck. And so that's adds to the additionality into -- the permanence again goes to, you know, for the duration. And I understand these are large-scale projects that are being -- that we'e aiming at. So again, theoretically, you know, they would be long-term reductions. But having those legally, having something that has a legal definition, I think could ensure that this is a robust program that is successful.

And so -- and then that's -- so that's still pending, but the other is this question about, you know, if the allowances are sold and there is different values, you know, how it is that CARB is going to -- what value then CARB will receive in response? There's also the question about, you know, how we verify and, you know, these are real and permanent. So there's a -- the process for verification.

Yeah, so I -- these are questions I feel like we need the process. Again, this goes to the fundamental design. And based on this process of adopting this experimental program, and then having the process to develop those design mechanisms, and to receive information, I feel like that's turning good policymaking on its head, you know, rather than, first, having the information, understanding it, understanding the design features and then moving forward.

And some information I feel it's unlikely that we'll have given that -- you know, my questions about how we know, what -- how we substantiate the asserted benefits on leakage, or consumer benefits that data doesn't exist. And in terms of the applications, just to confirm with the language of Board Member Takvorian, is that now removing the deadline for applications until after the report is made to the Board? Is that where we landed?

CHAIR SANCHEZ: No. The regulation still has the deadline for the applications. The amendment that I was suggesting would simply direct the Executive Officer to report to us and propose any amendments before the issuance of those allowances.

BOARD MEMBER LIMÓN: Thank you.

CHAIR SANCHEZ: Board Member Takvorian correctly pointed out that those applications are due well in advance of July 1, 2028. So I think striking that reference makes sense. That was in response to the 25 million MDI threshold. And I think more generally, Board

Member Limón, I really appreciate your thoughtful questions. I think a lot of the issues you are raising again is why I proposed that amendment. We need additional data, additional analysis. The staff needs to go back. There's been an LAO analysis referenced, a 398 leakage study.

I hear your concerns on permanence and additionality and also those leakage benefits, and needing more -- the staff needs more time to frankly go engage the public and do that analysis and bring to the Board a report back on what they heard in the public workshop as well as any proposed strengthening of guardrails or amendments that are needed to address the very real concerns that you were raising.

BOARD MEMBER LIMÓN: Okay. So the applications -- thank you, Chair. So the applications are still due and then we have the information that comes before us. And depending on what that information is that comes before us in the decision-making, that impacts the very applications, right? So, in terms of qualifying projects and any additional restrictions. So again, I feel like this is sort of turned on its head.

And in terms of -- I have this question about the January proposal, because I just heard that the January MDI has bigger cuts on GGRF, but the January ISOR had GGRF projections that were higher than the April, the current amended proposal. So that's, I believe, approximately 40 percent higher based on the estimate in Table 15 of ISOR compared to the estimate provided by the staff on the April amendments.

So I'd like clarification on this, on how we're squaring this, because again it seems like the January MDI is actually more beneficial for GGRF projections.

EXECUTIVE OFFICER CLIFF: The pie charts that we had showed earlier show how there's a shift in allocation that would bump up the allocation to the industrial entities and to utilities for ratepayer benefit. And that's what reduces the amount of allowances that go to GGRF. Again, MDI has nothing to do with the amount of allowances that go to auction or the amount of GGRF that's received at auction.

BOARD MEMBER LIMÓN: But weren't the January -- the January ISOR projections on GGRF were higher than they are now, and that included -- that included the MDI below the cap.

EXECUTIVE OFFICER CLIFF: We were only showing for 2027 through 2030 in those pie charts.

BOARD MEMBER LIMÓN: Okay.

EXECUTIVE OFFICER CLIFF: The January MDI proposal would have borrowed allowances from 2031 and beyond, the future allowances.

BOARD MEMBER LIMÓN: Okay. But again, we would have had then time to figure out this other piece of it to also deal with those implications past 2030.

EXECUTIVE OFFICER CLIFF: I guess what I'm trying to get at is that it -- that has no impact on the GGRF between now and 2030.

BOARD MEMBER LIMÓN: Correct. Yes. You're saying the problem with GGRF. So the January MDI results in higher GGRF funding through 2030.

EXECUTIVE OFFICER CLIFF: Overall. No. Overall, the January MDI would reduce GGRF post-2030, but the -- if the -- the question you're asking, I think, is if we were to go back to the January MDI, how would that change GGRF? It wouldn't.

BOARD MEMBER LIMÓN: Okay. So -- because you had said earlier that it would be worse for GG -- for GGRF, but the projections actually show it would be better.

DEPUTY EXECUTIVE OFFICER SAHOTA: So it's where do you get the allowances from to award for the MDI. In January proposal, those would have been allowances that would have gone to auction after 2030. So it would have reduced a future GGRF. And what we did was we said we don't want to take from future GGRF, because the pie is getting so small, it's already going to be shrinking. We also don't want to really reduce right now, because the pie is already shrinking.

And so how do we still have a place to fund the MDI allowances that doesn't touch GGRF? And in both the April and the January proposal, we wanted to have some way to incentivize industrial reductions. The January proposal would have reduced GGRF after 3030. When we cut off allocation in the April proposal to be only through 2030, we decided to bring in the potential to get this MDI pool without taking from GGRF between 2027 and 2030.

BOARD MEMBER LIMÓN: Okay. So you're saying that hit to GGRF would be after 2030.

DEPUTY EXECUTIVE OFFICER SAHOTA: In the January proposal, yes.

BOARD MEMBER LIMÓN: Okay. So not through 2030.

DEPUTY EXECUTIVE OFFICER SAHOTA: After 2030.

BOARD MEMBER LIMÓN: Okay. So if that's the case, we are -- we have the certainty, right, through 2030, where we would have an increase in GGRF compared to where we are now through 2030.

DEPUTY EXECUTIVE OFFICER SAHOTA: The only way that you'd see an increase through 2030 from the January proposal is if you also -- it has nothing to do with the MDI - it has nothing to do with that pie - is that you would be going back to giving less to the Climate Credit in the January proposal, which is what it was, and you'd be giving less to industry. Those are the only two factors that play into the change in how many allowances go to GGRF.

BOARD MEMBER LIMÓN: Okay. So that we could go back to -- that is -- procedurally, that's an option for the Board is to revert to the January proposal.

DEPUTY EXECUTIVE OFFICER SAHOTA: That would take a -- it would take a regulatory amendment process change, which I think both our Chief Counsel and Dr. Cliff walked through the process of what that would look like, depending on the changes. But in terms of going back to the January proposal, you would also be giving less to the Climate Credit, and you would be giving less to the industrial allocation, and it would increase what would go to allowances for auction. And the MDI, in the way that it was structured in January, would reduce future GGRF after 2030.

BOARD MEMBER LIMÓN: Okay. So you're saying it wasn't the MDI.

DEPUTY EXECUTIVE OFFICER SAHOTA: That's right.

BOARD MEMBER LIMÓN: So then an option would be to go back -- to take the current proposal and replace the current MDI with the January MDI, because you're saying it was those -- the industrial allocation and the Climate

Credit that were in -- the impacts.

DEPUTY EXECUTIVE OFFICER SAHOTA: That would take a rulemaking, a regulatory change to do that.

BOARD MEMBER LIMÓN: So that would be a 15-day.

DEPUTY EXECUTIVE OFFICER SAHOTA: It depends on -- we have to go back and look at the CEQA document and it depends on whether or not it would just be a simple 15-day or if we have to reevaluate CEQA. And I think Dr. Cliff talked through the process about the timeline for that and how long that could take. It wouldn't be coming back to the Board in June. It would be coming back to the Board in several months from now, if we have to go through that process. And depending on that, we may miss the APA one-year clock.

BOARD MEMBER LIMÓN: So can we talk through this timing, because it seems like that's the pressure. So if it's the current proposal with the January MDI, we have the environmental analysis for it. It re -- it goes -- it's a change from the originally noticed January -- the January notice. So as I understand the standards is that it wouldn't require a 45-day, because it reverts back to the original notice. And this is a change that's just made in comment. The public has already commented on it. There is an environmental assessment. So in my mind, it's a 15-day process, but no -- understanding the different time points would be helpful and what the implications are, so that we know what our options are.

EXECUTIVE OFFICER CLIFF: So with regard to CEQA, you may be right. Again, haven't really thought through this specifically. There are still other APA processes that we would have to comply with, including the economic analysis that we would have to evaluate. If what you're saying -- if what you're saying is in the -- in the consideration would be to go back to a January proposal with the -- not only the MDI, but the same allowance allocation that was proposed in January. No you're saying just the MDI, but not --

BOARD MEMBER LIMÓN: Switch out the MDI.

EXECUTIVE OFFICER CLIFF: Yeah, there's -- I can't envision a change which would not require us to reevaluate CEQA in that particular situation.

BOARD MEMBER LIMÓN: And it would be probably a no impact, because we already have had the analysis.

CHIEF COUNSEL DILLEY: Talking about the MDI?

EXECUTIVE OFFICER CLIFF: No, because we've had a change.

BOARD MEMBER LIMÓN: No. No. With the January MDI. So current proposal but just swapping out the MDI from the outside the cap to within the cap.

CHAIR SANCHEZ: But the January proposal again is funded by allowances from beyond 2030 --

BOARD MEMBER LIMÓN: Right.

CHAIR SANCHEZ: And right now, the regulation is quiet on post-2030 allowances. We heard that comment multiple times from industry about the urgency. And I know, given all of the GGRF testimony as well, we owe it to the public to identify what the post-2030 allocations look like here in due time.

Board Member Limón, I want to thank you for the very thoughtful questions again. And I just want to note that the direction that I am proposing in front of the Board allows for a future process and time for staff to go do additional analysis, additional public engagement, and bring back additional considerations, a report and potential changes to this, to the Board. And with that, I again respectfully thank you and want to move on to Supervisor Hopkins.

BOARD MEMBER HOPKINS: Thank you.

One question that I had was that, you know, covered entities are also often regulated by local air districts, and would compliance projects be eligible? Because the point about additionality, you know, an air districts might actually pass a regulation that requires an upgrade on infrastructure. This happens fairly often that might also have co-benefits for greenhouse gas emission reductions. So would a project like that be eligible or can we sort of explicitly exclude that, given that it would be required from another regulatory authority already?

EXECUTIVE OFFICER CLIFF: The way that the regulation is currently written, I believe a project like what you're describing would be eligible. It depends on what type of pollutant is being reduced. So if it was a pollutant that is addressed under the Cap-and-Invest Regulation, then a project like what you described could be eligible, if it meant -- if it addressed all of the other criteria in the regulation. So I can't say for sure that it would be. To the extent that it would regulate a pollutant that isn't covered by the Cap-and-Invest regulation, then it would not be eligible at the outset.

BOARD MEMBER HOPKINS: But I guess I'm sort of saying there could be a co-benefit, right? So sometimes by, you know, implementing a certain technology, you might reduce PM2.5 or NOx or something that, you know, is regulated by a local air district, but there also might be potentially benefits for greenhouse gas emission reduction. Would that project be eligible. Bass I would hope that -- I'll just be honest. I would hope it would not, because that is not additionality, that is allowing them access to free money to comply with regulations that are already in place, that would already have to go forward with.

EXECUTIVE OFFICER CLIFF: I think again it would just depend on the specifics of the application. I understand the question, but if the primary purpose was to reduce greenhouse gas emissions and that got criteria co-benefits, then that likely would be eligible. If you're saying a technology would be specified to get criteria benefits and it somehow got greenhouse gas co-pollutant benefits, then again I think we would just have to analyze that when it -- when it comes forward to -- you know, with respect to the way that regulation is written.

BOARD MEMBER HOPKINS: Who would determine what is primary and what is secondary?

EXECUTIVE OFFICER CLIFF: Well, I think what you were saying is if there's a district rule that specified a specific technology. So that would -- that would be the kind of primary purpose.

BOARD MEMBER HOPKINS: We, I think, have to be technology agnostic. We sort of set the limits and then they're required to come into compliance. So just -- but, I mean, I guess, could there be a consultation process with air districts to understand if something that was already in the work, based on regulatory compliance for instance.

EXECUTIVE OFFICER CLIFF: Yeah, of course. We would be glad to do that. In fact, you know, I think we work very closely with air districts to understand how local rules impact certain facilities. And as part of this, it would be even more important for us to understand that.

BOARD MEMBER HOPKINS: Great. One question I have also is just we're having a lot conversations about the resolution language right now, which is wonderful. What teeth, for lack of a better word, does the resolution have? Because I've heard from stakeholders who, you know, shared a resolution language from prior years that, for instance, directed a workshop that was not forthcoming. I've also heard concerns about a State bill that was passed in 2017 that requested a report that was due out at the end of last year that was related to CBAM and that had not been produced either. So sort of what is the, I guess, almost enforcement mechanism or the teeth associated with resolution language, because when we do this kind of thing, right, like at the county level, you typically don't get teeth out of like wherefores and whereases. And therefore, it be determined. It's generally sort of -- that's not I guess where go if you're looking for something that is absolutely going to have teeth.

EXECUTIVE OFFICER CLIFF: Yeah, in this case, I think, the language is very clear direction to staff, that this is how you want to move forward. So I don't see any daylight between the direction from the Board and staff. So, you know, the teeth -- the teeth are requiring staff to bring this back. You know, to the extent that the Board has those authorities, I guess, you know, can result in and up to replacing the staff that need to be able to do this work, including the Executive Officer.

BOARD MEMBER HOPKINS: And then I just want to confirm and I feel like we've kind of asked this question a few times, but with MDI, right, it was sort of like a 15-day rule amendment to sort of supercharge the MDI, but it would be 45 days if we were to divest that, is that correct, a 45-day amendment, 15 days to add, 45 to take away?

EXECUTIVE OFFICER CLIFF: I think that's right. To the extent that it would modify our environmental analysis under CEQA, then that would require recirculation of the environmental document, which would be 45 days.

BOARD MEMBER HOPKINS: I fully understand that legal math is not regular math, so just confirming that.

EXECUTIVE OFFICER CLIFF: Well there's --- the confusion, if I can, is the APA also has, when you make an initial proposal, a Notice of Proposed Rulemaking, you do your notice and comment. That is also a 45-day process. So there's APA math. There's CEQA math. And those align when you do your initial proposal. They may not align in subsequent amendments to a regulation, depending on the amendment.

BOARD MEMBER HOPKINS: Okay. And then I also kind of heard I felt like slightly varied answers on, if we were to revert to January, would that be a 15-day? And that there already was environmental analysis performed, but then I'm also hearing maybe there would need to be more than that. And I know -- I want to recognize that the question was just asked, but I want to be crystal clear, because I feel like I've heard slightly varied answers on this one, or just slightly different interpretations.

EXECUTIVE OFFICER CLIFF: Yeah, let me --

BOARD MEMBER HOPKINS: What would that timeline be?

EXECUTIVE OFFICER CLIFF: Let me try and be clear on this. So to the extent that the -- that we were to strike out the 15-day amendments, then that would be supported already in the CEQA analysis. That's sort of my understanding. But that's strikeout would include changing all of the allocation to the industrial sector and to utilities. So if it's some version of, well, we like to sort of line item veto these various pieces, that's where the line item veto would result in --

BOARD MEMBER HOPKINS: A 45-day.

EXECUTIVE OFFICER CLIFF: -- a 45-day.

BOARD MEMBER HOPKINS: But just a reversion would be a 15-day, and the environmental analysis was performed on that.

EXECUTIVE OFFICER CLIFF: I think that's correct. I've thought about this for all of a bit of time while sitting here trying to answer questions as well, but I believe that's right.

BOARD MEMBER HOPKINS: Great. And then sort of my final question, because I feel like this was also sort of, you know, asked before, is the only way to not devastate the carbon market and, you know, mess up the PUC's timeline to vote yes today with only minor modifications to the amendment? Is that the -- is that essentially what we are being told by staff is that we can tweak the resolution language, but anything other than a "yes" vote will cause substantial disruption to the carbon market and an inability to meet the PUC timeline that will then result in folks not getting their, you know, climate credit for the year?

EXECUTIVE OFFICER CLIFF: That's correct.

BOARD MEMBER HOPKINS: So if that is the case, why did this not come to the Board two months ago?

EXECUTIVE OFFICER CLIFF: Because between time when we made the initial proposal and received comment on that, we determined that we had to make amendments to the proposal that the Board would then consider today.

BOARD MEMBER HOPKINS: Yeah. And I guess my concern is that then there's no opportunity for the comments on the amendment to the proposal to be incorporated all into that process. And so there's a lot of stakeholders who feel sort of iced out by this process.

EXECUTIVE OFFICER CLIFF: And I just want to be clear, I'm not saying there's no opportunity. I'm saying that that opportunity comes with consequences.

BOARD MEMBER HOPKINS: I appreciate that.

CHAIR SANCHEZ: Thank you, Supervisor Hopkins.

Councilman.

BOARD MEMBER GUERRA: Thank you. And this goes in the line of what is -- what constitutes a minor modification. And I recognize that the -- a 45-day change rule -- going back to a 45-day change rule would set us so far back that it really wouldn't matter what time, we wouldn't make the carbon market.

EXECUTIVE OFFICER CLIFF: Yeah. Sorry. If I'm not being clear. Anything that would result in a regulatory amendment --

BOARD MEMBER GUERRA: Correct.

EXECUTIVE OFFICER CLIFF: -- today, would blow up the timelines --

BOARD MEMBER GUERRA: Correct.

EXECUTIVE OFFICER CLIFF: -- is what we're talking about. So 15-day would also do that.

BOARD MEMBER GUERRA: Oh, it would also do that.

EXECUTIVE OFFICER CLIFF: Yes.

BOARD MEMBER GUERRA: And that's -- and then that's -- and -- so there -- this is what I'm -- and so this is where I'm going on the 15-day. So I was putting the 45-day on the -- on the table and giving up on that one, but on the 15 day. You know, so -- and I want to say that, you know, it's unfortunate, because the Board is put -- was put in a position here in a Sophie's choice, okay, you know, particularly for, you know, regions like Sacramento, where it gets really hot in the summer, the ability to address, you know, the rates that SMUD folks face on top of the programs like AB 617, transit and housing are critical for the same people we're trying to support here.

So I guess my question is would -- not going back to January and seeing that would a slight shift, and we're not changing any of the policy or any of the regulation, but a slight shift in the number of allowances where we pulled a little bit off of industry to go to GGRF, where we pulled off -- a little bit off of utility to go to GGRF. Not everybody gets a big chunk or not everybody goes back, but it's still -- you know, and I'm just throwing here on some rough numbers where we keep the APCR at 2.1, the GGRF moves to 41, the utility moves to 42, and then industry moves to 14.9, where would that in itself, and maybe I'm looking over here at Shannon, you know, does that in itself, that slight shift, trigger a 15-day rule change?

EXECUTIVE OFFICER CLIFF: Yes. Yeah, any change to the regulatory proposal would result in new notice and comment, which under the APA would require a 15-day, and to the extent that it doesn't amend CEQA, there would be no recirculation of the CEQA document.

BOARD MEMBER GUERRA: Okay.

EXECUTIVE OFFICER CLIFF: To the extent that it does amend CEQA, that would require a 45-day recirculation of the environmental document.

BOARD MEMBER GUERRA: Okay. All right. Perfect.

And then -- and then after that, it would -- we'd still have to give the AOL[SIC] 180 days to --

EXECUTIVE OFFICER CLIFF: Is it -- OAL.

CHIEF COUNSEL DILLEY: OAL gets 30 days.

EXECUTIVE OFFICER CLIFF: Thirty days by law.

BOARD MEMBER GUERRA: Thirty days.

CHIEF COUNCIL DILLEY: Thirty working days.

BOARD MEMBER GUERRA: A lot faster than I thought.

DEPUTY EXECUTIVE OFFICER SAHOTA: But before we go to OAL, staff has to process the thousand or so comments and respond to each of them in a formal rulemaking document with an updated economic analysis that DOF has to review.

BOARD MEMBER GUERRA: Right. And I recognize that that -- the choices are that, you know, if we decide to go down that path, then the delay of us getting to auction and the potential value of the allowances could be even -- have a different detrimental effect to the GGRF fund.

So -- but for anyone who is a local government official, I mean, this is a -- this is a challenging position to be in. And so, you know, I do think that particularly since many folks came here thinking that we're directly changing the allocations or making budget decisions about some of the programs like, you know, the affordable housing community sustainable community -- Affordable Housing Sustainable Communities grants, any of the transit funding that we do, any of the community air protection zones that we have, this resolution needs to speak significantly towards the harm incurred by the current budget tiered system that is in place, because it doesn't allow this Board to actually even contemplate those decisions.

So I would like to see, you know, Madam Chair, some language in there that is in the resolved section directing the Executive Officer to communicate and inform the Legislature as it's going through its budget process about how the current tiered system actually doesn't help us achieve the climate goals that we want to achieve, so -- at the same time. So that would be, I think, an essential part to move forward here today. And I think it should be very direct that -- because it's my understanding, correct me if I'm wrong, Dr. Cliff, that this is the first time we've ever had a tiered system in GGRF.

EXECUTIVE OFFICER CLIFF: As far I know, yes.

BOARD MEMBER GUERRA: Yeah. So -- and that in itself has created unfortunately this Sophie's choice. So those are my comments Madam Chair, but I would like to see -- and I have some draft language that I'd like to put forward, but let me stop there and allow other colleagues to talk, but I'd like to see some language that moves forward with this resolution, if it's to move forward with that recognition that that -- the current State budget allocation system that's in place in statute is what's causing the programs that we've seen successful, that we've administered here, actually be in the scenario.

Thank you.

CHAIR SANCHEZ: Thank you, Councilman. I deeply appreciate those comments and that proposal. And Board Member Balmes had to leave the dais. He's online, but I think that echoes some of the comments he was making about the tiered structure and the priorities are in that tiered structure. I welcome taking a look at your resolution language.

I have one friendly amendment to it, which is that we -- we are the Board of an agency that is within the Executive Branch, so directing engagement to our staff with the Legislature, you know, negotiations are through the Governor's office on budget deliberations. But I think we can work with your sentiment and think about some resolution language directing staff to work very closely with the Governor's Office and the Department of Finance on the Governor's budget, the administration's proposal and just again underscoring how important these investments are to our communities, to CARB's mission to achieving our statewide climate goals, and frankly to achieving the various statutory goals that the Legislature has directed us to achieve.

So I just want to thank you for those comments. I want to come back to one, Supervisor Hopkins, the comments on process, because they were echoed by the Councilman just on 15-day and 45-day. And I want to acknowledge the Board's frustration with the position that we are in on the very real consequences of a 15-day or a 45-day in the CEQA, and APA, and OAL. I just want to note that this regulation was opened in 2024 and was deliberately paused in order for the Legislature to have their deliberations on the extension of the Program.

We heard from Co-Chair -- the Co-Chair of the Assembly working group. I believe they were doing weekly meetings. That Senate working group as well. I think that staff took the direction to pause the rulemaking activities in order for the Legislature to act, which they boldly did in September. And when the Governor signed that bill into law, the staff immediately started working on making a variety of regulatory adjustments. We are focused on two big pieces right now, but offsets under the cap, the market monitoring. I mean, there was a lot of statutory direction that the staff had to reflect into a public process and propose in January.

So I just wanted to acknowledge the frustration, but also, you know, the two-year Journey that we've been on and the various time pressures that the team has been under.

Board Member Takvorian over to you. And before I give you the mic just briefly - it's mostly for myself, I guess - please reminder to speak slowly for the court reporter and the interpreter. Thank you, Board members.

BOARD MEMBER TAKVORIAN: Thank you, Chair.

Okay. I guess a simple question is again to the section that you amended to say before any applications are approved. If -- maybe this is a question for counsel. If we issue a Request for Application prior to getting a report back from the Executive Officer, and then we get the report and we change to the degree that we can the Program, what are the liabilities then, if we deny an application that meets whatever the criteria were in the application solicitation.

CHAIR SANCHEZ: So I think it's a great question. I think we can make modifications to that paragraph to ensure that the report to the Board and the proposed amendments to the Board are before the application process. So thank you for clarifying. We will work on making that edit. Thank you, Shannon.

BOARD MEMBER TAKVORIAN: Okay.

CHAIR SANCHEZ: Just so we don't have a flurry of applicate -- the regulated entities who are going to submitting those applications, I'm sure would also like the certainty of the Program and its guardrails. So we will have to act with haste to make sure that those are brought back to the Board -- reported back to the Board before the applications are due.

BOARD MEMBER TAKVORIAN: Okay. So I thought -- Shannon, not to put you on the spot, but I thought you said that when these -- when this report comes back, we would not have the authority to deny any applications.

CHIEF COUNSEL DILLEY: So that is under the current regulation, the Executive Officer approves of the applications. So the way that this would work is prior to any issuance, the Executive Officer would come to the Board and then you would explain any issues. And I think that's something that the Executive Officer would consider. But what I hear Chair Sanchez saying is that we're -- before there's -- before there's any submission of applications, we're going to go to the Board, so you'll have that opportunity to discuss.

BOARD MEMBER TAKVORIAN: And make changes to the regulation that would change the application process?

CHIEF COUNSEL DILLEY: Via a rulemaking.

BOARD MEMBER TAKVORIAN: Okay. So then we could open rulemaking at the time that this report comes forward?

CHIEF COUNSEL DILLEY: Yeah. You could direct a rulemaking. Future -- a future rulemaking. Yeah.

CHAIR SANCHEZ: Thank you.

BOARD MEMBER TAKVORIAN: Okay. And then we're not worried about all the impacts that we're worried about today.

CHAIR SANCHEZ: No, we will have a discussion and a deliberation that will be better informed by the public process and the analysis that the staff is going to go do to address the concerns that this Board has raised over the last two days and the feedback that they have been getting from members of the public and members of the Legislature.

BOARD MEMBER TAKVORIAN: Okay. Well, I would just reiterate that that seems backwards to me. I am in alignment with Board members Hopkins and Guerra that this process has really put us all in a -- in a bind with our municipalities, with our communities, with the public health community, with the 617 program. We made promise to people that I'm not sure now that we can keep. So I would say that given all of that, and I really appreciate the flexibility that folks -- that you, Chair, are showing, that we simply remove the MDI. I understand what that requires, and that we do all of these fixes and initiate a rulemaking that has all of the data and the information that we need to make a proper decision.

And I'll go on the record as saying I do not think that this is a proper process. We haven't had the time to evaluate it all these questions are not answered. When you don't answer questions after you say we want a Program. It just -- it's the wrong way to do it, I believe, and I think it's disrespectful to everyone who's impacted by it, from industry, to communities, to the agencies that implement these programs. So I would ask that that be inserted into the process. I don't know how you want to do it, because there isn't a motion on the table as I understand it. You've made some proposed changes to the resolution.

So I would move that the MDI be removed and all references be removed from the resolution and direct staff to revise the MDI proposal based on the stakeholder and Board feedback back that we have heard today incorporating the requirements and the guardrails in the current resolution, and direct the Executive Officer to conduct a full rulemaking process that may or may not be incorporated with the post-2030 allowance allocation, that to be determined by the Executive Officer.

CHAIR SANCHEZ: Thank you, Board Member Takvorian. I appreciate that motion. I see several microphones up and then I want to act on your motion, but

Board members would you like to share comments before we move that to a vote?

Dr. Shaheen.

BOARD MEMBER SHAHEEN: Thank you. I really appreciate this last round of discussion of fellow Board members Hopkins, Guerra, and Takvorian. This has been a difficult situation for us all. And I hope in the future, we can have more time built in, Chair Sanchez, so that the Board is not in such a position. I also really just wanted to weigh in. Councilmember Guerra proposed some very important remarks regarding the position that we have also been placed in with respect to dwindling GGRF. And I understand that as the cap comes down, there's going to be less funding to go around.

But as I noted much earlier in my comments, some of these programs that we rely on for emission reduction and to create co-benefits, societal benefits, particularly for disadvantaged communities, low-income communities are at risk. And just getting people to and from work, their jobs on transit is at risk. And I fully support Councilmember Guerra's ideas to note this in the resolution language as something that the Executive Officer could report back to the Legislature, along with a need for more permanent funding sources for transit, affordable housing, and programs like AB 617. So thank you.

CHAIR SANCHEZ: Thank you, Dr. Shaheen. Appreciate the echoing of that statement. And I -- we have taken the direction to get language into the resolution capturing those comments. So staff are working on that now.

Dr. Pacheco-Werner.

BOARD MEMBER PACHECO-WERNER: Yeah. I think -- I just want to kind of zoom out a little bit and make sure I have clarity on what is happening beyond, because we are making a lot of decisions today based on the GGRF impact, which is a very real impact to communities. But there are other processes happening right now. And I want to make sure I'm clear on those timelines too, not just our timeline.

So as of right now, the Senate has a proposal. They are still deliberating on the actual structure of the GGRF fund, is that correct?

EXECUTIVE OFFICER CLIFF: The Legislature appropriates GGRF, yes.

BOARD MEMBER PACHECO-WERNER: But there's an active timeline for them right now in this budget process, where they are deliberating that specific question.

EXECUTIVE OFFICER CLIFF: On the prioritization?

BOARD MEMBER PACHECO-WERNER: Yeah.

EXECUTIVE OFFICER CLIFF: I'm not sure.

CHAIR SANCHEZ: Senator Stern, I see you on screen. I don't know if you want to weigh in here.

SENATOR STERN: Yeah, I would say on the Senate side, that's true.

BOARD MEMBER PACHECO-WERNER: Okay.

SENATOR STERN: That is in active deliberation and that the Senate's position yesterday was to rethink the tiered structure.

BOARD MEMBER PACHECO-WERNER: Okay. And that the --

SENATOR STERN: -- depending on how you all vote today, yes.

BOARD MEMBER PACHECO-WERNER: Yeah, thank you. That's really helpful, Senator, to just kind of have that zoomed out picture. And then there is also -- so -- and this timeline of these deliberations, given historical records of GGRF, often tend to go into August, is that -- is that also an accurate statement around the deadline around this particular program?

EXECUTIVE OFFICER CLIFF: Till the end of session, yes.

BOARD MEMBER PACHECO-WERNER: Yeah. Okay. That's really helpful. And then once we finish when it comes to -- now, not thinking about -- well, actually, I want to just kind of go back to something that you clarified for me yesterday, Dr. Cliff, that you said that what we're looking at, in terms of the impacts to the Tier 3 programs, we are not thinking about an -- talking about an impact until next year, is that correct?

EXECUTIVE OFFICER CLIFF: Well, I think to -- if I understood what Senator Stern was saying regarding the overall amount of money that would be needed in order to fully fund Tier 3, that that exceeds what we're already getting in the Program.

BOARD MEMBER PACHECO-WERNER: Yes.

EXECUTIVE OFFICER CLIFF: But to the extent that these amendments would impact allocation, that would be of 2027 allowances. And therefore, it would impact the amount of allowances available for auction starting in February of 2027.

BOARD MEMBER PACHECO-WERNER: Okay. Yeah. And I wanted to have that timeline clarified for me, Chair, because I do think that we're making decisions that are -- that are feeling very urgent and there are still a lot of questions marks about the GGRF itself. And I just want to make sure that we all -- that question marks aren't just on my end of lack of understanding, that that's an actual process thing that happenings outside of CARB. And so -- and so I want to make sure that that was clear before we take any sort of vote. Thank you.

CHAIR SANCHEZ: Thank you, Dr. Pacheco-Werner. Appreciate that. And, yes, appreciate Senator Stern you sharing the insights into the legislative negotiations between the three parties on this issue as well.

Board Member Santiago.

Board Member Stigler Granados. Doctor.

BOARD MEMBER STIGLER GRANADOS: Thank you. I'm trying to change my flight at the same time.

So I have to agree with a lot of my colleagues that I do feel like we're in a bind with seeing all the air districts showing up and expressing concerns. And so I heard also this idea of the -- and I'm going to -- I know this is -- we're kind of reiterating the same questions, but I heard you, Dr. Cliff, say this will blow up the timeline. And I'm wondering if you could describe what blowup means? Like what are the real implications of extending this with a 15-day and a 45-day from a realistic sort of bigger picture view? What did you mean by that, if you could just explain it, a little bit more details.

EXECUTIVE OFFICER CLIFF: If we were to amend -- if we were to amend the regulation, that would require the changes that would result in missing the September 1 time frame. That would have two impacts directly. One is it would -- it would not allow us to feed this into the current CPUC process and we would miss that opportunity. They would likely have to open another proceeding at some point in the future for 2028 Climate Credit.

It would also mean that the amount of reduction that 11 percent per year reduction would be over a shorter time period, and therefore, increase. It would be a much steeper annual reduction between 2028 and 2030. So those are the -- those are kind of the two big impacts that would result from missing that September 1 timeline.

BOARD MEMBER STIGLER GRANADOS: And just to clarify, a 15-day look at this would do the same --

EXECUTIVE OFFICER CLIFF: That's right.

BOARD MEMBER STIGLER GRANADOS: -- as a 45? Okay.

EXECUTIVE OFFICER CLIFF: Yeah. And just to be clear, I mean, 15 days is the time for notice and comment, but that's not the time that it takes us to develop regulatory language assuming that there was a consensus on what that looks like, and then to put that out for notice and comment. We also have a lot of other process under The APA. As Rajinder noted, we have to respond to all comments and then we have to give OAL, by statute, the 30 working days.

BOARD MEMBER STIGLER GRANADOS: And so, for example, if we were to -- let's just say -- I'm going to throw this out there. Do the January proposal, it opens up a 15-day, we could get the same comments from industry and others that we just got during this time frame and then we might be right back where we are now.

EXECUTIVE OFFICER CLIFF: That's correct.

BOARD MEMBER STIGLER GRANADOS: And so one last question. If -- what, Chair Sanchez, what you were discussing about pause, but not changing -- not opening up a new rulemaking process or a new comment period, could you explain if there would be any impact on how fast the GGRF funds are going down, if we slow things down a little? So say, for example, we're watching this trigger a like 25 million making sure it doesn't flood the market, things like that, is there any chance that this pause, or slow down, or anything will have any impact at all on that GGRF or is that just nothing to do with it, won't impact it at all? Just kind of curious.

DEPUTY EXECUTIVE OFFICER SAHOTA: Thank you for the question, Dr. Stigler Granados. This is Rajinder.

So the MDI itself has no impact the amount of allowances that go to auction for the GGRF. I think what's also sitting out there is regulatory certainty.

And so what we're risking is still having an unknown about whether or not companies should be buying now for allowances, buying later, or planning to have some access to this mechanism to be able to use it to help reduce emissions. And so, while it won't impact the amount of allowances going to auction, it will have an impact on how companies under this program plan for in terms of compliance and investment. And we are hearing from the companies that have those big approved incentives from the federal administration that they have private capital sitting and waiting to match to something here to be able to move forward.

And couple of those, you know, they need a lifeline and they're -- they are very, very worried about understanding what landscape in which they should make investments to stay in California or move production out.

And then the other thing I think I should just flag is that on that timeline for September that Dr. Cliff was talking about, one of the things that has been really important is during this period of upheaval at the federal level on climate, and health, and everything that I think most of us think is important, is that subnational action is really critical. We have a program that's linked with Quebec. We have a program that is running in the State of Washington. And I know that linking with Washington has been a stated priority for us, for Washington, because that broader market will help attract and get other subnational action.

So there's that piece as well.

BOARD MEMBER STIGLER GRANADOS: So just to clarify, putting a pause on this, like you we're -- like we're suggesting to do will have no impact on the GGRF. I just wanted to clarify that.

DEPUTY EXECUTIVE OFFICER SAHOTA: Putting a pause will not have an impact on any allowances going to GGRF. I will -- It will not. It will have impacts on how businesses plan for what they want to do or can do in the near term and if they're on the brink of deciding whether to continue investing in California or taking production out of state.

CHAIR SANCHEZ: Thank you.

Dr. Pacheco-Werner.

BOARD MEMBER PACHECO-WERNER: Thank you. I want to come back to that question, just because in terms of what you're talking about, program certainty, and the impact about our linkage with Washington, those are things that might influence the price, is that not correct, the delaying of those?

DEPUTY EXECUTIVE OFFICER SAHOTA: That is absolutely right. So, for us, when we join with a smaller market, it has the potential to either add more demand for our allowances or reduce demand for allowances, but we have SB 1018 findings to where we cannot link with a market that would be less stringent. So what we have seen is that, in most cases, the markets that we tend to be able to link to are those that are our -- as stringent or more stringent, which means that there is more demand for allowances in the larger market than there is just independently of that linkage. So that more demand actually puts upward pressure on allowance prices.

BOARD MEMBER PACHECO-WERNER: Right. So I just wanted to make sure that we are clear that indirectly -- I mean, you know, like to answer Dr. Stigler Granados question, that's accurate that directly no, but indirectly a delay would, because of the -- of the signals.

Now, there's also a question that I think, you know, outside of the scope of what we're doing here, a delay might also mean the possibility of the Legislature also wanting to do some additional -- now, it's not that, you know, the Legislature has pointed to any of it, but I'm just saying like that there is also a world in which the Legislature would see what we're doing here and then want to have another pause. Is that like within the realm of possibility as well, given that we don't have all the information obviously?

DEPUTY EXECUTIVE OFFICER SAHOTA: The Legislature can choose to take up an issue whether it's this market on any design aspect of this market at any time that they choose to do that and then run it through their process. If that were going to happen, you know, like this time we did pause to give them time to complete that process. But what I can say is the last time we had uncertainty -- political uncertainty, it manifested itself with a reduced demand at auction, reduced GGRF revenues. That was taken off the table by the bold action that the Legislature took last September. They extended the Program. There were conversations about many aspects of the design of the program. There were very prescriptive in key areas about what this program needed to look like, which is why we were updating this regulation right now.

The regulatory uncertainty that has played out since then is having an impact on auctions right now. We know this. We keep hearing about it. We keep hearing the trade press about it. And so I think any more, whether it's political or regulatory uncertainty, does risk having a downward pressure on allowances prices and continued reduced revenues, like we saw when there was other uncertainty -- similar uncertainty in the past.

BOARD MEMBER PACHECO-WERNER: Yeah. Thank you, because I think that we -- we all need to understand all of the universe of the consequences, because there are direct GGRF consequences regardless of who acts, right? There's a lot of actors on this Program. And because it is a market Program, I think it is important that we note that there are actors outside of the Board that influence this program as well. So I want to make sure that we all understand that too.

Thank you.

CHAIR SANCHEZ: Thank you, Dr. Pacheco-Werner. Appreciate that. And I would just reiterate something we heard from the author of the bill when she joined us yesterday. To paraphrase, that delaying on this would be one -- handing over one of the biggest victories to the Trump administration in all of their rollbacks. And they are numerous. They are illegal. They are unprecedented. And the vote before the Board today, as we continue these very thoughtful deliberations is California sending a message to the rest of the world that we will move forward, at a time when carbon markets are under unprecedented political attack. So there's another lens through which we look at the timeline ahead.

And Dr. Pacheco-Werner, I just appreciate you drawing attention to the fact that there are several parties at our table while the three parties negotiate the budge every year, and the GGRF and its structure. Of course, we have our Senate and Assembly appointees on this Board and ongoing engagement with our members of the Legislature.

I would also point out, for all of our discussion on GGRF -- we've raised this before, but to underscore it. Because of the regulatory uncertainty and the dampened auctions over the last fiscal year, this Program has generated $3.4 billion, which is not enough to fully fund SB 840 and the Tier 3. So I acknowledge the process frustration and the very difficult position that this Board is in, but know that we are already not fulfilling the so-called promise of 840 and all of those important investments.

Dr. Balmes.

BOARD MEMBER BALMES: Can you folks hear me okay? Can you hear me?

BOARD CLERK: Yes, we can.

BOARD MEMBER BALMES: Can you hear me?

BOARD CLERK: Yes, we can, Dr. Balmes. Can you hear us?

BOARD MEMBER BALMES: I can hear you. Can you hear me?

BOARD CLERK: Yes, we can.

BOARD MEMBER BALMES: Okay. So I'm on the train. I have to be careful here, but I wanted echo the Chair's -- well, Dr. Pacheco-Werner's thoughtful comments about how delay could affect GGRF funding and also what the Chair just said. But I just want to remind everybody that the GGRF isn't a big hit to -- what did I say? The MDI isn't a bit hit to GGRF. The biggest hits are the 1207 mandated increase of free allowances to the -- for the Climate Credit and the industrial allocations to prevent leakage. Those are causing much more of a hit to the GGF[SIC] than the possibility of a hit from MDI.

So I just wanted to remind everybody that we're spending a lot of time worried about the MDI hit to the GGRF. It's totally appropriate to worry about the GGRF, but it's not the main cause of lower GGRF funding.

CHAIR SANCHEZ: Thank you, Dr. Balmes. Yes, we -- you are right to remind the Board of that from our pie chart discussion, which feels like yesterday, at this point, but it did clearly show that the 10 percent decrease in the Climate Credit is attributable to over seven percent the shift to utilities, as directed in statute, and three percent to the increased industrial support. So thank you for that comment.

Senator Stern, I was referencing Assemblymember Irwin, but I just want to note that you were also urging the Board to act without delay, so I will give you the floor now.

Thank you.

SENATOR STERN: Just for a brief moment and noting that in addition to Dr. -- what Dr. Balmes just pointed, in terms of what I think is fair to stay is a hard decision before the Board, but I don't think it's fair to say this proposal puts the Board in this position. I think there were very specific decisions made in a negotiation last year in the Legislature in a time where we were anticipating a shortfall in the general fund and an actual surplus on the GGRF side around the investment framework, that I think has arbitrarily forced you all to thinking about a future of less, and a lot of the advocates in say transit, housing, 617, heavy-duty, light-duty, across the Board, who are now forced into this fight over what shouldn't be a smaller pie and I don't think has to be a smaller pie, but it does require revisitation of Tier 1 and Tier 2.

And it used to be a percentage structure. I know someone asked if it had always been structured in this sort of tiered flat rate system. And there were a number of questions in our deliberations last year about whether we should be sticking with a percentage based system as opposed to this one where people living in fire zones don't have to pay now their firefighting fees right off the top. There's an additional tax credit for manufacturers. But then high speed rail takes a billion dollars bite. And then the general operating budget of Cal Fire takes another over $1.2 billion bite.

And so now you're in a scenario where, yes, it feels Sophie's choice like. But I think the -- if we're going to make good collective decisions here between this regulatory process and the legislative one, I think there's a way to address the concerns about making sure that if, you know, folks make promises about emissions reductions they're going to make in their projects, they follow through. And if the money is real, no we're not paying for false promises or padded profits to Board Member Limón's point.

But at the same time that none of that -- actually, none of that will actually solve this broader strain that the GGRF is enduring. With or without an MDI, with strong guardrails or not strong guardrails, whatever it is, you know, we just went through the numbers on what this mechanism contains with 118 million metric tons maximum. And it's dwarfed by not just again those broader design decisions, but also by the Legislature and the Governor's decisions. And I would just say, everyone likes to say the Legislature appropriates the dollars, but the Governor signs the budget.

So not to put too much pressure back, but I think this is going to take all three parties to sort through this. And I think a powerful thing for this Board, however your deliberations end up today, is to really --

and all the stakeholders here, to really send that signal back to say, this isn't the same deal we all signed up for last year. Maybe there has been fidelity to the design elements that we asked for and the -- I think this Board proposal actually hits those policy demands. But that the budget decisions made last year assumed a very different reality.

And so I think that's the part where, yeah, how to channel this frustration in a constructive manner. I don't think it's smart to address the operating budgets of major departments with the Greenhouse Gas Reduction Fund. We don't -- we don't think that's a wise idea. The Senate rejected that idea. We need the other two parties to come to the table with a similar baseline of understanding.

I just -- anyway, I wanted to give you all that added homework, I guess, beyond this vote today is how to -- how to come back to us in a way -- and I think the door is open in the Senate. I think we need to open that door with the other two parties. And I think there is a willingness and openness to do so, but I just -- yeah, I don't want to put so much pressure on this MDI deliberation that we sort of miss the forest for the trees, that you're in the hundreds of millions with this. You're in the tens of billions with the broader budget negotiation.

So we get that this is -- these are important hundreds of millions, but, yeah, just don't lose sight of the billions.

Anyhow, thank you Madam Chair.

CHAIR SANCHEZ: Thank you, Senator Stern, for that perspective. Deeply appreciate it.

Board Member Santiago and then Board Member Rechtschaffen I see your hand up as well.

BOARD MEMBER SANTIAGO: I wasn't planning on, but after hearing the Senator's good comments, I want to just give him a little bit of applause for the bold comments that he has made. And in the same line of humor -- this humor, I'll go ahead an say -- to remind folks what I was reminded to when I went first through the Legislature, which is the Governor has got a red ink, not blue ink. And that says a lot about how this process works.

You know, I would never speak on behalf of the Legislature or pretend to have a perspective from the Legislature, because I'm not there. I can only make comments as a private citizen. Now, when I was in the Legislature, I can do that. Today, I can't. But just watching it from a -- just watching it from afar last year, there was forecasting to be in a very different situation this year, meaning like it was going to be massive budget deficits et cetera. And, you know, the

Governor and the Legislature has managed to stabilize a budget. Now, we're talking about an 18-month stabilized budget.

So certainly I've got to imagine the decisions would be revisited as the good Senator has mentioned. But I wonder, you know, taking all that and the conversations we've had about the GGRF, if the Chair might think about a way to maybe put check points. I don't know what other word to put on there. Checkpoints to say that -- because we know when the Legislature can take action for comment. There's all -- they can do it up until -- well, it's the second year of a two-year session. So September 15-ish would be the last day they can take an action. So is there a checkpoint where we could take a look at this October.

You know, the Governor has -- the incoming Governor will have budget January 15th. Can we checkpoint it at some point in time in February to take a look at what's under the roof? Or maybe even at the end of January, because by then we'll know. There is a May revise, you know, that we can kind of checkpoint at the end of May, right after the May revise.

So I wonder if you'd take a look at your proposal and maybe think about maybe adding some language that doesn't change integrity of the resolution should the

Board decide to do that, that puts checkpoints in their to see kind of what's going on as it relates to GGRF.

CHAIR SANCHEZ: Yeah, I appreciate that, Board Member Santiago. Thank you. I am wondering if in the resolution text we do have kind of reporting on the auc -- different elements of the auction as Board Member Santiago is referencing. So staff, can you remind us what those checkpoint after the different quarterly actions are and the reporting to the Board that happens at that juncture.

BOARD MEMBER SANTIAGO: (Inaudible) account what the Legislature may or may not do, should they decide in their wisdom.

SUPERVISOR JENSEN: Mic.

BOARD MEMBER SANTIAGO: But even -- sorry. I apologize. It was on. It was up.

But I said even taking into account what the Legislature may or may not be doing, should they choose or choose not to do anything.

CHAIR SANCHEZ: Great. Yeah. I think you're getting at a staff presentation on kind of all of the activities of the Legislature that touch CARB's work, and in particular related to the GGRF. I believe we used to do that in the years prior, so that may be something that we can ask the staff to accommodate, in particular just given the moving pieces of the Legislature and how it overlaps with our timelines.

Thank you.

Got that, Dr. Cliff.

Thank you.

EXECUTIVE OFFICER CLIFF: Got that. Thank you, Chair.

CHAIR SANCHEZ: On the issue of -- oh, Board Member Rechtschaffen.

BOARD MEMBER RECHTSCHAFFEN: I'm happy to defer to you, Chair Sanchez, if you wanted to add something else.

CHAIR SANCHEZ: Oh, pardon me, Board Member Rechtschaffen. Could you please repeat your question.

BOARD MEMBER RECHTSCHAFFEN: I said I'm happy to defer to you for the moment if you -- if you had something else you wanted to add or suggest.

CHAIR SANCHEZ: No. The team was working on language related to Board Member -- Councilmember Guerra's, which was echoed by Dr. Shaheen, the language around the prioritization of GGRF and the role -- the important role that the Air Board has in communicating the benefits of all of those investments as a way to inform the ongoing budget negotiations, which we acknowledge we are not a third -- a fourth party, but I think we have a lot of good data to be able to share with the Governor's office in their deliberations. Do you want to read that language now? We can also -- I don't think we can --

BOARD MEMBER GUERRA: Thank you, Chair. Yeah, look I -- you know, again, this is -- I won't take any offense, pride of ownership or writership here. So let me just read it and I'd like it if maybe you and the team could refine it. There are two key points, one, the importance of the programs that were discussed today and then second, the issue of stable funding, because as you mentioned, Chair, this is an ongoing problem. As the cap goes down, there's going to be less, and less, and less funding and allowances that will result in funding for GGRF.

So let me just read this off. And again, I'm -- I won't be offended if there's a change, but I'd maybe try and consolidate it.

Let's see I'm not -- I wasn't the best at poetry, so... "Be it further resolved, that the Board directs the Executive Officer to communicate with the Legislature...", or the Governor through the Legislature, "...of the harm incurred by the current de-prioritization or low priority a funding by the State budget for GGRF, transit, affordable housing, AB 617 programs, all of which are focused on reducing emissions by local governments.

"Be it further resolved, that the Board directs the Executive Officer to communicate with the Governor and Legislature the need to identify stable and permanent sources of funding for transit, housing, designed to reduce emissions as the Cap-and-Invest Program receives declining annual emission allowances."

And then, if you guys can help maybe figure out how to make that clearer or more direct, that would -- I would appreciate that. But that's -- I think if this -- if this resolution is to move forward, it needs to have something that gives the local governments a fighting chance at the State to preserve what is -- we see being effective today.

CHAIR SANCHEZ: Great. Thank you, Councilman. I think we took some notes on that, so the team will refine and run it by legal. And if we -- I know the court reporter needs another break and we are late in the hour. My proposal would be a brief 10-minute stretch, get water. The team please refine the language that councilman has raised and we can project it again and get the Board's feedback. Thank you for that.

It is 4:39. If we can return a few minutes before five, that would be appreciate. Thank you very much.

(Off record: 4:39 p.m.)

(Thereupon a recess was taken.)

(On record: 4:54 p.m.)

CHAIR SANCHEZ: Good afternoon. Good afternoon. Thank you. We'll come to that later. Thank you.

Okay. Thank you. Okay. We're going to get restarted. Twenty-fifth time I've said that in the two days. I -- we have a clarifying question for Supervisor Hopkins over here. Supervisor Hopkins, the floor is yours.

BOARD MEMBER HOPKINS: Yeah, I just had a question about Board Member Takvorian's motion which was -- was that specifically just about MDI or was it also sort of reverting to the January allowance allocation? Just cause I recognize I think it was Dr. Balmes and maybe also Senator Stern who pointed out that kind of the bigger impact to GGRF is actually the shift of the 780 million to industry and the 1.7 billion to utilities, not so much the MDI, which has a sort of less substantial impact. So I just wanted a clarification on the motion.

BOARD MEMBER TAKVORIAN: My motion was to remove the MDI and bring -- and direct staff to bring it back with all of the -- reflecting all of the discussions, guardrails, frameworks that we've discussed here. I think -- and, yes, I heard Dr. Balmes. I think we've discussed, probably more than many have wanted to, that there is a direct connect -- I believe there is a direct connection between the MDI and the GGRF, many economists do, the LAO does. So that would give us time to clarify that, which I heard Member Pacheco-Werner asking for as well. And I'm waiting -- I'm looking forward to that clarification during this pause period that's currently in the resolution. Again, I feel like that's too late, that we should get that before we vote, but that's the purpose of my motion. Thank you for asking.

BOARD MEMBER HOPKINS: Thank you.

And then clarification from staff around just sort of the market uncertainty that created by not deciding today, you know, could you sort of explain how that has potentially impacted in the past or -- I mean, if, for instance, the Board were looking at less free allowances to industry today and expressed that opinion, one would think that that actually might be beneficial to an interim auction, because then folks would be looking at potentially less free allowances going forward. And so would it kind of, I guess, depend on the tenor of the conversation what the impact to the market was?

DEPUTY EXECUTIVE OFFICER SAHOTA: So when we look back at the data for 2016 and '17, when there was political uncertainty, and length of time before we brought our regulation to the Board, those happened relatively quickly. But before those happened, both steps were completed, we had auctions that were undersubscribed, where maybe we got $20 million, and that was it in a single auction. And that data is on our public website.

What we've seen is when the extension was passed last September, there was confidence in the market and we saw slight uptick, but not nearly as much as what we saw in 2016 and '17, when we finished that rulemaking after that extension piece of legislation.

Since then, we have been at the floor. And that is because we have been watching what's happening in the trade press. We have been talking to the market participants and we've been talking to economists who are at UC Davis trying to understand what's going on with the market, because it was so different this time. And what it really is is that the market is waiting for additional signals and certainty on how many allowances are going to be in program. If we're taking out allowances, that is a bullish effect on the market. And if it's over a billion amount -- a billion allowances between now and 2045, that is a huge, huge change in the amount of volume. And that is going to bring people back to be like, okay, I need to buy now because prices are going to go up in the future.

When we met with one of our economist colleagues at UC Davis, who has modeled this Program, he has -- he has indicated that we have a market that has the -- like

Dr. Cliff was saying, has fundamentals where the prices should be reflecting a higher amount now, just based on the fundamentals. And so the only thing that's different right now is the regulatory certainty on what does this program look like, given that we're in this process of doing a rulemaking update.

BOARD MEMBER HOPKINS: So -- but it would sort of depend on what signals were being sent and sort of the context of the conversation, and would -- it would be sort of a short-term duration, is that --

DEPUTY EXECUTIVE OFFICER SAHOTA: The duration would be until there was some action by the Board, yeah.

BOARD MEMBER HOPKINS: Okay. Thank you.

DEPUTY EXECUTIVE OFFICER SAHOTA: And then, of course, what that action was.

CHAIR SANCHEZ: Thank you for those questions, Supervisor Hopkins. And just to emphasize I think staff's point we did see that the last time CARB was contemplating a rulemaking on this regulation and the very real GGRF impacts caused by the Board's deliberations.

Board Member Limón, over to you.

BOARD MEMBER LIMÓN: Thank you, Chair Sanchez. I again want to appreciate all of the work that the staff and the Chair, and all the Board members have put into this rulemaking in trying to decarbonize including to decarbonize the toughest Polluters. You know, we may ultimately have different conclusions, but I have no doubt that the staff's -- they are experts, and diligent, and committed, and very passionate.

You know, nonetheless, in terms of the form and process for this proposed rule, it just continues to be kind of a concern to me. And the urgency driving this request is not yet fully articulated. And I would say, it's not supported by specific evidence either. It seems that we're operating based off of concerns that -- of what the industry may or may not do, based on a position that communicated.

And, you know, as I indicated earlier, in terms of the conversation just now of the pricing signals, a firm that advises carbon market players, indicated that this over-the-cap MDI in itself created a downward price pressure. That's what it's signaling. And as we know from the all so recent report prices are already hovering just above the floor.

So, you know, overall, we're moving from a known and proven program to one where again there may promise, and it's theoretical. This is an experimental proposal. We know that we're supposed to retire 118 million - that's the staffs' conclusion - in order to meet our climate goals, but we're just taking it and putting it into a new pot in a way that hasn't been fully studied.

You know, we don't have data shows that this will prevent leakage or that it will result in consumer affordability benefits. And, you know, we don't know exactly what the impact will be to emissions, whether these additional allowances, you know, is really sort of a bailout to mitigate from external forces, you know, is a windfall for pollution permits, that will, even spreading them out over years, will -- at least there's data indicating that it will result in a stead decline on GGRF and jeopardizes the projected cap decline.

So it's -- overall, I think it's a lost opportunity. It's really unfortunate because, you know, there is a real need and a moment for innovation. So critical in time in light of our national leadership, which is leaving local governments and agencies in very dire circumstances. You know, they are the ones in deep need of financial assistance to proceed with critical projects. There are deep impacts to communities bearing unconscionable burdens. And yet, we're moving these critical resources from communities to refiners whose profit margins continue to increase.

So I think a robust design process could have led to a more successful pathway. And I also greatly appreciate the Chair's very skilled facilitation of this meeting, which has been very challenging and all the Board members' commitment to really understand very complicated issues. I believe a dedicated proceeding would allow us to do this work more rigorously and effectively.

And so given all of these risks, the unresolved questions, and what I fear are departures from statutory mandates and the lack of existing design safeguards, I want to second Board Members Takvorian's motion.

CHAIR SANCHEZ: Thank you, Board Member Limón for those comments and again raising some thoughtful concerns and issues around the design of the Program that I know, should the Board approve the Regulation, the staff looks forward to investigating more.

I have a -- so I have Board Member Takvorian's motion on the table. I have a second. Board Member Rechtschaffen has had his hand up since before the break, so I'm going to go to him and then we will contemplate the motion. And then I will ask our attorneys to read into the record the resolution language that the Councilman wanted to reflect regarding GGRF. And Board Member Rechtschaffen one more point of order. Just Board Member Takvorian, we did make the edit to the resolution to the point that you raised about applications, so essentially directing the Executive Officer to report to the Board and bring potential amendments to this regulation to the Board before any applications are received or issued -- allowances are issued. So thank you for raising that issue. That has been addressed over the break as well.

Board Member Rechtschaffen, the floor is yours.

BOARD MEMBER RECHTSCHAFFEN: Thank you. I think as a result of the resolution language we're talking about and the commitment from the Chair for workshops and a report back to the Board, which hopefully can be done -- can be done very, very quickly, we do have the ability through additional regulatory action to reshape, fix or delay the MDI Program very quickly and even before any allowances are issued. It's a good Program. I heard a lot of support for the Program. I think the risks will be mitigated through this approach.

I don't support a delay because of the risks and uncertainties my colleagues have outlined. I think the risks on the market are real. We live in a very volatile world and a regulation in hand is worth maybe one and a half or two in the bush. And I also very much agree with what Dr. Balmes and Senator Stern said that the big reason for the squeeze we find ourselves in is the other allocation decision. The MDI is not the driver. And as Senator Stern said, the Legislature can react and fix in response to what we do.

So I will not be supporting Board Member

Takvorian's amendment.

CHAIR SANCHEZ: Thank you, Board Member Rechtschaffen. Other clarifying comments on the motion presented by Boar Member Takvorian before we proceed?

Seeing none. We have our motion from Board Member Takvorian, a second from Board Member Limón.

Board Clerk, will yo please call the role.

BOARD CLERK: Dr. Balmes?

BOARD MEMBER BALMES: Balmes, no. Oh. No.

BOARD CLERK: Thank you.

Mr. Eisenhut?

BOARD MEMBER BALMES: No.

BOARD CLERK: Mr. Eisenhut?

BOARD MEMBER EISENHUT: Eisenhut no.

BOARD CLERK: Thank you.

Councilman Guerra?

BOARD MEMBER GUERRA: No.

BOARD CLERK: Supervisor Hopkins?

BOARD MEMBER HOPKINS: Yes.

BOARD CLERK: Ms. Limón?

BOARD MEMBER LIMÓN: Yes.

BOARD CLERK: Dr. Pacheco-Werner?

BOARD MEMBER PACHECO-WERNER: No.

BOARD CLERK: Mr. Rechtschaffen?

BOARD MEMBER RECHTSCHAFFEN: No.

BOARD CLERK: Assemblymember Santiago?
BOARD MEMBER SANTIAGO: No.
BOARD CLERK: Dr. Shaheen?
BOARD MEMBER SHAHEEN: No.
BOARD CLERK: Mayor Silva?
BOARD MEMBER SILVA: No.
BOARD CLERK: Dr. Stigler Granados?
BOARD MEMBER STIGLER GRANADOS: Yes.
BOARD CLERK: Ms. Takvorian?
BOARD MEMBER TAKVORIAN: Yes.
BOARD CLERK: Chair Sanchez?
CHAIR SANCHEZ: No.
BOARD CLERK: Madam Chair, the motion is defeated.
CHAIR SANCHEZ: Thank you. And Board Member Takvorian, again I just want to thank you for the -- the motion was welcomed. I put a lot of value on the deliberations that -- the very thoughtful deliberations that each Board member has put into this Regulation. And as you've heard from me before very much welcome a diversity of opinions and perspectives. I think it strengthens this Board. I think it strengthens our decision-making. And I thank you.
I want to now turn it over to our legal counsel and ask them to read into the record the language that is

responsive to the Councilman's request. And if you could also just read for the Board my proposed amendment, which I think again addresses the concerns with the MDI, asks staff to do additional work an analysis, and bring it all back before the Board before anything moves forward, but let's start with the Councilman's language, please.

CHIEF COUNSEL DILLEY: Thank you, Chair Sanchez. Okay. So the language is on page 17. And it is the seventh paragraph. And I will read it now.

"Be it further resolved, that the Board directs the Executive Officer, working with the Governor's Office and the Department of Finance, to communicate the importance of stable funding for AB 617 community air protection efforts, transit, clean transportation, and affordable housing programs that are focused on reducing emissions and to encourage funding in the State budget."

CHAIR SANCHEZ: Councilman, does that address the issues you raised?

BOARD MEMBER GUERRA: Yes, I concur.

CHAIR SANCHEZ: Great. Thank you.

Any other thoughts on that issue?

Seeing none, if you could read the revised language please on the important direction we are giving to the Executive Officer regarding the next process and the pause on the MDI.

CHIEF COUNSEL DILLEY: Chair Sanchez, on page 16, the first paragraph, it says, "Be it further resolved, that prior to receipt of MDI applications and issuance of any MDI allowances, the Board directs the Executive Officer to report to the Board and to evaluate and propose, as appropriate, future amendments to the MDI Incentive Program."

CHAIR SANCHEZ: Thank you, Counsel. Much appreciated. I'm seeing nods. Board Member Takvorian, I believe that accurately addresses the real Issue you had raise about applications come in and us needing due process before that happens.

Thank you.

Dr. Shaheen, did you have your microphone up.

BOARD MEMBER SHAHEEN: No.

CHAIR SANCHEZ: Great. With that, I -- anything else to reflect in the record, Counsel, regarding the resolution that the Board has before them, Number 26-6 -- number 26-7? Apologies.

CHIEF COUNSEL DILLEY: Sorry. Yeah, so 26-7, the only other things I'll just reflect on page 16, we did make the change to remove the word "types" add an "S" to projects. And that's the paragraph -- second paragraph to the end. And then on page 17 in the first paragraph, the fourth bullet, we added, "And/or other co-benefits, including workforce transition." Those were the -- that concludes the edits we made.

CHAIR SANCHEZ: Thank you. Do I -- with all of those edits as reflected that I think capture the Board's deliberation on that, do I have a motion and a second?

BOARD MEMBER SHAHEEN: I'd like to move the motion forward reflecting your changes and Councilmember Guerra's changes along with others noted by Chief Counsel.

BOARD MEMBER SANTIAGO: Second.

CHAIR SANCHEZ: Great. Thank you.

Great. Thank you. We have a first -- the motion has -- we have a motion and a second.

Board Clerk, would you please call the roll.

BOARD CLERK: Dr. Balmes?

BOARD MEMBER BALMES: Yes.

Can you hear me? Yes.

BOARD CLERK: Yes. Thank you.

Mr. Eisenhut?

BOARD MEMBER EISENHUT: Eisenhut yes.

BOARD CLERK: Councilman Guerra?

BOARD MEMBER GUERRA: Aye.

BOARD CLERK: Supervisor Hopkins?

BOARD MEMBER HOPKINS: I would just like to take a moment before I cast my vote to explain it and to also express gratitude to staff and the Chair, if that's okay.

I just want to say that I was really inspired by all of the public comments yesterday and I'm really grateful to everyone who participated in the process and the fact that so many people from all over the state took the time to participate in it is really an inspiration and it shows just how important this conversation is. I'm also really proud of how the Bay Area in particular showed up.

And honestly, I can't remember the last time that agriculture, environmental justice, environmentalists and local government agreed on anything. I support Cap-and-Invest and I support the cap, and I support keeping this Program aligned with our 2030 and our 2045 climate targets, but I do have serious reservations about the package that is before us today, in large part because of how it came about and the communities that felt left out in the cold by the process.

Those stakeholders, including AB 617 communities, environmental justice organizations, agriculture, transit, affordable housing advocates, environmental advocates, air districts, local government in the North By and the Bay Area, those are the communities that I've spent the last decade of my life working with and for. And in ten years of public service, I've always voted in ways that let me sleep at night, even if it came at a personal or political cost.

And I honestly just can't bring myself to vote for this proposal when it feels like I'm voting against the things that I care most about and against the people that I work for.

The April changes were significant and they changed the investment balance of the program. For many of the people who came yesterday, those were the changes that mattered most. And, you know, when changes that large come that late, the process has to be robust and strong enough to maintain trust. This process didn't do that.

Based on comments yesterday and from the questions and feedback I received in meetings leading up to today, I have to express concern over the public engagement process with stakeholders. I didn't feel like there was proactive engagement on the 15-day changes with transit agencies, affordable housing groups, environmental advocacy groups, environmental justice leaders, and AB 617 communities, climate change groups, and agriculture groups. And based on public comment, it seems like CARB did engage with refineries and IOUs and their feedback was directly reflected in the 15-day changes.

SUPERVISOR JENSEN: Can you slow down.

BOARD MEMBER HOPKINS: Sorry. I speak fast.

It's a habit that I've had for 43 years and I can't break it. I apologize. I'll give a pause for the translators.

I really believe in compromise and I believe that we could, with more time, reach a proposal that minimizes leakage supports, affordability and jobs and addresses some of the concerns raised by our friends and colleagues.

But now we're sort of being told that there's no time and if we fail to approve it, we're going to sort of unleash this apocalypse on the market. So, you know, I -- my concern is that this proposal comes at the expense of zero-emission transit affordable housing, clean air, clean water, increased gas -- greenhouse gas emissions, and potentially Community Emission Reduction Plans.

Maybe it does, maybe doesn't, but I just feel like I would need more information in order to make that determination, you know, what are the emissions reductions per dollar based on how we're investing these funds, what are the air quality and public health benefits and what are the benefits in particular to our priority populations?

So I want to say that I regretfully cannot support this package today and it's not a vote against Cap-and-Invest. It's a vote against making this large allocation change on such short notice before the Board and the public can clearly see, and identify, and understand the benefits.

And to be clear, I will respectfully disagree with the (inaudible), but a no vote has nothing to do with Trump and everything to do with the communities that I heard from and work with every day. For the record, I am not siding with the gentleman from the Heritage Foundation. I am siding with hundreds of comments I heard and received from members of the community, many of them in the Bay Area. And also, as an aside, I am not confident that if we don't vote yes today there will be an apocalypse in the carbon market. I think we could hustle. I think we cold hold emergency meetings. I think we could make it happen. And I don't think that we should be backed into a corner and expected to vote yes on something that we have serious reservations about and lots of unanswered questions about.

So with that, with respect, I vote no.

BOARD CLERK: Thank you.

Ms. Limón.

BOARD MEMBER LIMÓN: No.

BOARD CLERK LEVRINI: Dr. Pacheco-Werner?

BOARD MEMBER PACHECO-WERNER: Thank you. And I would also like to take a moment to just thank everyone that I have been engaged in the past couple of months with, including transit, including the municipalities that

I've heard from on this package. And I want to say that I look forward to seeing how CARB and the Legislature can work together. The -- and CARB vis-à-vis the Governor's office to have a better, more sustainable solution for these programs that we all care about, and that have championed, and that need something more than market volatility to ensure their longevity.

So I will be voting yes. Thank you.

BOARD CLERK: Thank you.

Mr. Rechtschaffen?

BOARD MEMBER RECHTSCHAFFEN: Yes.

BOARD CLERK: Assemblymember Santiago?

BOARD MEMBER SANTIAGO: Yes.

BOARD CLERK: Dr. Shaheen?

BOARD MEMBER SHAHEEN: Yes.

BOARD CLERK: Mayor Silva?

BOARD MEMBER SILVA: Yes.

BOARD CLERK: Dr. Stigler Granados?

BOARD MEMBER STIGLER GRANADOS: I want to echo the sentiments of Supervisor Hopkins. This is a tough decision. And I feel like our communities are going to be impacted, but I also understand, and I've heard the warning messages about this potential outfall. So I just want to kind of go on the record of saying I agree with much of what you said, but I will go ahead and vote yes.

BOARD CLERK: Ms. Takvorian?

BOARD MEMBER TAKVORIAN: I've said a lot during this hearing, so I won't repeat that, but I have to say that I'm very moved by Supervisor Hopkins statement and I would like to align with just about every word of it. I really appreciate you for your thoughtfulness. I appreciate everyone's thoughtfulness, but I think you've characterized the difficult position that we all find ourselves in and thank you for that. And I'll vote no.

BOARD CLERK: Madam Chair?

CHAIR SANCHEZ: Yes.

BOARD CLERK: Excuse me Chair Sanchez.

The motion passes.

CHAIR SANCHEZ: Thank you.

I will turn to our second resolution regarding the mandatory reporting program and then offer, if other Board members would like to make comments, I would welcome them at that time and then we do have to reserve time for open public comment.

The Board has before them Resolution 26-6 for amendments to the mandatory reporting program. Do I have a motion and a second?

BOARD MEMBER SHAHEEN: So moved.

CHAIR SANCHEZ: Thank you.

BOARD MEMBER GUERRA: I'll second.

CHAIR SANCHEZ: Thank you.

Board Clerk, please call the roll.

BOARD MEMBER GUERRA: Madam Clerk, I just -- there were -- I'm going to be supporting the motion, but there were comments brought up by SMUD in this. I don't intend to change anything, but I think there are still concerns on just practical application. And I would like staff to just follow-up and make sure that in the reporting process that it's outlined -- I outlined in their letter -- I think their letter, with some good detail. So thank you.

CHAIR SANCHEZ: Great. Thank you, Councilman, for raising that. And I see nods from the staff. So they will be addressing that with our partners at SMUD.

Board clerk, will you please call the roll.

BOARD CLERK: Dr. Balmes?

I'm going to move on to Mr. Eisenhut.

Okay. We'll go to Councilman Guerra?

BOARD MEMBER GUERRA: Aye.

BOARD CLERK: Supervisor Hopkins?

BOARD MEMBER HOPKINS: Yes.

BOARD CLERK: Ms. Limón?

BOARD MEMBER LIMÓN: Can you repeat what we're voting on now?

CHAIR SANCHEZ: Yes, Resolution 26-6 regarding the mandatory reporting program.

BOARD MEMBER LIMÓN: Okay. Yes. Thank you.

BOARD CLERK: Dr. Pacheco-Werner?

BOARD MEMBER PACHECO-WERNER: Yes.

BOARD CLERK: Mr. Rechtschaffen?

BOARD MEMBER RECHTSCHAFFEN: Yes.

BOARD CLERK: Assemblymember Santiago?

BOARD MEMBER SANTIAGO: Yes.

BOARD CLERK: Dr. Shaheen?

BOARD MEMBER SHAHEEN: Aye.

BOARD CLERK: Mayor Silva?

BOARD MEMBER SILVA: Yes.

BOARD CLERK: Dr. Stigler Granados?

BOARD MEMBER STIGLER GRANADOS: Yes.

BOARD CLERK: Ms. Takvorian?

BOARD MEMBER TAKVORIAN: Yes.

BOARD CLERK: Chair Sanchez?

CHAIR SANCHEZ: Yes.

BOARD CLERK: The motion passes.

CHAIR SANCHEZ: Thank you.

Before we turn to public comment, any additional comments? I want to, Board Member Takvorian, borrow your phrase here about feeling moved over the last two days by the level of engagement from the members of the public, by our staff with their tireless work on this regulation, including the discussion with the Board by the BARCU staff for -- it is a herculean feat to orchestrate these Board Meetings and to do so over two business days well into last evening is deeply appreciated.

When I was appointed Chair, it was a few weeks after Governor Newsom signed the Cap-and-Invest extension into law. And this is one of the items I was most looking forward to deliberating on. And little did I know how thoughtful my colleagues would be - this is going to get emotional - how difficult the trade-offs would be, the amount of sustained public engagement, the amount of sustained legislative engagement. And I just want -- my fellow Board members I think have echoed this very well to all of our stakeholders. But the work does not stop here with this vote.

The Board looks forward to staff's additional analysis, and guardrails, and proposals regarding the MDI, but this Board, in addition to amending this program eight different times, looks forward to constantly monitoring it and improving it, implementing additional legislative direction, should the Legislature choose that to do that over the next few weeks. And yeah, from the bottom of my heart feeling very moved. So thank you, Board Member Takvorian for putting that onto the table and that sentiment.

With that, we will now move to open comment for --

BOARD MEMBER PACHECO-WERNER: Madam Chair, if I may?

CHAIR SANCHEZ: Yes, Dr. Pacheco-Werner.

BOARD MEMBER PACHECO-WERNER: Sorry. Thank you.

I think that I don't want it to be lost on anyone that the Board and at least on my end, and I know some of the Board members that I've worked closely on, that have been meeting with stakeholders for the past few months have every intention of ensuring that this Program in its implementation is thoughtful, and that as we look at the MDI process specifically, that that -- that that process is thoughtful and has the correct guardrails and mechanisms to ensure success for those projects that do get approved.

Now, I do want to say that I think that it was -- reiterate that looking into some of these programs and how they're funded is a really key priority and it should be a key priority. And I've had these conversations with some of the stakeholders that spoke yesterday already about their concerns around funding, because I do think that as a Californian, we need to have a broader conversation about these programs and the opportunities that do exist, vis-à-vis the climate bond, vis-à-vis the Legislature, and other mechanisms out there other than market mechanisms. And so I do think that I personally want everyone to know that I am fully committed to continuing to work on that, that there's no sort of give everything up and go home, that the work absolutely continues to ensure that all of these programs have better sustainability attached to them.

And the conversation really about the volatility of those programs should have started in January, because as staff has reiterated time and time again, right, this is part of this process and was part of the January proposal as well. But I want to just say that -- I want to thank all my colleagues who have been engaged in this thoughtful process and I think that we are such a stronger Board for having disagreements and having difference of opinions, because I think that the Californians do want to know that we are all very carefully considering all of the stakeholder inputs, as we all did today.

And so I definitely -- I want to extend my respect to my colleagues that I voted differently than today, because I do think that that makes us really strong as a Board and helps us all make better decisions and more thoughtful decisions.

So thank you and thank you to staff, because I truly know that -- you know, I met with every stakeholder, you know, and we're talking about getting up -- you know dozens of meetings and they were already meeting with you three times over. And so I can only imagine the volume of stakeholder input that you all had. So thank you on that.

CHAIR SANCHEZ: Thank you for that -- for those sentiments Dr. Pacheco-Werner. I know many of those -- many of those sentiments about ongoing work and commitment from the Board are shared.

So we had two Board departures, which means we have lost our quorum.

Yep, we have lost our quorum.

Counsel -- one moment. Brief Break.

CHAIR SANCHEZ: Our quorum has returned. We will now move to open comment for those members of the public that are here and are hoping -- wish to comment on an item not within the jurisdiction -- within the jurisdiction of the Board that is not on today's items. The clerk will call on those who have requested to speak.

Board Clerk, do we have public commenters signed up?

BOARD CLERK: Thank you, Chair. We only have one respect -- request-to-speak card. We received it yesterday. We're not sure if this person is here today.

Ana Gonzalez.

No in-person commenters.

BOARD CLERK: But we do have two on Zoom.

CHAIR SANCHEZ: Great.

BOARD CLERK: The first is Marven Norman followed by Barry F. Boyd.

Marven, I have activated your microphone. You can unmute and begin.

MARVEN NORMAN: Thank you. My name is Marven -- my name is Marven Norman. I'm a resident of San Bernardino and I calling -- or commenting today about the recent MOU -- we understand -- we found out that CARB has signed with BNSF, which was disappointing to hear about as with -- as regards to the proposed Barstow International Gateway, BIG.

We -- looking over that MOU, it's concerning to see that the commitments that are made in the MOU by BNSF are far below the commit -- requirements of EIR. So it is concerning to see that CARB signed an MOU for -- to get BNSF on paper to agree to do something that's less than the EIR. That's concerning for several reasons. Obviously, you know, if the EIR already required more, why would we require -- why would we sign an MOU for less, but also, you know, it -- hopefully it doesn't set up the legal way for BNSF to run around and now argue that they don't have to meet the EIR requirements because they signed this MOU.

Here in San Bernardino, we have one of the worse, most air polluting railyards in the state. And this -- the BIG project in Barstow will add additional trains through the yard to take the traffic up the hill. And so I know CARB has in recent years done analysis that already showed that that was possible for zero-emissions trains several years ago, and technology has improved since then.

And even the EIR called for all Tier 4 locomotives for that -- for the -- to service the port -- the BIG project itself. So we would call on CARB to do better with your MOUs, to not undercut the EIR itself with the MOU that allows BNSF to get away with continue to poisoning some of the most impacted communities in the state, and instead help BNSF from -- electrify that corridor. It's been studied many times by BNSF, by SCAG, by Metrolink. And it is feasible as proposed by your guys. So thank you and make it happen, please.

Thank you.

BOARD CLERK: Thank you. Next is Barry F. Boyd. Barry F. Boyd, I have activated your microphone. You can unmute and begin.

BARRY F. BOYD: Good evening. Can everyone hear me?

BOARD CLERK: Yes.

BARRY F. BOYD: Can you hear?

BOARD CLERK: Yes, we can hear you.

BARRY F. BOYD: Hello. Hello.

Hopefully you can hear me, because I don't hear anything.

With that said, yes, I am Barry F. Boyd speaking as a private citizen. I do wear the hat as Board member and Chair of Air Quality for the Sacramento Environmental Justice Coalition and an AB 617 South Sacramento-Florin Community Steering Committee member.

With that said, I'm speaking here in my own voice, not of the aforementioned roles that I play.

I'm disappointed with the yes vote, especially after the Senator walked us through the tens of millions of dollars that are being available that will become available for the incentives for these multi-national corporations that profit in the billions of dollars.

And two things, one, the monies for those incentives have to come from somewhere. And to say it's not going to affect the GGFR[SIC] may be -- GGRF, excuse me, maybe disingenuous. I didn't hear real grounds on how the monies won't be affected. I was hearing for accounting, amortization in -- from current standings for five, ten years from now and the action -- and not actualities, because this was a projection, so you can't guess the market. Understood. But the monies to fund those incentives that you guys just gave away to those again multi-national billion -- billions of dollars profiting corporations and businesses is absurd. It's unfortunate you guys didn't stand with the people, but we have the power at the ballot and we will exercise that in a few days and elections coming forward.

BOARD CLERK: Thank you.

Next is Ivan Ortiz followed by Reuben.

Ivan, you may begin.

IVAN ORTIZ: Good evening. My name is Ivan Ortiz and I'm a resident of Kern County. I want to start with a thank you to the four Board members who voted yes on the alternative motion, and for having the community in mind when voting. From listening in to CARB meetings, it has become clear that a lot of important decisions that can impact the health and well-being of communities, happened without adequate time to make changes.

This has happened in the past with the 2024 PM2.5 plan and is going to happen with the upcoming ozone revision and any potential changes to the California Oil and Gas Regulation, which CARB continues to delay presenting. This seems disingenuous to the experience that communities share with the Board. And from watching this public hearing, it seems that CARB staff only prepares to present one quote/unquote viable option with no time to make any substantial changes, if needed. I hope that CARB takes this into account moving toward and provides adequate time for discourse and adjustments to future climate policy changes.

Thank you.

BOARD CLERK: Thank you.

Reuben, you may begin.

REUBEN RODRIGUEZ: Yeah. Can you guys hear me?

BOARD CLERK: Yes, we can.

REUBEN RODRIGUEZ: Awesome. Thank you.

Buenas tardes. My name is Reuben Rodriguez, also a resident of the Central Valley. You know, and I'm very upset, very disappointed by the vote that happened here. It's incredible to think that, you know, as nice as some of you guys speak and as beautiful as you guys try to paint the situation, the reality of the fact is the vote that you guys just made is hurting us. It is impacting front-line communities. It is hurting the elderly. It is hurting the youth. It is hurting so many of us. And you guys sit up there and do something with, you know, the intention that might not be to hurt us, but you understand what's going on and you see the transfer that's happening of money. And this money is not money that should be leaving our communities. It's money that needs to stay in our communities, because our communities are impacted by not only what's happening, right, but the corruption, and the greed, and I'm really upset.

And I had this whole theme typed up and ready to go, but it just -- it throws me off. It throws me off to see you guys and speak so well and speak so beautifully, but at the end of the day, make the decision that is impacting my family, that is impacting daughter, that is impacting everybody that lives in my high community. And I have to say that if you are not doing what we are asking you to do, then what you need to do is find a different job and let somebody step up that is going to be making the decision that is going to have us at the forefront of what is happening here.

Thank you.

BOARD CLERK: Thank you.

Before I move on to the next commenter, I'd like to remind the public that open comment is for items not included on today's agenda.

Next, I'm going to move to Bryan Culbertson. Bryan, I have activated your microphone.

BRYAN CULBERTSON: Hi. My name is Bryan Culbertson. I live in Oakland, California and I'm commenting about improvements to the public comment process. Yesterday, you had a lot of commenters and many of us were waiting on Zoom for like seven hours to comment. And if we lost WiFi or any sort of access, we completely lost our ability to comment. I'm hoping that there can be a better way to provide public comment in the future. Written comments don't seem to have been considered. So it does seem that you need to be on Zoom for hours in order to provide public comment. So some better process to do that in the future.

And the second thing is it seems like it was too late to provide public comment. What we heard today was that staff didn't provide any options for the Board to make any changes. So the public comment that we -- that was assembled yesterday had no effect, because there was no option for it to have an effect. If -- it would be great if there was a Board meeting where there was public comment in enough time for there to be made changes into the future. So set a meeting in enough time and provide enough opportunity for people to provide comment.

Thank you.

BOARD CLERK: Thank you.

Next, we have Joaquin Castillejos.

JOAQUIN CASTILLEJOS: Hi. My name is Joaquin Castillejos. I am resident of the Inland Empire and I'm here today to speak on CARB's MOU with BNSF for the BIG Project. I just wanted to state today that this MOU is not beneficial for the communities adjacent to the BIG environmental justice organizations, including the Coalition for Electric Rail Only and others who have submitted multiple comments asking for more electrification and mitigation measures to protect the surrounding communities. And this is something that has not been applied.

You know, what we're seeing right now is that the BNSF and the City of Barstow have lied when they claim that BNSF is going to reduce diesel consumption. What was -- the truth is that BIG will burn three million gallons of diesel annually, which is equal to over 70,000 barrels. This is going to increase the pollution by an extraordinary amount and going to impact our communities that live across the high desert and the inland empire all the way to the ports in LA. We need CARB to get serious on rail issues and not to fail on their promises and responsibilities to the communities.

CARB promised multiple times that it would have regular community meetings between community members, CARB and the railroads, and it kept getting delayed. And now we're halfway through 2026 and there have been no meetings. But now CARB signed the MOU with BNSF showing the community that they were never really ready to talk to them. And what we would like is for CARB to be more transparent and to talk to the community and reject the

MOU. Thank you.

BOARD CLERK: Thank you.

Lastly, we have Cesar A.

CESAR A.: Hello. My name is Cesar. I'm calling in as a private resident of Kern.

I did want to call to express gratitude to the four Board members that supported Diane's motion and the three that voted no. The hard thing to do is often the right thing. And so I'd like to thank the Board members that were willing to not just make a commitment as a stance, but a commitment to the commitment to come to the table and do the hard thing because it was the right thing to do. So your votes will live in my hearts and I will remember them. Thank you again.

BOARD CLERK: Thank you.

Madam Chair, that concludes open comment.

CHAIR SANCHEZ: Thank you. And thank you to those commenters for joining today.

It is with great deep gratitude that the May 29th Board meeting of the California Air Resources Board is now adjourned.

Thank you.

(Thereupon the California Air Resources Board meeting adjourned at 5:41 p.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Air Resources Board meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 7th day of June, 2026.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063