Updated Informative Digest

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

Sections Affected:

Proposed amendment to California Code of Regulations, Title 17, Division 3, Chapter 1, Subchapter 10, Article 5, Sections 95801, 95802, 95803, 95811, 95812, 95813, 95814, 95821, 95830, 95831, 95832, 95833, 95834, 95835, 95840, 95841, 95841.1, 95852, 95852.1, 95852.1.1, 95852.2, 95856, 95870, 95871, 95890, 95891, 95892, 95893, 95894, 95911, 95912, 95913, 95914, 95915, 95920, 95921, 95922, 95923, 95942, 95973, 95974, 95975, 95975.1, 95976, 95977, 95977.1, 95978, 95979, 95980.1, 95981, 95981.1, 95983, 95984, 95985, 95986, 95987, 95989, 96011, 96021, 96022, Appendix B, Appendix C, and Appendix D. Proposed adoption of California Code of Regulations, Title 17, Division 3, chapter 1, Subchapter 10, Article 5, sections 95852.3 and 95975.1. Proposed deletion of California Code of Regulations, Title 17, Division 3, Chapter 1, Subchapter 10, Article 5, sections 95859 and 95990.

Documents Incorporated by Reference (Cal. Code Regs., tit. 1, § 20, subd. (c)(3)):

The following documents would be incorporated in the regulation by reference as specified by section:

- American Society for Testing and Material (ASTM) designation D-4806-21, "Standard Specification for Denatured Fuel Ethanol for Blending with Gasolines for Use as Automotive Spark-Ignition Engine Fuel," April 2021, section 95802(a)
- ASTM C150, "Standard Specification for Portland Cement," July 2022, section 95802(a)
- ASTM C595, "Standard Specification for Blended Hydraulic Cements," July 2023, section 95802(a)
- ASTM C1157, "Standard Performance Specification for Hydraulic Cement," September 2023, section 95802(a)
- California Public Utilities Commission (CPUC). "Decision Adopting Customer Climate Credit Updates," (Decision 21-08-026), August 2021, section 95891(b)(2)
- Internal Revenue Service, "Section 45V Credit for Production of Clean Hydrogen," July 2024, section 95891(g)(2)(C)1.a. and 95891(g)(7)(E)2.a.
- California Air Resources Board, "California Climate Investments Quantification Methodology Emission Factor Database Documentation" and "Appendix A: Sustainable Communities and Clean Transportation," January 2024, section 95892(e)(4)(B)2.b. and 95893(e)(4)(B)2.c.

Background and Effect of the Proposed Regulatory Action:

Climate change is one of the most serious environmental threats facing humankind, and California is already feeling its effects and growing impacts to the economy and affordability. From 2020-2024, California experienced an average of $6.5 billion in annual damages from extreme climate events such as droughts, floods, and wildfires, with both the frequency and severity of such events far exceeding historical averages.[1] Home insurance is harder and more expensive to get. Seven of California's largest property insurers, State Farm, Allstate, Farmers, USAA, Travelers, Nationwide, and Chubb, recently limited new homeowners policies in the Golden State — raising questions about the stability of the California home insurance market.[2] During an 11-year period, exposure to wildfire smoke caused more than 50,000 deaths in California and more than $400 billion in economic impacts.[3] During seven extreme heat events over the past decade, California experienced $7.7 billion in losses.[4] Fueled by record drought conditions linked to climate change,[5] the January 2025 Southern California wildfires caused widespread losses including at least 440 deaths, with 31 direct deaths and 409 indirect fatalities from smoke or healthcare disruptions,[6] and destruction of over 16,0000 structures.[7] The economic impacts from these fires alone is estimated to be more than $30 billion.[8]

This regulatory update, which reflects Assembly Bill (AB) 1207 (Irwin, Stats. 2025, ch. 117) providing legislative direction through 2045, will keep momentum for private investment in clean energy and technology to support the State's air quality and climate targets while growing the economy. California committed to take action to address the threat of a changing climate through the adoption of AB 32 (Nunez, Stats. 2006, ch. 488), which requires California to reduce its statewide greenhouse gas (GHG) emissions to 1990 levels by 2020, a goal achieved several years earlier than mandated, and identifies the California Air Resources Board (CARB) as the State agency charged with monitoring and regulating sources of the GHG emissions that cause climate change. AB 32 also requires CARB to work with other jurisdictions to identify and facilitate the development of integrated and cost-effective regional, national, and international GHG emissions reduction programs.

AB 32 authorizes CARB to use a market-based aggregate emissions mechanism to reduce GHG emissions, and CARB promulgated the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (known as the Cap-and-Invest Regulation or Regulation) pursuant to this authority. In 2016, the Legislature reaffirmed California's commitment to acting against climate change by adopting Senate Bill (SB) 32 (Pavley, Stats. 2016, ch. 249), which called for at least a 40% reduction in GHG emissions

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[1] National Centers for Environmental Information, *Billion-Dollar Weather and Climate Disasters, California Summary* (January 2025).

[2] Bankrate, *Limited Home Insurance Options in California As Major Carriers Pull Back* (August 2024).

[3] UCLA, *The death toll from wildfire smoke* (June 2024).

[4] California Department of Insurance, *Commissioner Lara releases pioneering analysis on hidden costs of extreme heat in California* (July 2024).

[5] NOAA, *The weather and climate influences on the January 2025 fires around Los Angeles* (February 2025).

[6] Boston University School of Public Health, *Death Count for 2025 LA County Wildfires Likely Hundreds Higher than Official Records Show* (August 2025).

[7] CAL FIRE, *2025 Fire Season Incident Archive* (undated).

[8] Doug Smith and Sandhya Kambhampati, "*Real estate losses from fires may top $30 billion, from old mobile homes to $23-million mansions*," Los Angeles Times (February 21, 2025).

below 1990 levels by 2030. In 2017, AB 398 (Garcia, Stats. 2017, ch. 135) clarified the role of the Cap-and-Invest Program in achieving the 2030 GHG emissions reduction target. In passing AB 398, the Legislature, through a two-thirds supermajority vote, directed many of the design elements in the existing Regulation, while simultaneously offering strong support for the Cap-and-Invest Program as one of California's key tools for achieving the State's GHG emissions reduction targets.

In 2022, the Legislature passed AB 1279 (Muratsuchi, Stats. 2022, ch. 337), which requires both reducing anthropogenic GHG emissions 85% below 1990 levels by 2045 and achieving carbon neutrality by 2045. AB 1279 was passed alongside SB 905 (Caballero, Stats. 2022, ch. 359), which recognized the need for carbon dioxide removal in achieving the State's mid-century climate targets. CARB's 2022 Scoping Plan for Achieving Carbon Neutrality (2022 Scoping Plan Update)[9] laid out a cost-effective and technologically feasible path to fulfill the AB 1279 mandates. Concurrent to the development of the 2022 Scoping Plan Update, CARB adjusted the GHG Emissions Inventory to more fully incorporate third-party verified GHG emissions data and correct some errors. Importantly, 2022 Scoping Plan Update modeling indicates that the State needs to increase the pace of emissions reductions to align with the trajectory needed to meet the State's more aggressive 2045 climate targets. Achieving the programmatic goals outlined in the 2022 Scoping Plan Scenario would result in an 86% reduction in total fossil fuel demand in 2045 relative to 2022. Under the Scoping Plan Scenario, impacts to economic and job growth would be negligible in both 2035 and 2045, while delivering $200 billion of health benefits in 2045 due to substantial reductions in emissions of harmful air pollution.

In 2025, the Legislature extended the Cap-and-Invest Program to 2045 with a pair of bills, AB 1207 and SB 840 (Limón, Stats. 2025, ch. 121), that passed both chambers with a supermajority vote. In AB 1207, the Legislature directed the Program to instead be referred to as the Cap-and-Invest Program (previously being referred to as the Cap-and-Trade Program), and CARB is implementing that name change. These bills reaffirm the role of the Cap-and-Invest Program in supporting progress toward the 2030 and 2045 GHG emissions reduction targets and include targeted changes to the Program, directs review of compliance offset protocols, and appropriation of auction revenues.

Since the adoption of the first Scoping Plan in 2008,[10] carbon pricing in the form of a Cap-and-Invest Program has been part of California's successful portfolio approach to achieving the State's GHG emissions reduction targets, and it will remain critical as California progresses towards carbon neutrality. The Program complements sector-specific programs and creates a strong economic incentive for investments in GHG emissions reduction by establishing a declining cap on approximately 80% of total statewide GHG emissions. CARB's continuation and expansion of the suite of climate programs created in response to AB 32, including the Cap-and Invest Program, is consistent with recent statutory direction in AB 1207 and, as described in the 2022 Scoping Plan Update, is critical to achieving the targets set forth in both SB 32 and AB 1279. Importantly, CARB is directed to find the most cost-effective and

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[9] (CARB 2022a) California Air Resources Board. 2022 Scoping Plan for Achieving Carbon Neutrality. December 2022. *https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf*.

[10] (CARB 2008a) California Air Resources Board. Climate Change Scoping Plan. December 2008. *https://ww2.arb.ca.gov/sites/default/files/classic/cc/scopingplan/document/adopted_scoping_plan.pdf*.

technologically feasible path to achieve the State's climate targets. The Cap-and-Invest Program continues to be one of the most cost-effective programs for the covered sectors when compared to prescriptive regulations and a carbon tax set at the social cost of carbon.

Following the loss of federal funding opportunities, the Proposed Amendments are critical to leverage private investments and provide additional support for deploying low-carbon technologies, which will be needed this decade to support meeting the 2030 target and be on track for the 2045 targets. The carbon price imparted by the Cap-and-Invest Program is a key signal supporting the necessary flow of investments to GHG emissions reduction activities.

The suite of Proposed Amendments to the Cap-and-Invest Regulation work collectively to ensure the Program provides the long-term price signal and appropriate incentives, to support the 2030 target and align with the trajectory for the economy-wide deep decarbonization needed through mid-century. Most significantly, staff propose to revise allowance budgets through 2045 by removing over 1 billion allowances to align with the technical adjustments to the GHG Emissions Inventory and to support achieving the legislative GHG emissions reduction targets for 2030 and 2045. These proposed changes to allowance budgets would increase the stringency of the Program, intensifying incentives for covered entities to invest in GHG emissions reduction activities in the near- and long-term. The package of Proposed Amendments is informed by AB 1207, AB 1279, the 2022 Scoping Plan Update, the existing 2030 GHG emissions reduction target enacted through SB 32, evolving State policy, and implementation experience.

Objectives and Benefits of the Proposed Regulatory Action:

Overall, the Proposed Amendments to the Cap-and-Invest Regulation are focused on the following objectives:

- Updating allowance budgets through the removal of over 1 billion allowances to reflect recent adjustments to the GHG Emissions Inventory and alignment of post-2030 budgets in support of achieving the State's 2045 climate targets.
- Updating market rules to support liquidity, enhance market protections, and contain costs.
- Ensuring the Program appropriately supports consumer affordability, covers emissions, minimizes GHG emissions leakage, and incentivizes decarbonization in the evolving electricity, industrial, and transportation sectors.
- Removing allowances to account for the use of offset credits in annual budgets, as required by AB 1207.
- Transitioning free allowances from natural gas suppliers to electrical distribution utilities, as required by AB 1207.
- Incorporating technical updates to offset credit provisions to clarify and streamline implementation and reflect lessons learned.
- Incorporating administrative updates to clarify and streamline Program implementation.

The Program is a system of design elements that together send a steadily increasing carbon price signal while avoiding price shocks. As such, staff have considered changes to the design elements as part of the overall system and not in isolation, and the cumulative impacts of changes to design elements are considered in the context of the need for overall Program stability and a steadily increasing price signal. Overall, the suite of Proposed Amendments works collectively to ensure the Program provides a steady long-term carbon price signal, appropriate incentives, to support the 2030 target and align with the trajectory for the economy-wide deep decarbonization needed through mid-century.

These proposed changes would result in significant GHG emissions reduction as well as air quality, health, and economic benefits across the State. These benefits, which are presented relative to expectations under the current Cap-and-Invest Regulation, include:

GHG and Air Quality Benefits:

- The Proposed Amendments are designed to support achieving the State's 2030 and 2045 GHG emissions reduction targets and are expected to reduce GHGs by 953 million metric tons carbon dioxide equivalent ($MTCO_2e$) during 2027-2046 from reduced fossil fuel combustion at covered facilities.
- Reduced fossil fuel combustion due to the Proposed Amendments is estimated to reduce 305,000 short tons of oxides of nitrogen (NOx) and 50,000 short tons of fine particulate matter (PM2.5) emissions from 2027-2046. These air quality improvements result in avoided incidents of public health indicators, such as asthma symptoms or cardiopulmonary mortality, in communities near covered facilities.
- Staff estimates the monetary value of these avoided health costs to be $122 billion during 2027-2046.

Economic Benefits:

- Increased incentives to unlock transformative investments in low-carbon production methods and fuels.
- $8.3 billion in estimated increased utility allowance auction revenue through 2046, which will be used to benefit ratepayers through the California Climate Credit and programs that reduce GHG emissions.[11]
- Avoided future global climate damages of $196-$495 billion, as estimated by applying the social cost of carbon.
- Expansion of businesses and employment opportunities in sectors that provide clean energy technologies and low-carbon fuels.

The Proposed Amendments will also help support implementation of California's complementary sector-specific programs, facilitate the rapid large-scale deployment of decarbonization solutions identified by the 2022 Scoping Plan Update, and will provide a model for other jurisdictions looking to adopt their own emissions trading systems. As other jurisdictions consider their own programs, CARB continues to improve efficiency, maintain environmental integrity, and align the Program with a transition to a deeply decarbonized economy to ensure that the Cap-and-Invest Program remains a policy that is effective for California and informative to other jurisdictions.

[11] All economic benefits are estimated using a set of assumptions described in the Staff Report and Form 399 Economic Analysis. As the market administrator and due to forecast uncertainty, CARB cannot predict actual allowance value and is using a base set of assumptions for this economic analysis.

Description of Regulatory Action

On January 20, 2026, CARB released the Notice of Public Hearing (45-Day Notice) and Staff Report: Initial Statement of Reasons for Rulemaking (Staff Report), titled “Public Hearing to Consider the Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms,” for public review. The Staff Report contains a description of the regulatory action and the rationale for the proposed amendments, which are incorporated herein. On January 20, 2026, all references relied upon and identified in the Staff Report were made available to the public. CARB received written comments from 863 commenters during the 45-Day Notice comment period.

CARB subsequently released a Notice of Public Availability of Modified Text and Availability of Additional Documents and Information (15-Day Notice) on April 14, 2026. The text of the proposed regulatory and staff report modifications and additional documents relied upon was posted on CARB’s website at *https://ww2.arb.ca.gov/rulemaking/2026/cap-and-invest2026*, accessible to all stakeholders and interested parties. CARB received written comments from 218 commenters during the 15-Day Notice comment period, which was extended by an additional 5 days.

On May 28-29, 2026, CARB conducted a public hearing. CARB staff informed the Board of the Proposed Amendments to the Cap-and-Invest Regulation, and the Board received written and oral comments from 308 commenters. At the conclusion of the hearing, the Board approved Resolution 26-7 for adoption of the Proposed Amendments to the Regulation.

In accordance with Government Code section 11346.8, the Board directed the Executive Officer to take final action adopt the Proposed Amendments after making any appropriate conforming modifications, as well as any additional supporting documents and information, available to the public for a period of at least 15 days. The Board further provided that the Executive Officer shall consider such written comments as may be submitted during this period, shall make such modifications as may be appropriate in light of the comments received, and shall present the regulations to the Board for further consideration if warranted.

Comparable Federal Regulations:

There are no directly comparable federal regulations mandating economy-wide Cap-and-Invest Program. The Proposed Amendments continue to place a compliance obligation on large industrial sources, fuel suppliers, and electricity generators and importers for the GHG emissions associated with their current and future activities. The GHG emissions from these entities, except for the GHG emissions from certain electricity generating units (EGUs) covered by the federal new source performance standards and emissions guidelines set under section 111 of the Clean Air Act,[12] are not currently covered by any federal regulations.

Covering these GHG emissions does not conflict with federal regulations. Affected EGUs under those federal standards are covered under the proposed amended Regulation; indeed,

[12] The U.S. Environmental Protection Agency has proposed to rescind these new source performance standards and emissions guidelines. (90 Fed. Reg. 25,752 (June 17, 2025).) At the time of publication, that proposal has not been finalized, though a final rule is under review at the Office of Management and Budget. If it were finalized as proposed, then no sources would be covered by any federal GHG regulations.

compliance by affected EGUs with the proposed amended Regulation is the likely means by which the State will propose to demonstrate compliance with the federal standards. The federal standards generally allow for state measures, such as California's Cap-and-Invest Program, that place requirements on affected EGUs in order to meet aggregate emissions limits for the entire sector during each compliance period. The proposed amended Regulation is not different from federal regulations but rather a state measure that can be used as a means of complying with federal regulations. The Cap-and-Invest Program and the present Proposed Amendments do not conflict with federal regulations.

An Evaluation of Inconsistency or Incompatibility with Existing State Regulations (Gov. Code, § 11346.5, subd. (a)(3)(D)):

During the process of developing the proposed regulatory action, CARB conducted a search of any similar regulations on this topic and concluded these regulations are neither inconsistent nor incompatible with existing state regulations.