

# Title 17. California Air Resources Board

## Notice of Public Hearing to Consider Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

The California Air Resources Board (CARB or Board) will conduct a public hearing at the date and time noted below to consider approving for adoption the Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Trade Regulation).

Date: May 28, 2026

Time: 9:00 A.M.

In-Person Location:

California Air Resources Board  
Byron Sher Auditorium  
1001 I Street, Sacramento, California 95814

Remote Option:

Zoom

This public meeting may continue at 9:00 a.m., May 29, 2026. Please consult the public agenda, which will be posted ten days before the May 28, 2026, Board Meeting, for important details, including the day on which this item will be considered and how the public can participate via Zoom if they choose to be remote.

## Written Comment Period and Submittal of Comments

In accordance with the Administrative Procedure Act, interested members of the public may present comments orally or in writing during the hearing and may provide comments by postal mail or by electronic submittal before the hearing. The public comment period for this regulatory action will begin on January 23, 2026. Written comments not submitted during the hearing must be submitted on or after January 23, 2026, and received **no later than Monday, March 9, 2026**. Comments submitted outside that comment period are considered untimely. CARB may, but is not required to, respond to untimely comments, including those raising significant environmental issues. The Board also encourages members of the public to bring to the attention of staff in advance of the hearing any suggestions for modification of the proposed regulatory action. Comments submitted in advance of the hearing must be addressed to one of the following:

Postal mail: Clerks' Office, California Air Resources Board  
1001 I Street, Sacramento, California 95814

Electronic submittal: <https://ww2.arb.ca.gov/lispub/comm/bclist.php>

Please note that under the California Public Records Act (Government Code section 7920.000 et seq.), your written and oral comments, attachments, and associated contact information (e.g., your address, phone, email, etc.) become part of the public record and can be released to the public upon request.

Additionally, the Board requests but does not require that persons who submit written comments to the Board reference the title of the proposal in their comments to facilitate review.

## **Authority and Reference**

This regulatory action is proposed under the authority granted in California Health and Safety Code, sections 38510, 38560, 38562, 38562.2, 38566, 38570, 38580, 39600, and 39601. This action is proposed to implement, interpret, and make specific sections, 38562, 38564, 38565, 38566, 38570, 38571, and 39600 of the Health and Safety Code.

## **Informative Digest of Proposed Action and Policy Statement Overview (Gov. Code, § 11346.5, subd. (a)(3))**

### **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, 95976, 95977, 95977.1, 95978, 95979, 95980.1, 95981, 95981.1, 95983, 95984, 95985, 95986, 95987, 95989, 96001, 96021, 96022, Appendix B, Appendix C, and Appendix D. 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)

- 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.
- Internal Revenue Service, “Section 45V Credit for Production of Clean Hydrogen,” July 2024, section 95891(g)(2)(C)1.a.

## 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. A 2024 national report ranked California the worst state for natural disasters fueled by a changing climate, with expected annual losses through 2024 totaling more than \$16 billion annually statewide.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> During seven extreme heat events over the past decade, California experienced \$7.7 billion in losses.<sup>4</sup> Fueled by record drought conditions linked to climate change,<sup>5</sup> 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,<sup>6</sup> and destruction of over 16,000 structures.<sup>7</sup> The economic impacts from these fires alone is estimated to be more than \$30 billion.<sup>8</sup> This regulatory update, which reflects the Legislative direction in AB 1207 (Irwin, Chapter 117, Statutes of 2025) providing 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 through the adoption of Assembly Bill (AB) 32 (Nunez, Chapter 32, Statutes of 2006), which requires California to reduce its statewide GHG emissions to 1990 levels by 2020, a goal achieved several years earlier than mandated, and identifies 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 Cap-and-Trade Regulation pursuant to this authority. In 2016, the Legislature reaffirmed California’s commitment to acting against climate

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<sup>1</sup> ClaimGuide.org, *Disaster Preparedness: Riskiest Places for Severe Weather* (May 2024).

<sup>2</sup> Bankrate, *Limited Home Insurance Options in California As Major Carriers Pull Back* (August 2024).

<sup>3</sup> UCLA, *The death toll from wildfire smoke* (June 2024).

<sup>4</sup> California Department of Insurance, *Commissioner Lara releases pioneering analysis on hidden costs of extreme heat in California* (July 2024).

<sup>5</sup> NOAA, *The weather and climate influences on the January 2025 fires around Los Angeles* (February 2025).

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

<sup>7</sup> CAL FIRE, *2025 Fire Season Incident Archive* (undated)

<sup>8</sup> 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).

change by adopting Senate Bill (SB) 32 (Pavley, Chapter 249, Statutes of 2016), which called for at least a 40% reduction in GHG emissions below 1990 levels by 2030. Following in 2017, AB 398 (Garcia, Chapter 135, Statutes of 2017) 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, Chapter 337, Statutes of 2022), which requires both reducing anthropogenic GHG emissions by 85% below 1990 levels by 2045 and achieving carbon neutrality by 2045. AB 1279 was passed along side SB 905 (Caballero, Chapter 359, Statutes of 2022) 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)<sup>9</sup> laid out a cost-effective and technologically feasible path to fulfill the AB 1279 mandates. 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-Trade Program to 2045 with a pair of bills, AB 1207 and SB 840 (Limón, Chapter 121, Statutes of 2025), that passed both chambers with a supermajority vote. In AB 1207, the Legislature directed the Cap-and-Trade Program to be referred to instead as the Cap-and-Invest Program, and CARB is implementing that name change.<sup>10</sup> These bills reaffirm the role of Cap-and-Invest in supporting progress toward the 2030 and 2045 GHG reduction targets and include targeted changes to the Program, reviews of compliance offset protocols, and appropriation of auction revenues.

Since the adoption of the first Scoping Plan in 2008,<sup>11</sup> 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 outlined in the 2022 Scoping Plan Update, is critical to achieving the targets set forth in both

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<sup>9</sup> (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>

<sup>10</sup> This name change is part of the Proposed Amendments. In this document, we refer to the Program generally as Cap-and-Invest or Program. The Cap-and-Trade Regulation will change to the Cap-and-Invest Regulation once the Proposed Amendments are adopted.

<sup>11</sup> (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](https://ww2.arb.ca.gov/sites/default/files/classic/cc/scopingplan/document/adopted_scoping_plan.pdf)

SB 32 and AB 1279. Importantly, CARB is directed to find the most cost-effective and 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 when compared to prescriptive regulations and a carbon tax set at the social cost of carbon.

The Proposed Amendments are critical to leverage private investments and provide additional support for deploying low-carbon technologies following the loss of federal funding opportunities, which will be needed this decade to realize the outcomes in the 2022 Scoping Plan Update. 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. Concurrent to the development of the 2022 Scoping Plan Update, the annually updated GHG Emissions Inventory was adjusted to more fully incorporate third-party verified GHG emissions data and correct some errors.

The suite of Proposed Amendments to the Cap-and-Trade Regulation works collectively to ensure the Program provides the long-term price signal, appropriate incentives, and regulatory certainty to support the economy-wide deep decarbonization needed through mid-century. Most significantly, staff propose to revise allowance budgets through 2045 to support achieving the legislative GHG 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.

CARB may also consider other changes to the sections affected, as listed on page 2 of this notice, or other sections within the scope of this notice, during the course of this rulemaking process.

## **Objectives and Benefits of the Proposed Regulatory Action:**

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

- Updating allowance budgets to reflect recent adjustments to the GHG Emission Inventory and alignment of post-2030 budgets in support of achieving the State's 2045 climate targets.
- Updates to market rules, in the context of budget adjustments, to support liquidity, enhance market protections, and contain costs.
- Amendments to ensure the Program appropriately supports consumer affordability, covers emissions, minimizes GHG emissions leakage, and incentivizes decarbonization in the evolving electricity, industrial, and transportation sectors.
- Revised methodology to account for the use of offset credits in annual budgets, as required by AB 1207.
- Provide a framework for the transition of free allowances from natural gas suppliers to electrical distribution utilities, as required by AB 1207.
- Technical updates to offset credit provisions to clarify, streamline implementation, and reflect lessons learned.
- 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, and regulatory certainty to support the economy-wide deep decarbonization needed through mid-century.

These proposed changes, if adopted, would result in significant greenhouse gas (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-Trade Regulation, include:

#### GHG Emissions Reduction:

- 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<sub>2e</sub>) during 2027-2046, largely from reduced fossil fuel combustion at covered facilities.
- The Proposed Amendments are also expected to increase near-term revenues from state-owned allowances sold at auction, which are deposited into the Greenhouse Gas Reduction Fund (GGRF) for appropriation by the Legislature and Governor. These increased revenues are estimated to produce 10 million metric tons CO<sub>2e</sub> of additional GHG emissions reduction over the lifetime of GGRF projects in sectors not otherwise covered by the Program.

#### Health Benefits from Local Air Quality Improvements:

- Reduced fossil fuel combustion and additional GGRF program expenditures due to the Proposed Amendments are estimated to reduce 305,000 short tons of oxides of nitrogen (NO<sub>x</sub>) and 50,000 short tons of fine particulate matter (PM<sub>2.5</sub>) emissions from 2027-2046. These local 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 \$123 billion during 2027-2046.

#### Economic Benefits:

- \$3.5 billion in estimated increased GGRF revenue through 2035, most of which will be invested in GHG reduction projects that benefit priority populations.<sup>12</sup>
- \$9.7 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.<sup>12</sup>
- Avoided future global climate damages of \$192-\$485 billion, as estimated by applying the social cost of carbon.

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<sup>12</sup> All economic benefits are estimated using a set of assumptions described in the ISOR 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.

- 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.

### Summary of Proposed Amendments

The Proposed Amendments reflect a range of objectives, from simple updates and revisions to improve Program implementation, to broader proposals to implement AB 1207 and ensure that the Program supports California's climate targets. These proposed changes are expected to increase stringency and intensify the incentive for covered entities to invest in GHG emissions reduction activities, aligned with the accelerated pace of decarbonization called for in the 2022 Scoping Plan Update and the GHG reduction targets in SB 32 and AB 1279.

Most significantly, staff propose more stringent allowance budgets to reflect recent updates to the GHG Emission Inventory and to accelerate emissions reductions through 2045 in support of State goals. Setting informed Program allowance budgets through 2045 is critical to providing the needed near- and long-term price signal to achieve the State's midcentury emissions reduction targets. Toward this goal, staff propose to adjust and establish annual allowance budgets from 2027 through 2045, replacing the current annual budgets in the existing Program. The proposed annual budgets would:

- Remove approximately 118 million allowances from the 2027-2030 annual budgets, to reflect GHG Emission Inventory updates; and
- Establish post-2030 budgets aligned with CARB's Scoping Plan that decline smoothly from the adjusted 2030 annual budget to a 2045 budget consistent with the AB 1279 target.

In total, the proposed allowance budgets contain approximately 2.1 billion allowances, cumulative from 2027-2045. Additionally, as required by AB 1207, the Proposed Amendments provide a mechanism for removing and retiring allowances from future annual budgets corresponding with compliance offset use, which is limited at six percent of covered entities' emissions obligations. The Proposed Amendments for implementing this new timing for accounting for offset use could potentially address some of the variability introduced into the auctions.

The specific proposed annual budgets and removals achieve the goals of:

- Providing incentives needed to pursue decarbonization solutions aligned with the 2030 and 2045 GHG reduction targets;
- Enabling a smooth transition into the post-2030 Program;
- Removing allowances for compliance offset use, as required by AB 1207;
- Maintaining cost-containment mechanisms and protections against price volatility; and
- Providing Program certainty to unlock the private investments needed to deliver GHG emissions reduction at covered facilities.

Overall, the proposed Program budgets support a well-designed system aligned with the State's 2030 and 2045 decarbonization goals. During the course of this rulemaking, CARB may consider refinement of the proposed Program budgets and implementation timing aligned with achievement of these goals.

Staff are proposing to update market rules and cost-containment features in the context of allowance budget adjustments to support liquidity, enhance market protections, and ensure transparent pricing and reporting by entities. These proposed adjustments will affect the trading and banking behavior by market participants, and staff have carefully evaluated and Proposed Amendments to support a well-functioning market enabling cost-effective compliance with the Program. Staff are proposing amendments that would expand the control measures used to identify corporate association groups (CAG) of registered entities including control based on entities sharing common commodity pool operators and trading advisors and control by individuals with shared roles.

Additionally, staff are proposing a delay in implementation of changes to purchase limit shares and holding limit shares for entities newly subject to a CAG due to updated CAG rules to provide flexibility and prevent potential price volatility due to sudden release of compliance instruments into the market. The delay will prevent abrupt market disruption, allow entities time to adjust their holdings, update their corporate structure, and/or disclose their new purchase and holding limit shares to CARB, as applicable. Staff has also added Proposed Amendments that clarify the conduct of trade rules, particularly the Beneficial Holding Prohibition, to accurately assess and track ownership and control of compliance instruments and ensure against market manipulation. With the delayed implementation of changes to purchase limit shares and holding limit shares for entities newly subject to a CAG, the release of allowances is expected to be steady and in a manner that can support access to allowances needed for compliance by covered entities in the context of the proposed removals of allowances from overall annual budgets to recognize updates to the GHG Inventory and to recognize the use of offsets for compliance.

Staff are proposing updates to entity registration and disclosure requirements to aid with market oversight. Changes to transfer price reporting are proposed for zero-priced and unpriced transfers to ensure market integrity. Further, to reflect increased Program stringency, to support transparent assessment of progress, and to address administrative jurisdiction needs for timely assessment of jurisdictional GHG mitigation targets, compliance period durations would be modified to align with California's GHG reduction target dates and also supports the accounting mechanism for Article 8 of the 2017 Linkage Agreement.

Staff propose to clarify the Know-Your-Customer information verification and maintenance, and individual user eligibility requirements to enhance CARB's ability to monitor and to provide effective enforcement oversight of participants in the Program. Staff also propose to include in the Regulation the prohibition of a user of the tracking system and auction system from sharing their user credential information. The Proposed Amendments include further updates to the tracking system and auction system terms and conditions to strengthen CARB's ability to monitor and enforce requirements. The Proposed Amendments also include updates to the auction and reserve sale administration requirements to clarify and streamline the auction and reserve sale operations. In total, the bulk of the amendments reflect clarifications and responses to support oversight of a growing and maturing market.

The Proposed Amendments would extend cost-containment mechanisms, designed to optimize the cost-effectiveness of the Program, including the two-tier Allowance Price Containment Reserve (Reserve) and price ceiling sales. The Reserve would be continued in the post-2030 Program and 1% of each post-2030 annual budget would be allocated to the first APCR tier.

The proposed changes to the EDU allocation, NGS allocation, and utility use of allowance value support affordability, ratepayer protection, and California's clean electricity goals. The Proposed Amendments include updates to the EDU allocation from the 2027-2030 allowance budgets to account for the more ambitious statewide clean electricity targets and newly available data sources. The Proposed Amendments also establish EDU allocation for the vintage 2031-2035 allowance budgets. Staff are also evaluating whether any newly eligible EDUs should be added to the EDU allocation using the same methodology and comparable data sources and may propose further language during a 15-day comment period. The Proposed Amendments also include a framework for the transition of NGS allocation to EDUs with residential ratepayers as required by AB 1207, starting in 2029. The framework of the Proposed Amendments for the transition of NGS allocation to EDU allocation includes the timing, which EDUs are eligible, and a basis and data for apportioning NGS allocation to eligible EDUs. The Proposed Amendments also include a true-up allocation mechanism for NGSs that become newly eligible for allowance allocation. Additionally, staff propose to make several updates to utility use of allowance value including removing the requirement for non-volumetric return of allocated allowance value for investor-owned utility EDUs. Additional Proposed Amendments include aligning natural gas supplier use of allocated allowance value with the 2022 Scoping Plan Update, and clarifications to ensure allocated allowance value including accrued interest is used for the primary benefit of California ratepayers and expected GHG benefits are accurately captured. The Proposed Amendments include additional eligibility requirements for electricity to be used towards the RPS adjustment, an optional compliance mechanism beginning in 2031. These amendments would require that electricity to be used towards the RPS adjustment be limited to RPS Portfolio Content Category 0 resources to support alignment of the Regulation with the increased Program stringency necessary to achieve the deep decarbonization of the electricity required by SB 1020, AB 1279 and SB 100. The Proposed Amendments also include updates to terminology in the Regulation to reflect the development of the Extended Day-Ahead Market and align with proposed definition changes and changes to the Outstanding Emissions calculation in Mandatory Greenhouse Gas Reporting Regulation (MRR). These updates support MRR changes to minimize the potential for emissions leakage due to updates and changes to CAISO Markets.

The Proposed Amendments include a suite of changes to support decarbonization and innovation in California's industrial sector and minimize emissions leakage, pursuant to the requirements of AB 32 and AB 398. The Proposed Amendments add cap adjustment factors for 2032- 2035, maintain assistance factors at 100% through 2035 and would add new covered products and benchmarks and revise some existing product definitions and benchmarks for cement manufacturing, crude oil production, transportation fuels, food processing, and manufacturing sectors. These updates are intended to reflect evolving in-state production and ensure the Program appropriately incentivizes low-GHG production methods and provides consistent treatment for innovative methods of supplying California with fuels and materials. The Proposed Amendments also incorporate new provisions to provide product-based allowance allocation for manufacturing a newly covered product during prior years, corresponding to the start of manufacturing the newly covered product, to minimize emissions leakage risk associated with manufacturing new or evolving products. The Proposed

Amendments also include changes to update the industrial allocation to directly provide allowances to covered industrial facilities to minimize the leakage risk associated with Program costs in purchased electricity, completing the transfer of responsibility for administering this leakage protection mechanism from CPUC to CARB. The Proposed Amendments include provisions on the return of allocated allowances to clarify what events prompt a return allowance allocation and to specify the requirements of returning allowances to CARB. The Proposed Amendments add an allowance allocation mechanism for leakage risk protection for covered manufacturing facilities that incentivize on-site decarbonization actions including electrification projects, renewable energy, fuel switching to low-carbon hydrogen or other low-carbon fuels. Staff are also evaluating new product-based benchmarks for industry, which would be added to Table 9-1 in the Regulation with corresponding new product definitions. Any proposed benchmarks would be circulated for a 15-day comment period.

The Proposed Amendments clarify and revise provisions specifying the compliance obligation incurred by biomass-derived fuels and CO<sub>2</sub> emissions exemption requirements. Staff propose to clarify and update biomass-derived fuels provisions to improve the Program's ability to provide a clear mechanism for biomass-derived fuels, such as biomethane, to be eligible as an exempt biomass-derived fuel. Informed by implementation experience and the growing variety of biomass-derived fuels, the Proposed Amendments also clarify and update the list of biomass-derived fuels eligible for exemption. Overall updates to biomass-derived fuel provisions are made to promote consistent understanding of Program requirements by biofuel producers and covered entities, provide necessary certainty for entities, reduce the administrative burden of the Program, and address emissions from emergent biomass-derived fuels.

Staff propose to add exemptions for emergency back-up generators and certain fuel cells, update emissions exemptions for natural gas supplier associated infrastructure and clarify existing language to enable the future inclusion of Carbon Capture and Sequestration (CCUS). The Proposed Amendments would prevent a non-covered electricity generating facility from becoming a covered entity due to the emissions associated with an increase in energy production during a State of Emergency. Per the direction of the Board under Resolution 18-51, staff propose a limited exemption from the inclusion threshold for fuel cells provided certain conditions are met. The Proposed Amendments update emissions exemptions for natural gas supplier associated infrastructure and address potential double-counting associated with NGS covered emissions. These updates are intended to align emissions exemptions for vented and fugitive methane emissions across all segments and facilities within the natural gas production and distribution sector. Staff propose adding a new section for future CCUS provisions and to expand the possible future accepted sequestration and utilization methodologies beyond geologic sequestration, provided meet Board-approved quantification and permanence standards. The Proposed Amendments also remove exemptions for exported CO<sub>2</sub> in order to reduce leakage risk.

Staff propose an array of amendments to the Compliance Offsets Program requirements to clarify and streamline implementation. Additionally, staff propose to add several new requirements intended to clarify areas of uncertainty in the existing rules and to further ensure the integrity of the offset credits issued under the program. The Proposed Amendments include clarifications to definitions and updates to offset project listing, monitoring, reporting, and verification requirements, processes, and deadlines. The Proposed Amendments also clarify requirements for Offset Project Registries. Staff propose modifying the timeframes for requests for issuance, invalidation, and renewed crediting period applications for all project types. Staff propose several new requirements related to post-crediting period monitoring and

reversal requirements. Staff propose new requirements for direct environmental benefits in the State (DEBS) status, notification requirements for forest project land ownership transfers, allowing baseline adjustment for forest projects, and new and modified requirements related to forest project reversals. Staff also propose minor modifications to forest project listing requirements and explicitly recognizing that forest projects on Alaska Native Corporation (ANC) lands are eligible to use the public lands risk ratings. In addition, staff propose removing the automatic termination requirement for a forest project if its carbon stocks fall below the baseline by providing options to continue. Staff propose removing early action credit invalidation language which is no longer needed.

Some additional Proposed Amendments are based on experience implementing the Regulation or to improve clarity. These Proposed Amendments are mostly administrative in nature, such as fixing typos, improving or adding definitions, removing requirements for time periods in the past, removing requirements specific to repealed federal regulations, and clarifying provisions that have caused confusion. The changes will make it easier for regulated parties to understand and adhere to the Regulation.

Finally, the proposed changes also update the name of the Program to Cap-and-Invest per Legislative intent in AB 1207.

### Public Process

To ensure an open and transparent rulemaking, staff have engaged in an extensive public process since development of the Proposed Regulation began in 2023. Staff conducted eight public workshops, one of which included a presentation from the Environmental Justice Advisory Committee (EJAC), an advisory committee convened by CARB to advise on the Scoping Plan development as required by AB 32, and two of which were held jointly with Québec Ministry of Environment, Fight Against Climate Change, Wildlife and Parks, the operator of the Québec Cap-and-Trade System. Staff also conducted two community meetings with the EJAC to solicit public feedback and discuss potential changes to the Regulation and presented at and participated in five EJAC Meetings and three Joint EJAC/CARB Board Meetings. Meetings were attended by a range of interested parties including covered entities, including representatives from natural gas and electrical utilities, industrial facilities, and transportation fuel suppliers; community members; environmental organizations; environmental justice groups; carbon market observers; voluntary carbon market participants; academics; consultants; and members of the public. Staff posted information, recordings, public comment letters, and associated materials on the Cap-and-Trade Meetings and Workshops webpage<sup>13</sup> and distributed notice of each workshop/meeting to about 30,500 recipients through existing subscription lists.

Staff also participated in numerous meetings requested by various interested parties to discuss implementation of the existing Regulation and Proposed Amendments. A detailed summary of public outreach and solicitation of public input is included in Section XI of the Initial Statement of Reasons (ISOR).

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<sup>13</sup> See [Cap-and-Trade Meetings & Workshops | California Air Resources Board](#) for more information.

## **Comparable Federal Regulations:**

There are no directly comparable federal regulations mandating economy-wide Cap-and-Invest Programs. 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,<sup>14</sup> 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, 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.

## **Mandated by Federal Law or Regulations (Gov. Code, §§ 11346.2, subd. (c), 11346.9)**

The proposed regulatory action is not generally mandated by federal law or regulations. However, federal emissions guidelines set under section 111 of the Clean Air Act, discussed above, do require that California limit GHG emissions from certain EGUs at certain power plants by developing a compliance plan and accompanying regulations. California has discretion as to how it complies with those federal emissions guidelines and anticipates the proposed amended Regulation can address such compliance, thereby supporting compliance with both state and federal mandates.

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<sup>14</sup> 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 this Notice publication, that proposal has not been finalized. If it were finalized, then no sources would be covered by any federal GHG regulations.

## Disclosure Regarding the Proposed Regulation

### Fiscal Impact/Local Mandate Determination Regarding the Proposed Action (Gov. Code, § 11346.5, subds. (a)(5)&(6)):

The determinations of the Board's Executive Officer concerning the costs or savings incurred by public agencies and private persons and businesses in reasonable compliance with the proposed regulatory action are presented below.

Under Government Code sections 11346.5, subdivision (a)(5) and 11346.5, subdivision (a)(6), the Executive Officer has determined that the proposed regulatory action would create costs or savings to any State agency, would not create costs or savings in federal funding to the State, would create costs or mandate to any local agency or school district, whether or not reimbursable by the State under Government Code, title 2, division 4, part 7 (commencing with section 17500), or other nondiscretionary cost or savings to State or local agencies.

#### Cost to any Local Agency or School District Requiring Reimbursement under Gov. Code section 17500 et seq.:

Pursuant to Government Code sections 11346.5, subdivision (a)(5), this regulatory action will result in a mandate that would create costs and cost-savings to local agencies and school districts. However, these costs are not reimbursable pursuant to Section 6 of Article XIII B of the California Constitution and Part 7 (commencing with Section 17500) of Division 4 of the Government Code. These costs are not reimbursable because the Proposed Amendments neither compel local agencies to provide new governmental functions (i.e., do not require such agencies to provide additional services to the public), nor do they impose requirements that apply only to local agencies or school districts.<sup>15</sup> Costs or cost-savings due to increased stringency of the Cap-and-Invest Program apply to covered entities in all sectors and may ultimately be passed through to all individuals and entities in the State in the price of energy or goods. This proposed regulatory action also does not compel local agencies to increase the actual level or quality of services that they already provide the public.<sup>16</sup> For the foregoing reasons, any costs incurred by local agencies to comply with this regulatory action are not reimbursable.

#### Cost or Savings for State Agencies:

The Proposed Amendments are expected to impact State revenues from GHG allowance auctions deposited into the GGRF and appropriated for projects that reduce GHG emissions and local air pollution in priority communities. Staff projects a minor near-term increase and cumulative decrease of \$900 million in GGRF revenues from 2027-2046. The Proposed Amendments are also expected to have secondary impacts on State sales tax, income tax, and energy tax and fee revenues due to GHG abatement measures taken at facilities covered by the Program (e.g., replacing fossil fuel combustion with low-carbon alternatives) and downstream macroeconomic impacts that may affect personal incomes.

Including GGRF, State revenues across all applicable tax and fee categories are expected to increase by \$4.5 billion and decrease by \$10.2 billion, for a net fiscal decrease of \$5.7 billion

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<sup>15</sup> *County of Los Angeles v. State of California* (1987) 43 Cal.3d 46, 56.

<sup>16</sup> *San Diego Unified School Dist. v. Commission on State Mandates* (2004) 33 Cal.4th 859, 877.

cumulatively from 2027-2046. There are no impacts anticipated for the current fiscal year (2025-2026).

Other Non-Discretionary Costs or Savings on Local Agencies:

The Proposed Amendments are expected to impact certain categories of local government costs and revenues. Publicly owned utilities (POUs) may see increases in Cap-and-Invest compliance costs in the price of electricity produced from fossil fuels, while POUs also receive free GHG allowances which are consigned to auction and used to benefit their ratepayers. Local governments may also see changes in sales tax and energy tax revenues as businesses and consumers replace fossil fuel use with low-carbon alternatives.

In total, local government tax revenues and Cap-and-Invest allowance revenues are expected to increase by \$5.1 billion and decrease by \$948 million from 2027-2046. Including an increase in Program compliance costs, local governments are expected to see a net fiscal decrease of \$235 million across this period.

Cost or Savings in Federal Funding to the State:

The proposed regulation is not expected to impose any costs or savings in federal funding to the State.

**Housing Costs (Gov. Code, § 11346.5, subd. (a)(12)):**

The Executive Officer has also made the initial determination that the proposed regulatory action will not have a significant effect on housing costs.

**Significant Statewide Adverse Economic Impact Directly Affecting Business, Including Ability to Compete (Gov. Code, §§ 11346.3, subd. (a), 11346.5, subd. (a)(7), 11346.5, subd. (a)(8)):**

The Executive Officer has made an initial determination that the proposed regulatory action would not have a significant statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states, or on representative private persons.

**Results of The Economic Impact Analysis/Assessment (Gov. Code, § 11346.5, subd. (a)(10)):**

**Major Regulation: Statement of the Results of the Standardized Regulatory Impact Analysis (SRIA) (Gov. Code, § 11346.3, subd. (c)): (if applicable)**

Under Government Code section 11346.3, subdivision (c)(1), each state agency proposing to adopt, amend, or repeal a major regulation on or after November 1, 2013, must prepare a standardized regulatory impact assessment (SRIA) in the manner prescribed by the Department of Finance pursuant to Government Code section 11346.36. The standardized regulatory impact analysis must address all of the following:

### The creation or elimination of jobs within the state.

The Proposed Amendments do not directly create or eliminate any jobs. However, as an economy-wide GHG reduction program that puts a price on carbon emissions, Cap-and-Invest does produce indirect employment impacts by affecting production costs in California.

The Regional Economic Model Inc. (REMI) model is used to model the estimated macroeconomic impacts of the Proposed Amendments. Baseline employment is estimated to grow by over 1.8 million jobs across the regulatory horizon, to over 27.5 million jobs in 2046. As estimated by the REMI modeling approach described in the SRIA, the Proposed Amendments are estimated to result in a decrease in employment growth that becomes larger over time, resulting in an average decrease of less than 0.1%, or near zero percent, of baseline employment by 2046. In 2046, the Proposed Amendments are estimated to result in approximately 27 thousand jobs foregone, primarily in manufacturing, services, and government sectors, and 400 job gains on average.

### The creation of new businesses or the elimination of existing businesses within the state.

The Proposed Amendments are not expected to directly create or eliminate any businesses. However, the economy-wide GHG reduction Program may incentivize some sectors to expand or contract. For example, increasing demand for clean electricity in the electric power sector facilitates a large increase in sales, but services are expected to be provided primarily by existing utilities. Additionally, producers of low-carbon fuels or equipment may see increased business in California as facilities undergo abatement measures to mitigate their GHG emissions.

While the REMI model cannot directly estimate the creation or elimination of businesses, it can be used to understand changes in business output for major industries in the California economy. The business output impacts of the Proposed Amendments are small relative to the total California economy, representing changes of less than 0.2% in each year of the analysis. However, impacts across specific industries differ.

### The competitive advantages or disadvantages for businesses currently doing business within the state.

The Proposed Amendments increase the stringency of the Cap-and-Invest Program, which strengthens the incentive to use low-carbon energy sources and production methods within the State. This incentive may provide a competitive advantage to in-state businesses that decarbonize their operations.

Separately, the Program includes allowance allocation for industrial facilities in emissions-intensive, trade-exposed sectors that is designed to minimize the competitive disadvantage for in-state firms relative to out-of-state competitors that are not covered by a similar regulation. Industrial allowance allocation is critical to minimize emissions leakage and maintain an incentive for clean, efficient production within the State of California.

### The increase or decrease of investment in the state.

Private domestic investment consists of purchases of residential and nonresidential structures and of equipment and software by private businesses and nonprofit institutions. It is used as a

proxy for impacts on investments in California because it provides an indicator of the future productive capacity of the economy.

Staff used REMI modeling to estimate the relative changes to growth in private investment due to the Proposed Amendments. In total, the Proposed Amendments are estimated to result in a decrease in private investment of about \$672 million in 2030, and decreases over time to be \$393 million below baseline in 2046. Overall, there is a cumulative decrease of \$21.4 billion or 0.14%, which is near zero percent of the \$15 trillion in baseline private investment for 2027-2046.

#### The incentives for innovation in products, materials, or processes.

By imparting a long-term price signal on the combustion of fossil energy, the Program provides a direct incentive for innovation toward more efficient, low-carbon processes and energy. Staff analysis of the costs of the Proposed Amendments projects an increase in investment in GHG abatement technologies by facilities covered by the Program. While staff analysis reflects contemporaneous installation and operation cost data, the carbon price imparted by the GHG reduction Program incentivizes additional technological innovation that may drive abatement costs lower in future years.

#### The benefits of the regulations, including, but not limited to, benefits to the health, safety, and welfare of California residents, worker safety, and the state's environment and quality of life, among any other benefits identified by the agency.

CARB anticipates that the Proposed Amendments will produce the following benefits to California businesses and individuals:

- Reduced GHG emissions. The Cap-and-Invest Program is designed to help the State meet its statutory GHG reduction targets in SB 32 and AB 1279 (40% below 1990 levels by 2030 and 85% below 1990 levels by 2045, respectively) by imparting an economy-wide carbon price signal that discourages the use of fossil fuels and incentivizes the use of low-carbon energy sources and production methods, or efficiency improvements. GHG reductions achieved through the Program contribute to California's efforts to combat climate change.
- Improved local air quality. The Program is anticipated to reduce fuel combustion emissions from covered facilities,<sup>17</sup> which reduces emissions of criteria air pollutants in surrounding areas. Improved local air quality will lead to improved public health outcomes, especially in priority communities and communities of color that are disproportionately exposed to air pollution from large industrial facilities.

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<sup>17</sup> Although the Cap-and-Invest Program imparts an economy-wide carbon price that extends to transportation fuels and residential/commercial energy use, staff analysis for the Proposed Amendments assigns GHG emissions benefits, criteria pollutant emissions benefits, and associated health benefits from decarbonization measures in those sectors to complementary measures such as the Low Carbon Fuel Standard. In reality, the Cap-and-Invest Program is expected to drive down emissions in all covered sectors. The GHG and health benefits in this analysis should be seen as conservative estimates.

- A marginal increase in total GHG allowance auction revenues, which are used for community investments through the GGRF and to benefit ratepayers through utility programs such as the California Climate Credit.

Cumulatively from 2027-2046, staff estimate that the Proposed Amendments will reduce 963 million MTCO<sub>2e</sub>, as well as 305 thousand short tons of NO<sub>x</sub> and 50 thousand short tons of PM 2.5. By applying the federal EPA's estimate of the social cost of carbon, the value of these avoided GHG emissions is \$192-\$485 billion, depending on the chosen discount rate, and the monetary value of public health benefits due to improved local air quality is estimated to be \$123 billion.

Additional non-quantified benefits of the Proposed Amendments may include the following:

- California's path to decarbonization will provide new jobs and economic opportunities in clean-energy industries.
- A well-designed Cap-and-Invest Program that continues to reduce GHG emissions while growing the economy signals the viability of the Program and supports other jurisdictions in pursuing similar policies. CARB's policy leadership may have profound effects on the global effort to combat climate change, which in turn benefits California by further reducing the risk of prolonged drought, heat waves, wildfires, and other extreme weather-related events.

#### Department of Finance Comments and Responses

- 1. Department of Finance (DOF) Comment: the SRIA states that the average price of natural gas (page 49) was taken from the U.S. Energy Information Administration's 2021 price outlook, when the 2023 outlook had been published at the time. The SRIA should either update the projection with the latest available data or explain why the 2021 outlook is appropriate for the analysis.**

**Response:** Per direction from DOF's SRIA comment letter, the updated staff analysis used to produce the economic evaluation presented in the ISOR now includes more recent natural gas pricing data from the U.S. Energy Information Administration (US EIA). As explained in the SRIA, staff scaled natural gas price projections from the 2021 US EIA Energy Outlook data to average California industrial natural gas rates to derive an assumed rate of \$12/MMBtu (in 2023 dollars) for calculating future GHG abatement costs under a more stringent Cap-and-Invest Program. After updating this calculation to reflect 2025 EIA industrial rate data for California, the revised natural gas price assumption is \$11/MMBtu.

- 2. DOF Comment: the baseline California employment number in table 25 used to identify employment impacts shows projected statewide employment of 25.6 million in 2026. In 2023, California household employment was about 18.4 million and payroll employment was 17.8 million. The baseline California employment projection should be taken from Finance's latest published economic forecast as per CCR title 1, section 2003 (b), which currently shows household and payroll employment of 18.8 and 18.4 million respectively in 2026.**

**Response:** The SRIA incorporated DOF's California Employment Projections from the California Economic Forecast released with the 2024 Governor's Budget, which was the latest available published forecast at the time the SRIA was submitted to DOF on April 9, 2024 (see SRIA Page 64).

The total employment numbers reported in the macroeconomic impacts section of the SRIA differ from the employment estimates in the DOF forecasts because of different definitions used for employment in the DOF forecast and what is output from the REMI model.

The California Economic Forecast from DOF relies on data from California's Employment Development Department and reports Civilian Employment, i.e. the number of working people. Individuals with more than one job are only counted once.<sup>18</sup> The REMI model reports Total Industry Employment, i.e. the number of jobs. Within the REMI model, employment comprises estimates of the number of jobs, full-time plus part-time, by place of work for all industries. Full-time and part-time jobs are counted at equal weight. Employees, sole proprietors, and active partners are included, but unpaid family workers and volunteers are not included. If an individual holds two wages and salaried jobs, total industry employment will count both jobs while civilian employment will only count the single person. In 2023, the total number of jobs in California was 25.3 million.<sup>19</sup>

Because of the different definitions used for employment, CARB uses the employment growth rates from DOF's California Economic Forecast to adjust REMI's California's baseline employment projection. After the DOF employment forecasts end, staff make an assumption that the employment to population ratio within the REMI model stays constant. The population projection is from DOF's P-3 Complete State and County Projections Dataset.

**3. DOF Comment: the estimated impact on state personal income tax revenue that is discussed in the impacts to individuals section on personal income as part of the economic impact analysis should also be included in the fiscal impact estimate.**

**Response:** Per direction from DOF's SRIA comment letter, the estimated impacts on state personal income tax due to the Proposed Amendments are included in the updated staff analysis used to produce the Economic and Fiscal Impact Statement (Form 399) and the fiscal impact statement included in this Notice of Public Hearing.

**Business Report (Gov. Code, §§ 11346.5, subd. (a)(11); 11346.3, subd. (d)):**

In accordance with Government Code sections 11346.5, subdivision (a)(11), and 11346.3, subdivision (d), the Executive Officer finds the reporting requirements of the proposed regulatory action which apply to businesses are necessary for the health, safety, and welfare of the people of the State of California.

**Cost Impacts on Representative Private Persons or Businesses (Gov. Code, § 11346.5, subd. (a)(9)):**

In developing this regulatory proposal, CARB staff evaluated the potential economic impacts on representative private persons or businesses. By removing allowances from future annual budgets, the Proposed Amendments increase the stringency of the Cap-and-Invest Program,

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<sup>18</sup> See <https://labormarketinfo.edd.ca.gov/data/civilian-employment-vs-industry-employment-comparison.html>

<sup>19</sup> (U.S. Bureau of Economic Analysis 2025). U.S. Bureau of Economic Analysis. *SASUMMARY State annual summary statistics: personal income, GDP, consumer spending, price indexes, and employment*. September 2025.

which is expected to increase the pace of GHG reductions and Program compliance costs and GHG abatement costs for covered entities. Compliance responses vary by covered entity and sector, depending on factors such as the emissions-intensity of a facility's operations and the feasibility of alternative low-carbon production methods. Many facilities also receive free allowance allocation to minimize emissions leakage, which lowers their Program compliance obligation. The SRIA contains detailed staff analysis of anticipated compliance and abatement costs by sector under the Proposed Amendments, which is summarized in Chapter VIII of the ISOR.

Individuals or private persons may be indirectly affected through the passthrough of Program costs in the price of energy or goods. This cost impact on individuals is partially mitigated through the use of Program revenues, and individuals are also expected to see health benefits from improved local air quality due to decreased combustion of fossil fuels. Expected benefits to individuals are discussed further in Chapter IV of the ISOR.

### **Effect on Small Business (Cal. Code Regs., tit. 1, § 4, subds. (a) and (b)):**

The Executive Officer has also determined under California Code of Regulations, title 1, section 4, that the proposed regulatory action would not affect small businesses. Due to the 25,000 MTCO<sub>2e</sub>/year covered emissions threshold for incurring a Cap-and-Invest Program compliance obligation, small businesses typically do not face any direct costs associated with the Program. However, small businesses may be indirectly affected by any increased costs that covered entities pass through to consumers. Costs will vary based on the businesses' use of fossil fuels and ability to reduce the use of fossil fuels in their operations.

### **Consideration of Alternatives (Gov. Code, § 11346.5, subd. (a)(13)):**

Before taking final action on the proposed regulatory action, the Board must determine that no reasonable alternative considered by the Board, or that has otherwise been identified and brought to the attention of the Board, would be more effective in carrying out the purpose for which the action is proposed, would be as effective and less burdensome to affected private persons than the proposed action, or would be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provisions of law.

In the SRIA, staff considered two alternatives, three different bounds of the Proposed Scenario (denoted in the SRIA as Proposed Scenarios A, B, and C), and included discussion on three additional regulatory concepts recommended through public comment and the Environmental Justice Advisory Committee. As explained in Section IX of the ISOR, no alternative proposal was found to be less burdensome and equally effective in achieving the purposes of the Proposed Amendments in a manner that ensures full compliance with the authorizing law. Staff has not identified any reasonable alternatives that would lessen any adverse impact on small business.

## **Environmental Analysis**

CARB, as the lead agency for the Proposed Amendments, has prepared a Draft Environmental Impact Analysis (Draft EIA) under its certified regulatory program (California Code of

Regulations, title 17, sections 60000 through 60008) to comply with the requirements of the California Environmental Quality Act (CEQA; Public Resources Code section 21080.5). The Draft EIA concluded implementation of the Proposed Amendments, could result in: beneficial impacts to greenhouse gas emissions; less than significant impacts, or no impacts, to energy, mineral resources, population and housing, public services and recreation; and potentially significant adverse impacts to aesthetics, agriculture and forestry resources, air quality, biological resources, cultural resources, geology and soils, hazards and hazardous materials, hydrology and water quality, land use and planning, noise, transportation, tribal cultural resources, utilities and service systems and wildfire. The Draft EIA, included as Appendix B to the ISOR, is entitled Draft Environmental Impact Analysis for the Proposed Regulatory Amendments to the Cap-and-Invest Program. Written comments on the Draft EIA will be accepted during a 45-day public review period starting on January 23, 2026, and ending on March 9, 2026.

## Special Accommodation Request

Consistent with California Government Code section 7296.2, special accommodation or language needs may be provided for any of the following:

- An interpreter to be available at the hearing;
- Documents made available in an alternate format or another language; and
- A disability-related reasonable accommodation.

To request these special accommodations or language needs, please contact the Clerks' Office at [cotb@arb.ca.gov](mailto:cotb@arb.ca.gov) or (916) 322-5594 as soon as possible, but no later than ten business days before the scheduled Board hearing. TTY/TDD/Speech to Speech users may dial 711 for the California Relay Service.

Consecuente con la sección 7296.2 del Código de Gobierno de California, una acomodación especial o necesidades lingüísticas pueden ser suministradas para cualquiera de los siguientes:

- Un intérprete que esté disponible en la audiencia;
- Documentos disponibles en un formato alterno u otro idioma; y
- Una acomodación razonable relacionados con una incapacidad.

Para solicitar estas comodidades especiales o necesidades de otro idioma, por favor llame a la oficina del Consejo al o (916) 322-5594 lo más pronto posible, pero no menos de 10 días de trabajo antes del día programado para la audiencia del Consejo. TTY/TDD/Personas que necesiten este servicio pueden marcar el 711 para el Servicio de Retransmisión de Mensajes de California.

## Agency Contact Persons

Inquiries concerning the substance of the proposed regulatory action may be directed to the agency representative Michael Turgeon, Staff Air Pollution Specialist, Program Development Section, at (279) 208-7976 or [michael.turgeon@arb.ca.gov](mailto:michael.turgeon@arb.ca.gov). The designated back-up contact is Rachel Gold, Manager, Program Development Section, who may be contacted at (279) 208-7516 or [rachel.gold@arb.ca.gov](mailto:rachel.gold@arb.ca.gov).

## Availability of Documents

CARB staff have prepared a Staff Report: Initial Statement of Reasons (ISOR) for the proposed regulatory action, which includes a summary of the economic and environmental impacts of the proposal. The report is entitled: Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Copies of the ISOR and the full text of the proposed regulatory language, in underline and strikeout format to allow for comparison with the existing regulation, may be accessed on CARB's website listed below, on January 20, 2026. Please contact Lindsay Garcia, Regulations Coordinator, at [lindsay.garcia@arb.ca.gov](mailto:lindsay.garcia@arb.ca.gov) or (916) 546-2286 if you need physical copies of the documents. Pursuant to Government Code section 11346.5, subdivision (b), upon request to the aforementioned Regulations Coordinator, physical copies would be obtained from the Public Information Office, California Air Resources Board, 1001 I Street, Visitors and Environmental Services Center, First Floor, Sacramento, California, 95814.

Further, the agency representative to whom non-substantive inquiries concerning the proposed administrative action may be directed is Lindsay Garcia, Regulations Coordinator, (916) 546-2286. The Board staff have compiled a record for this rulemaking action, which includes all the information upon which the proposal is based. This material is available for inspection upon request to the contact persons.

## Hearing Procedures

The public hearing will be conducted in accordance with the California Administrative Procedure Act, Government Code, title 2, division 3, part 1, chapter 3.5 (commencing with section 11340).

Following the public hearing, the Board may take action to approve for adoption the regulatory language as originally proposed, or with non-substantial or grammatical modifications. The Board may also approve for adoption the proposed regulatory language with other modifications if the text as modified is sufficiently related to the originally proposed text that the public was adequately placed on notice and that the regulatory language as modified could result from the proposed regulatory action. If this occurs, the full regulatory text, with the modifications clearly indicated, will be made available to the public, for written comment, at least 15-days before final adoption.

The public may request a copy of the modified regulatory text from CARB's Public Information Office, Air Resources Board, 1001 I Street, Visitors and Environmental Services Center, First Floor, Sacramento, California, 95814.

## Final Statement of Reasons Availability

Upon its completion, the Final Statement of Reasons (FSOR) will be available and copies may be requested from the agency contact persons in this notice or may be accessed on CARB's website listed below.

## Internet Access

This notice, the ISOR and all subsequent regulatory documents, including the FSOR, when completed, are available on CARB's website for this rulemaking at <https://ww2.arb.ca.gov/rulemaking/2026/cap-and-invest2026>

California Air Resources Board



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Steven S. Cliff, Ph.D.,  
Executive Officer

Date: January 13, 2026

*The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see CARB's website ([ww2.arb.ca.gov](http://ww2.arb.ca.gov)).*