



May 4, 2026

The Honorable Gavin Newsom  
 Governor, State of California  
 1021 O Street, Suite 9000  
 Sacramento, CA 95814

Chair Lauren Sanchez  
 California Air Resources Board  
 1001 I Street  
 Sacramento, CA 95812

Members of the Board  
 California Air Resources Board (CARB)  
 1001 I Street  
 Sacramento, CA 95812

**RE: Proposed 15-Day Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation: Significant Concerns from Environmental Groups must be addressed without delay**

Dear Governor Newsom, Chair Sanchez, and CARB Board Members and Staff:

Last year, the California legislature passed and Governor Newsom signed into law a reauthorization of the Cap-and-Invest program, extending California’s economy-wide emissions reduction program and shoring up an essential source of funding for near- and medium-term ratepayer relief and investments in healthy, resilient communities.

We write to you now with extreme concern that elements of the latest rulemaking proposal, released on April 14th, 2026, run counter to the legislation because they fundamentally undermine the integrity of the emissions cap, put California’s ability to meet its statutory 2030 climate target at risk, and jeopardize billions of dollars in funding to support climate investments and energy affordability. Proposed partially in response to massive lobbying efforts by fossil fuel interests – some of the most profitable companies in the world – these amendments reflect a major departure from the legislative intent of AB 1207 and SB 840.

**To uphold program integrity, meet California’s 2030 climate commitment, and save households money, we, the undersigned organizations, request that CARB update and finalize the regulation in time to implement changes this fall with the following critical revisions:**

1. Remove the Manufacturing Decarbonization Incentive (MDI) mechanism from the proposal immediately and retire 118M allowances so that regulations can be swiftly adopted to secure program outcomes this fall without harming the integrity of the emissions cap or jeopardizing the 2030 climate target.
2. Ensure program amendments do not undermine legislative commitments to maintain affordability and adequate levels of program funding for the California Climate Credit and Greenhouse Gas Reduction Fund (GGRF), most critically for AB 617 communities and community air protection programs. The current proposal significantly increases free allowances to industry, effectively shifting billions from household affordability measures to polluting industries.

These asks, and our reactions to the proposal as a whole, are discussed in greater detail below.

**CARB must uphold the emissions cap integrity, per AB 1207**

In January, CARB proposed removing 118.3 million surplus allowances from the market before 2030, identifying this as the minimum number of allowances that must be retired to meet California’s 2030 statutory climate target.

The April 14th amendments would take the program in the opposite direction. CARB has now proposed extending the MDI to a broad array of industrial polluters, to be funded with 118.3 million *new* allowances created outside of the allowance budget in the newly proposed “Build Up California Reserve Account.” This novel mechanism is untested and comes with few guardrails or guarantees. In effect, CARB is opening up the market to a new class of compliance instruments that operate outside of the emissions cap; this poses a fundamental threat to the integrity of the Cap-and-Invest program’s cap on emissions.

CARB must remove the MDI from this regulation and could revisit the concept as part of the post-2030 allowance allocation rulemaking. This is the most direct path to resolving the cap integrity problem created by the April draft, and would allow CARB the time required to thoroughly address the other significant structural flaws with the current proposal for the MDI including insufficient eligibility guardrails and the

absence of a meaningful accountability mechanism. This would require immediately putting forward a second 15-day amendment proposal removing the MDI from the regulation.

### **CARB must ensure affordability benefits go to Californians, not polluting industries**

This new proposal also poses risks to the critical affordability benefits Cap-and-Invest delivers to California households. Since the program launched in 2014, it has delivered over \$17 billion in credits on household utility bills through the California Climate Credit and funded critical investments through the GGRF in clean transportation, public health, and climate resilience, with a portion of those funds mandated to support disadvantaged communities. These benefits depend on a stable and healthy allowance market. Over the past year with delayed action on program updates, auction demand has declined; California [lost an estimated \\$3 billion in 2025](#) as a result.

CARB's April proposal makes this problem significantly worse. [New modeling from Greenline Insights](#) finds that creating 118 million additional compliance instruments would flood the market, further depressing demand and prices and reducing the revenue available for GGRF investments and Climate Credit bill savings. For example, Greenline Insights' modeling finds the program delivers over \$6 billion in *net savings* to households earning \$100,000 or less each year – if CARB preserves the integrity of the cap and permanently removes 118 million allowances. **But if the new manufacturing incentive creates an extra 118 million allowances, above the cap, those household savings are cut in half.** That's because these changes create an oversupply of allowances and result in weaker auctions. When auctions don't sell out, Californians lose the revenue that would have been used to lower their utility bills.

A [separate analysis from UC Santa Barbara's Environmental Markets Lab](#) confirms that these changes would reduce funding to the California Climate Credit and the GGRF. If the MDI is fully utilized over the next four years, the analysis finds, auction revenues could be cut by \$4 billion. (It is worth noting that CARB has also offered this \$4 billion transfer figure [in its own MDI FAQ](#)).

This compounds with CARB's simultaneous proposal to reduce the rate of decline for the cap adjustment factor over the next four years, a change that CARB has estimated will provide [about \\$800M in industry assistance](#) in the form of free allowances. At the exact moment California should be strengthening the program's ability to fund climate progress and deliver relief to households, **this proposal would shift billions of dollars away from household affordability and legislatively authorized climate investments, towards additional subsidies for industry.**

### **CARB must comply with the Administrative Procedures Act and ensure a fair public process**

CARB's April proposal for funding the MDI through a new Build Up California Reserve Account also raises serious concerns about scope, fairness, and compliance with the California Administrative Procedures Act (APA). In the January notice and ISOR, CARB did not alert the public that this rulemaking could be used to create a new pool of 118.3 million compliance instruments outside of the proposed allowance budget.

The APA allows a 15-day notice only for changes that are sufficiently related to and reasonably foreseeable from the original proposal.<sup>1</sup> The purpose of this core APA requirement is to uphold due process and ensure a transparent and orderly rulemaking process. The proposed 15-day changes to the MDI, which create a new class of compliance instruments that are additional to the program’s annual allowance budgets, are a substantial change within the meaning of the APA and are not sufficiently related to the original proposal. The negative impacts of this change would undermine the core functions of the Cap-and-Invest program, allowing increased climate pollution, depressing allowance prices, and diverting revenue from critical climate projects and ratepayer relief programs. Based on CARB’s initial notice, members of the public had no way of knowing that CARB would drastically alter the proposal in this complex and consequential way. A 15-day comment period is insufficient and does not provide the public with a fair opportunity to understand and evaluate the proposal or provide comprehensive comments.

**To comply with the APA and ensure a fair rulemaking process, CARB must strike the proposed April creation of a Build Up California Reserve Account from this rulemaking package and consider any such proposal through a separate process with adequate notice and opportunity for public comment.** Removing the MDI from this current draft and revisiting it in the future is the best, most straightforward option considering the practical constraints of this rulemaking, which must be finalized in time for it to be implemented this fall.

If CARB decides that the MDI is an essential feature of this rulemaking and insists on its inclusion in the final regulations, CARB must revert the MDI to the structure proposed in the January ISOR – which funded the MDI by allocating allowances from future budget years. This structure ensures that any additional compliance flexibility created in the near term is offset by equivalent reductions in later budget years, and that all allowances issued for the incentive are drawn from within the existing cap trajectory. This approach would preserve the integrity of the cap— although it is important to note that we would still have significant concerns about oversight, guardrails, and negative impacts to the near-term ambition of the program as a result of pulling allowances forward from future budget years.

Near-term ambition is what matters most for the climate: early emissions reductions in long-lived climate pollutants, like carbon dioxide, are critical to minimize the cumulative build-up of climate pollution in the atmosphere and limit overall warming. Stronger emissions reductions before 2030 are also important to invest in and spur a green economy, putting California in a stronger position to achieve its net-zero target by 2045.

**We urge CARB to uphold regulatory proposals that assess changing market conditions and support electric ratepayer relief**

There are aspects of the recently proposed amendments that we find favorable and responsive to our earlier concerns about this rulemaking. We support CARB’s removal of the post-2031 industry assistance factors from the proposed rules and appreciate CARB’s intention to determine post-2031 assistance factors and allowances budgets in a future rulemaking based on analysis of leakage risk, in line with AB 1207’s intent.

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<sup>1</sup> Cal. Gov’t Code § 11346.8(c)

We support the accelerated shift of allowance value from natural gas utilities to electric utilities for the climate credit, in better alignment with AB 1207's requirement to transition gas utilities' free allowances to electric utilities by 2031. This improvement will deliver savings to ratepayers during high-billed electricity months, when relief is needed most, while also encouraging the switch from gas to electric appliances by reducing operational cost savings from heat pumps and other zero-emission electric technologies.

CARB should retain these important improvements from the April draft in the final regulations.

The revisions we are requesting are the minimum necessary to ensure this program does what the Legislature directed it to do: deliver cost-effective emissions reductions aligned with California's climate targets and protect and strengthen affordability benefits for California families. CARB has the ability and the time to make these surgical changes before issuing a final regulation for a Board vote, **without delaying the implementation of rule updates this fall.**

California cannot afford to get this wrong. At a time when federal climate leadership has collapsed and the costs of inaction are rising for communities across the state, California's ability to meet its climate commitments requires a Cap-and-Invest program that functions as designed, with a real and declining emissions cap.

Thank you for your consideration of the above comments. We look forward to working collaboratively to implement these recommendations into the final Cap-and-Invest regulation.

Sincerely,

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