



# **CARB Update on Cap-and-Invest Regulation Amendments**

July 2, 2026

# Proven Success

Helped California  
meet 2020 climate  
target early

Economy-wide  
carbon price  
incentivizes clean  
tech investments

Delivered \$16B in  
bill credits to  
customers

\$36B for climate  
investments

500,000+ projects,  
30,000 jobs, and  
millions of tons of  
carbon cut

GHG emissions  
declining while  
economy is growing

# Key Considerations for Updates

- Align with AB 1207 and SB 840 direction and with 2030 and 2045 GHG reduction targets
- Support affordable consumer energy demand
- Support efficient production and jobs in state
- Support investment and innovation
- Increase regulatory certainty during a period of unprecedented economic and energy uncertainty

# Robust Public Process

2023-2025

Pre-rulemaking workshops and economic analyses of options

January 2026

Draft proposed updates to Cap-and-Invest released and public comment period opened

March 9, 2026

Public comment period ended

May 5, 2026

Senate Environmental Quality Committee and Senate Subcommittee No. 2 On Resources, Environmental Protection and Energy

September 2025

Legislature passed new laws extending the Cap-and-Invest Program through 2045

February 23, 2026

Joint Legislative Committee on Climate Change Policies

April 14 - May 4, 2026

In response to public input, CARB staff propose additional updates with 20-day comment period


May 19, 2026

Assembly Budget Subcommittee No. 4 on Climate Crisis, Resources, Energy and Transportation

# Key Regulatory Changes

- On May 29, 2026, the Board adopted amendments to the Cap-and-Invest Regulation that make the following changes
  - Increase the stringency of allowance budgets through 2045 aligned with long-term climate targets and Scoping Plan
  - Remove allowances when offsets are used for compliance, per AB 1207
  - Support affordability through protections for ratepayers
  - Transfer free allowances from gas utilities to electric utilities, per AB 1207
  - Maintain free allowances for industry to minimize leakage and protect jobs
  - Support near-term industrial GHG emissions reductions
  - Add post-2030 allowances to price containment reserve
  - Strengthen market safeguards

# Diverse Set of Public Comments

- ❖ Remove more allowances from overall pre-2030 budgets to increase ambition
  - ❖ Increase utility allocation to prioritize electricity affordability and climate credits
  - ❖ Expedite transfer of natural gas supplier (NGS) allocation to electric utilities (EDU)
  - ❖ Prioritize industrial assistance to minimize emissions leakage
  - ❖ Support manufacturing decarb incentive
  - ❖ Prioritize emissions reductions
  - ❖ Remove fewer allowances from overall budgets due to cost concerns
  - ❖ Decrease utility allocation to align with utility demand and supply data
  - ❖ Slow the pace or don't transfer NGS allocation to EDUs
  - ❖ Provide no or lower level of industrial assistance
  - ❖ Oppose manufacturing decarb incentive
  - ❖ Prioritize GGRF
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# Legislative Comments

## March 2026

### *Comments from Assembly*

- Support proposed implementation of AB 1207 and balance of multiple requirements
- Provide greater industry assistance to mitigate leakage, especially for refineries
- Provide greater support for electric utilities and a larger, targeted climate credit
- Request a faster and fuller transition of NGS allowances to EDUs by 2031
- Support manufacturing decarb incentive (MDI)
- Provide support for carbon capture, utilization, and sequestration (CCUS)

## May 2026

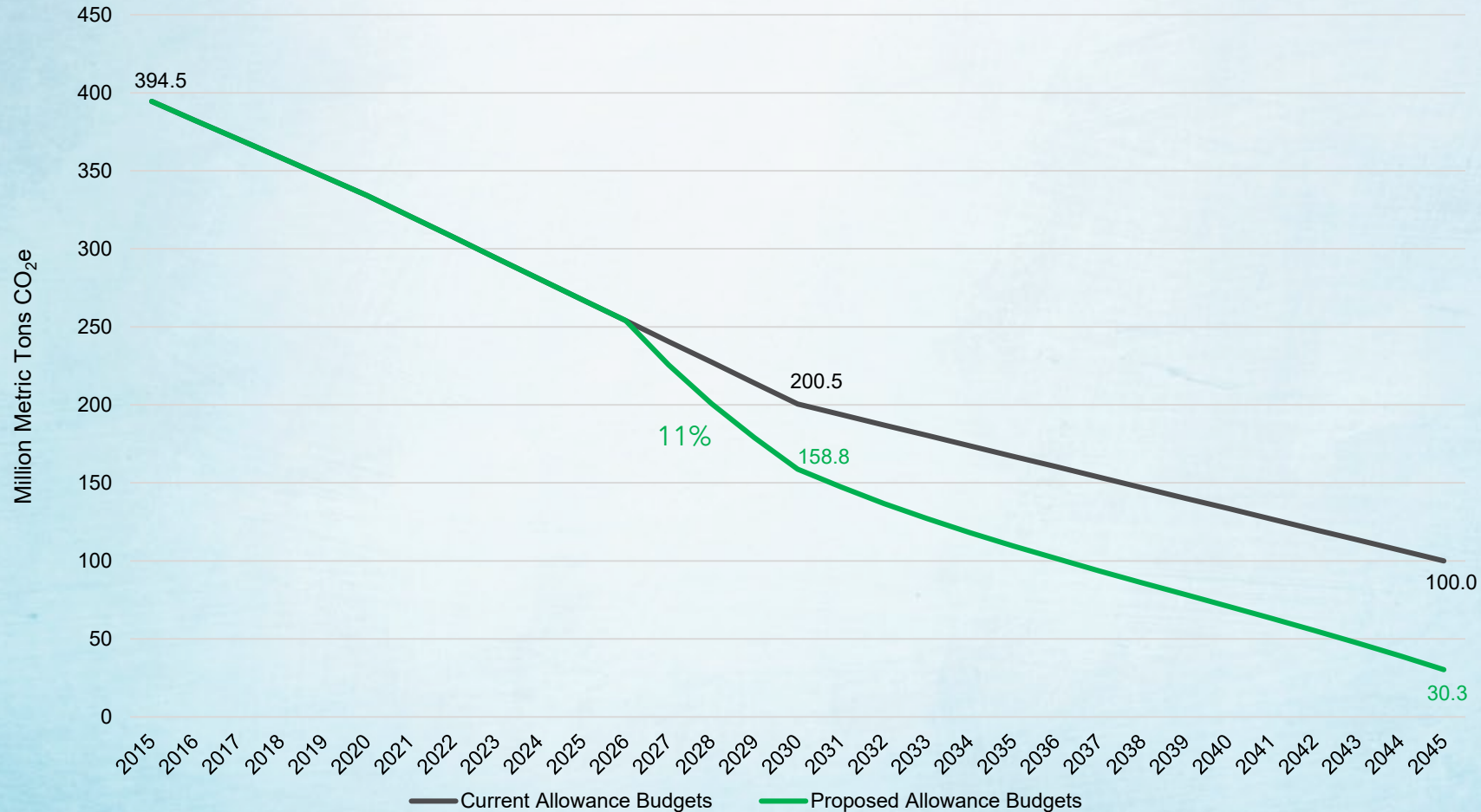
### *Comments from Assembly and Senate*

- Support for thoughtful balancing of multiple priorities, including affordability
- Concerns about achieving emissions targets and MDI
- Support MDI and request for MDI guardrails
- Do not prioritize industrial assistance, including refineries
- Support additional industrial assistance and urge setting post-2030 allocation
- Support for and opposition to increase in EDU allocation
- Both support and concern about faster transition of NGS allowances to EDUs
- Prioritize GGRF
- Do not remove allowances due to compliance costs
- Provide support for CCUS

# Adopted Annual Budgets Increase Ambition

**Covers ~80% of emissions in the SB 32 target to be 40% below 1990 level by 2030**

Current and Adopted Allowance Budgets



**Immediate change in stringency of annual decline from average of 4% to 11% through 2030**

**Post-2030 stringency of annual decline is 7%**

**Total removal of over 1 billion allowances through 2045**

# Additional Relief on Electric Bills

- Support a California Climate Credit of \$10 billion in aggregate from 2027 through 2030
  - Provide free allowances to electric utilities in excess of Program costs to support additional electricity affordability
  - Transfer 70% of gas utility allowances to electric utilities
    - Focus remaining 30% on low-income natural gas customers

*Monetary values are not price projections*

*Values are number of allowances × \$30*

# Increases Assistance for Industry

- Industry assistance goes beyond the status quo proposed in January
  - Provides an estimated *additional* \$800 million in compliance support from 2027 through 2030
- Increases leakage protection and helps ensure no additional cost passthrough at the pump
- Industrial allocation covers less than 100% of compliance to maintain need to reduce emissions

*Monetary values are not price projections*

*Values are number of allowances × \$30*

# Industrial Emissions Leakage Protection in Other Emissions Trading Systems

| Jurisdiction   | 2023 Industrial Covered Emissions | 2023 Industrial Allowance Allocation | 2023 Ratio of Allocation to Covered Emissions (%) | Estimated 2027-30 Ratio of Allocation to Covered Emissions (%) under Final Proposal |
|----------------|-----------------------------------|--------------------------------------|---|---|
| California     | 56,172,385                        | 34,935,503                           | 62%   | 70%   |
| Washington     | 9,182,283                         | 9,162,037                            | ~100%   |   |
| Québec         | 19,734,923                        | 19,543,087                           | 99%   |   |
| European Union | 628,571,429                       | 528,000,000                          | 84%   |   |
| United Kingdom | 50,900,178                        | 36,856,294                           | 72%   |   |

# Post-2030 Flexibility

- Removes post-2030 allowance allocations for consideration as part of future rulemaking
  - Provides time to continue to work through stakeholder concerns while economic circumstances stabilize, and to evaluate and balance allowance distribution across utilities, industry, and auctions
  - Post-2030 industrial allocation will be informed by CARB's report on the emissions leakage risk pursuant to AB 398
  - Staff will continue to monitor and evaluate the appropriate balance of allowance value for various purposes
- Adopted amendments include annual allowance budgets through 2045 to send long-term market signal

# Invest in California Businesses (1 of 2)

- \$4 billion manufacturing decarbonization incentive (MDI) allocation
  - Backfills lost federal funds without borrowing from GGFRF
  - Supports near-term emissions reductions under the cap toward the 2030 target - one allowance delivers reductions in many future years
  - Eligible entities: food processors, cement plants, metal processors, and refiners, among others
  - Reduces compliance costs
  - Funded by no more than 118 million incentive allowances
- Eligible projects align with existing state policy and need to scale:
  - Replacing fossil fuel equipment with clean alternatives, low-carbon hydrogen use, renewable energy generation, carbon capture and sequestration, and more

# Invest in California Businesses (2 of 2)



First-of-its-kind carbon market feature - CARB to monitor, evaluate, and adjust as needed



Process and guardrails



Applications approved by Executive Officer only apply to one compliance period



Robust project reporting with publicly available information on applications received, incentive awarded, incentive remaining



Unused incentives must be returned to CARB



Projects must comply with local permitting and local government requirements, including public hearings

# Board Resolution 26-7

- On May 29, 2026, the Board approved Resolution 26-7, which formally adopted the proposed Cap-and-Invest amendments and provided further direction to CARB staff on the following topics:
  - Cement sector allowance allocation
  - Manufacturing decarbonization incentive evaluations and implementation
  - Coordinating with CPUC on investor-owned utility climate credits
  - Other potential leakage minimization measures
  - Treatment of independent merchant refiners
  - Carbon capture and storage under SB 905

# Next Steps

- Summer: CARB staff will continue to finalize the rulemaking package for submission to the Office of Administrative Law
- September 1: Adopted amendments go into effect
  - CPUC Phase 1B climate credit proceeding
  - Reflect changes to annual allowance budgets and allowance allocation
  - Begin evaluation for linkage with Washington's program
- Workshop on MDI implementation
- Continued program implementation and monitoring