State of California
Air Resources Board

Notice of Public Availability of Modified Text and Availability of Additional Documents and/or Information

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

Public Hearing Date: May 28, 2026
Public Availability Date: April 14, 2026
Deadline for Public Comment: April 29, 2026

The California Air Resources Board (CARB or Board) has determined that additional modifications are appropriate for the proposed amendments and has developed the proposed modifications (15-Day Amendments) as stated below in the "Summary of Proposed Modifications" section of this notice. The Attachments showing the specific proposed modifications to the text of the proposed regulation being made with these 15-Day Amendments are shown in multiple ways in order to meet the requirements of the Administrative Procedure Act (APA) while also posting alternate/complementary versions that provide increased accessibility to view the modifications.

The Attachments are as follows:

Attachment A - Amendments to Sections 95802, 95803, 95811, 95812, 95830, 95831, 95833, 95841, 95852, 95852.1, 95852.2, 95856, 95871, 95890, 95891, 95892, 95893, 95911, 95920, 95921, 95923, 95975, 95975.1, 95976, 95977, 95977.1, 95980.1, 95983, 95985, 95987, 95989, Appendix B, and Appendix D, Title 17, California Code of Regulations

- Attachment A-1: Proposed 15-Day Modifications to Proposed Regulation Order (compared to version released for 45-day comments)
- Attachment A-2: ~Alternative format to Attachment A-1~
- Attachment A-3: Proposed 15-Day Modifications to Proposed Regulation Order (15-Day Modifications and 45-Day Modifications combined and compared to existing regulatory text) in Alternative format

Attachment B – April 2026 2027-2030 EDU Allocation Calculations Spreadsheet

The Attachments showing the specific proposed modifications to the text of the proposed regulation orders available for comment with this Notice are provided in the two formats denoted with the suffixes "-1" and "-2."

In the version denoted Attachment A-1, the 45-Day Amendments (proposed regulatory language as posted on January 20, 2026) are shown in "normal type." The deletions and additions to the 45-Day Amendments that comprise the 15-day Amendments that are being made public and available for comment with this Notice are shown in ~~strikeout~~ to indicate deletions and <u>underline</u> to indication additions.

In the version denoted Attachment A-2, the 15-Day Amendments are provided in a tracked-changes format to meet the requirement for accessible electronic documents. The 45-Day Amendments are incorporated into this version as plain, clean text because they are not being made available for public comment by this Notice. The Proposed 15-Day Amendments are shown in tracked changes and are made public with this Notice and available for comment. To review this document in a clean format, without underline or strikeout to show changes, that shows all the proposed regulations being considered for adoption, please select "Simple Markup" or "No Markup," or accept all changes in Microsoft Word's Review menu. You can also change the view to the initially proposed 45-Day Amendments (originally proposed regulatory text prior to these proposed modifications) by selecting "Original" or rejecting all tracked changes. Additionally, "Advanced Track Changes Options" will allow for further options regarding color and other markings.

In the version denoted Attachment A-3, the existing, original regulatory language currently adopted into the California Code of Regulations (pre-45-Day Amendments) is shown as plain, clean text, while the 45-Day Amendments *<u>and</u>* the proposed 15-Day Amendments are combined and shown in tracked changes. To review the net proposal in this document in a clean format (no underline or strikeout to show changes), please select "Simple Markup" or "No Markup" in Microsoft Word's Review menu or accept all changes. You can also change the view to the original (originally proposed regulatory text *<u>prior</u>* to any proposed modifications, or 45-Day Amendments) by selecting "Original" or rejecting all tracked changes. By progressing through the changes and comparing them with the 15-Day Amendments, the public can see the net and stepwise changes being proposed in relation to existing law. Please refer to the version denoted A-1 to review the 15-Day Amendments available for comment and its companion/alternate version A-2 to view an accessible version showing the 15-Day Amendments.

In the Final Statement of Reasons, staff will respond to all comments received on the record during the comment periods. The APA requires that staff respond to comments received regarding all noticed changes. Therefore, staff will only address comments received during this 15-day comment period that are responsive to this notice, documents added to the record, or the 15-day Amendments detailed in Attachment A-1.

Summary of Proposed Modifications

The following summary does not include all modifications to correct typographical or grammatical errors, changes in numbering or formatting, nor does it include all of the non-substantive revisions made to improve clarity. Applicable to and incorporated into all revisions identified below, the rationale for all of the modifications identified below is to adhere to the intent of the recent legislation – Assembly Bill 1207 (Irwin, Stats. 2025, ch. 117) for the regulation to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions (GHG) to achieve statewide GHG emissions reduction targets, minimize costs and maximize benefits to California and its economy, consider affordability and equitable distribution of allowances, ensure market stability, diversify energy sources, encourage early GHG emissions reductions and decarbonization across sectors, reduce administrative burden, protect the environment and public health, minimize emissions leakage, maintain and complement California's air quality mechanisms, ensure that low-income communities are not disproportionately impacted, and minimize adverse ratepayer impacts. Additional rationales unique to each provision are further identified below.

(A) Modifications to Section 95802

1. In section 95802, the definition of "Adjusted Clinker and Mineral Additives Produced" definition was modified to change "baghouse dust" to "cement kiln dust" to clarify the proposed definition and align with the existing Mandatory Reporting Regulation (MRR) definition of "cement kiln dust."
2. In section 95802(a), the definition of "Butter" was revised to replace the word "including" with the phrase "such as" for clarity.
3. In section 95802(a), the definition of "CAISO Markets Outstanding Emissions" was revised to clarify that the outstanding emissions are what is calculated pursuant to the referenced MRR section.
4. In section 95802(a), the definition of "cement" was revised to replace the word "Portland" with "portland" as it is normally used in the industry and material standards.
5. In section 95802(a), the definition of "Compliance Period" was revised to replace the word "three" with "multi" for clarity and to accommodate changes to the length of some compliance periods that were proposed in the 45-day Amendments for section 95840. Additionally, the text "…except for the first compliance period. The compliance obligation for the first compliance period only considers emissions from data years of 2013 and 2014" was deleted for clarity since that first compliance period is long over.
6. In section 95802(a), the definition of "Conservative" was changed to better align and delineate the definition in the context of unintentional reversals and project termination determinations with the portion of the definition in the context of offset crediting. These changes more clearly reflect the definition of "Conservative" in these different contexts.
7. In section 95802(a), the definition of "Correctable Error" was revised to add the phrase "except as allowed for in section 95977.1(b)(3)(M)" to reduce confusion and to eliminate possible conflict between sections 95802(a) and 95977.1(b)(3)(M). The revision also replaces the word "including" with "and" for clarity.
8. In section 95802(a), the definition of "Extended Day-Ahead Market" or "EDAM" was revised to add the word "defined" for clarity.
9. In section 95802(a), the definition of "Fuel supplier" was revised to revert the deletion of "liquified petroleum gas" proposed in the 45-day Amendments to align with proposed MRR changes related to the point of regulation for liquified petroleum gas.

10. In section 95802, a definition of "grind aid" was added. Grind aid is part of the proposed change to the definition of “adjusted clinker and mineral additives produced,” which is part of the defined product “finished cement,” the production of which is eligible for industrial allowance allocation. The definition of “grind aid” is added for clarity and to support appropriate allowance allocation for the production of finished cement.
11. In section 95802(a), the definition of “Importer of Fuel” was revised to align with the definition in MRR for consistency and clarity.
12. In section 95802(a), the definition of “Incident Action Plan” was revised to delete the second of the two sentences in the definition to improve clarity and because the sentence is not needed in the definition. The revised definition thus clarifies that maps are not necessarily part of an Incident Action Plan, though Incident Action Plans often include maps and other information documenting the daily changes to fire response tactics and priorities.
13. In section 95802(a), the definition of “Incident Management Team” was clarified by removing the text “emergency incidents, including” so that the definition refers to only wildland fire incidents, and not any other type of emergency incident, as the type of incident that an incident management team is dispatched to. Also, “Incident Management Team” was capitalized for consistency with other defined terms across the Regulation.
14. In section 95802(a), a definition was added for “Independent Merchant Refinery.” An Independent Merchant Refinery is more sensitive to the margins between crude oil prices and gasoline prices than refineries that are vertically integrated with crude production and retail marketing due to more limited opportunities to adjust overall operations in response to changes in the global prices of crude and gasoline. An Independent Merchant Refinery produces over one million barrels of gasoline annually, such that it can produce substantial volumes of gasoline for meeting the overall demand of California consumers. This definition is necessary to identify the subset of covered facilities that are eligible to opt in to a one-time delayed full compliance period compliance obligation to provide additional flexibility in managing compliance costs.
15. In section 95802(a), a definition for “Light-Duty Vehicle Assembly” was added to support product-based industrial allowance allocation to covered industrial facilities that undertake this activity.
16. In section 95802(a), a definition for “Light-Duty Vehicle” was added to clarify the new activity “Light-Duty Vehicle Assembly” in Table 9-1 and to clarify the units of the proposed “Light-Duty Vehicle” benchmark used for product-based industrial allowance allocation.
17. In section 95802(a) a new definition for “Manufacturing Decarbonization Incentive Allocation Allowance” is added to establish the parameters of allowances created to populate the Build Up California Reserve Account in section 95871(k) and distributed for Manufacturing Decarbonization Incentive Allocation in section 95891(g). Manufacturing Decarbonization Incentive Allocation Allowances are treated consistently with other California greenhouse gas (GHG) allowances and represent an authorization to emit up to one metric ton of carbon dioxide equivalent.
18. In section 95802(a), a definition for “Passenger Vehicle” was added to clarify the use of that term within the definition of “Light-Duty Vehicle.” The definition of “Passenger Vehicle” supports product-based industrial allowance allocation benchmark for the activity “Light-Duty Vehicle Assembly.”
19. In section 95802(a), the definition of “Supplier” was revised to remove “LPG receiving facilities” to conform with proposed changes to MRR related to the point of regulation for liquified petroleum gas.

20. In section 95802(a), a new definition for “Transfer of Title” was added based on public comment feedback to clarify this term, which was newly used in the 45-day Amendments in new section 95975.1.
21. In section 95802(a), the definition of “Transferred ARB Project” was revised to align the definition with the actual project statuses that are present in the Regulation. The project statuses “Proposed Renewal,” “Active ARB Renewal,” and “Active Registry Renewal” were deleted from the definition to align with changes in the 45-day Amendments that removed these statuses from the Regulation, and the project status “Monitored” was added to the definition to align with the use of that status in section 95987(b)(6).
22. In section 95802(a), the definition of “Unintentional Reversal” was changed to replace the term “applicable regulatory agency” with “fire authority having jurisdiction” because not all states have regulatory agencies that approve prescribed fires.
23. In section 95802(a), the definition of “Western Energy Imbalance Market” or “WEIM” was revised to add the word “defined” for clarity.

(B) Modifications to Section 95803

1. In section 95803(c), text was changed to clarify that information and requests must be electronically submitted to the Executive Officer, which is necessary to for ease of submissions from the regulated community and to reduce paper use and scanning time. Text was added to specify an email address for making an electronic submittal that corresponds to the section of the Regulation under which the information or request is being made, and text was added that if not otherwise specified, information must be submitted electronically to the Help Desk.

(C) Modifications to Section 95811

1. Section 95811(e)(3) was revised to revert to the current regulatory text to align with proposed changes to MRR related to the point of regulation for liquified petroleum gas.

(D) Modifications to Section 95812

1. In section 95812(c)(2)(A)(1), the text was changed to clarify that a State of Emergency declared by the Governor must be made under the provisions of Government Code section 8558(b). In addition, text was changed to clarify that the exemption is limited to emergencies declared to address a sudden and severe energy shortage. These changes were made in response to comments from interested parties, to align with the statutory language, and to clarify the scope of the proposed limited exemption.

(E) Modifications to Section 95830

1. In section 95830(b)(3)(B), the phrase “indicia of control” was replaced with “indicia” for clarity and alignment with changes to section 95833(a)(1) in the 45-day Amendments. The indicia in sections 95833(a)(1)(A)-(F) are both indicia of control and indicia of ownership.
2. In section 95830(c)(1)(N), the phrase “opt-in covered entity” was added to clarify the types of entities that would need to submit supplemental registration documentation upon request from the Executive Officer. Additionally, an explanation of situations where CARB may request this documentation was added. If, based on review of required registration information, there is reason to believe that a covered entity or opt-in covered

entity's planned market activity could be non-compliant with regulatory requirements, then the Executive Officer would request the supplemental registration documentation be submitted. This is necessary for the enforceability of the regulation.

2. Section 95830(c)(1)(N) was reformatted to more clearly list the supplemental information items that were previously identified together in section 95830(c)(1)(N). Voluntarily associated entity applicants must submit the information in sections 95830(c)(1)(N)(1)-(9) to register. This formatting change was made for easier identification of the supplemental information that entities must provide to register.
3. In section 95830(c)(1)(N)(9), a sentence was added to give a deadline of 30 days for the submission of any other documents requested by the Executive Officer that are necessary to determine if an entity's registration conforms with all regulatory requirements. This change was added for clarity. The 30-day timeframe provides a reasonable time to comply while also meeting CARB's need to receive information timely to ensure compliance. This submission timeframe is also consistent with other CARB regulations.

(F) Modifications to Section 95831

1. New section 95831(b)(10) was added to establish the Build Up California Reserve Account, which is necessary to hold current vintage allowances created pursuant to section 95871(k) for the purposes of providing Manufacturing Decarbonization Incentive Allocation in section 95891(g).

(G) Modifications to Section 95833

1. In six total instances in sections 95833(a) and (d), the phrase "indicia of control" was replaced with "indicia" for clarity and alignment with changes to section 95833(a)(1) in the 45-day Amendments. The indicia in sections 95833(a)(1)(A)-(F) are both indicia of control and indicia of ownership.
2. In section 95833(a)(6), the reference to the Shared Role Exemption was changed from section 95833(c)(3) to section 95833(c)(4) to align with the addition of new section 95833(c)(3) and related renumbering of the previous section 95833(c)(3) to section 95833(c)(4).
3. In section 95833(c)(3), the text was changed such that a covered entity or opt-in covered entity subject to a direct corporate association due to contracting with an individual Cap-and-Invest Consultant or Advisor who has shared roles is exempt from disclosing the direct corporate association and does not need to apply for any Shared Role Exemption provided that the individual Cap-and-Invest Consultant or Advisor with shared roles (1) provides Cap-and-Invest consulting services to only covered entities, only opt-in covered entities, or both, and (2) does not have a user account in the tracking system. The change is responsive to public comment feedback and is necessary to enable continued compliance support for covered entities. The change streamlines the process for administering this exemption from direct corporate association information disclosure requirements for covered entities.
4. Section 95833(c)(4) was added to include the text that was proposed for section 95833(c)(3) in the 45-day Amendments. This change accommodates the new text in new section 95833(c)(3) in the 15-day Amendments.
5. In section 95833(c)(4)(A), the reference to multiple exemption criteria for the Shared Role Exemption was removed to align with the new disclosure exemption in section 95833(c)(3). A timeline was added whereby the Executive Officer will approve or deny

the application for the Shared Role Exemption within 30 business days of receiving completed applications from all entities subject to the direct corporate association. This timeline was added for procedural clarity. The 30-day timeframe provides entities with certainty of a reasonable time while also meeting CARB's needs related to monitoring the market. This timeframe is also consistent with other CARB regulations.

6. In section 95833(c)(4)(A)1, the requirement to submit an attestation was changed from a requirement for the director or officer of the entity to a requirement for an account representative. Additionally, the qualification that the Cap-and-Invest Consultant or Advisor subject to shared roles provides Cap-and-Invest consulting services to covered entities or opt-in covered entities only was removed from the attestation text. Finally, the attestation text was narrowed such that the account representative must attest that the Cap-and-Invest Consultant or Advisor does not have legally binding authority over only their entity (instead of not have legally binding authority over any of the entities that they serve) nor decision making authority over only their entity's market position (instead of not having decision making authority over any of the entities that they serve). These changes are responsive to public comment feedback and necessary to reduce administrative burden on entities, to streamline the process, and for alignment with the new exemption in 95833(c)(3).
7. Section 95833(c)(3)(B) in the 45-day Amendments is renumbered to section 95833(c)(4)(B). Sections 95833(c)(3)(B)1 and 2 in the 45-day Amendments are deleted. These changes are necessary to support the streamlining of the CARB staff process to administer exemptions from certain corporate association disclosure requirements described in section 95833(c)(4). The Shared Role Exemption eligibility criterion in section 95833(c)(3)(B)2 of the 45-day Amendments for Cap-and-Invest Consultants who provide services to only covered entities has been removed because that exemption for covered entities is now included in section 95833(c)(3). The requirement to apply for the exemption in section 95833(c)(3) is removed for covered entities that meet that criterion to streamline the administrative process. Text on the Shared Role Exemption eligibility criterion in section 95833(c)(3)(B)1 of the 45-day Amendments is moved to section 95833(c)(4)(B), where the requirement to apply for approval by CARB for such an exemption is preserved for covered entities that meet that criterion.
8. In section 95833(f)(1), the delayed deadline for identifying corporate association group (CAG) purchase limit shares and holding limit shares is shortened from December 31, 2029, to December 31, 2027. Additionally, a change is made to clarify that for new or updated CAGs involving a new applicant pursuant to section 95833(a)(6) and (a)(7), all members of the group must disclose the required information including purchase limit and holding limit shares pursuant to section 95833(d). The timing of this disclosure is described in section 95833(e), and the entities are ineligible for the delayed deadline for the disclosure of purchase and holding limit shares. The shortened deadline balances concerns related to short-term price volatility upon immediate implementation of CAG holding limit shares and purchase limit shares and concerns related to unintended market incentives related to a longer deadline. Staff analysis based on the most recent information suggests that the number of allowances released to the market from entity holding accounts due to implementation of the proposed CAG rules may be toward the low end of the previously expected range, making a shorter deadline more feasible. The December 31, 2027, deadline also aligns with the November 1, 2027, compliance event for the fifth compliance period (2024-2026), where entities must meet their full compliance period compliance obligation. The December 31, 2027, deadline provides affected entities over one year to either restructure corporate affiliations or adjust allowance holdings before any newly required purchase limit shares and holding limit

shares take effect, thus mitigating the potential for short-term volatility and supporting market stability compared to immediate implementation. The new text regarding new registry applicants is needed to clarify that entities in a CAG formed or updated due to a new applicant are not eligible for the delayed disclosure of corporate association information. The previously proposed language did not clearly identify how new applicants are treated. Since a new applicant will not have any holdings to redistribute or adjust, a delayed deadline for the disclosure of purchase limit shares and holding limits would be inappropriate. These changes are necessary for market stability and integrity, to mitigate short-term market volatility, and to provide notice and further clarity to registered entities subject to these CAG triggers.

9. In section 95833(f)(2), the January 1, 2030, effective date was changed to January 1, 2028, to harmonize with the changes to the delayed deadline in section 95833(f)(1).

(H) Modifications to Section 95841

1. New section 95841(b) is added to specify that Manufacturing Decarbonization Incentive Allocation Allowances are created with a current vintage year assigned pursuant to section 95871(k), in addition to the annual Allowance Budgets set in 95841(a). This addition is needed to establish that Manufacturing Decarbonization Incentive Allocation Allowances, as defined in section 95802(a), are treated equivalently to other GHG allowances issued by CARB under Subarticle 6 for the purposes of compliance and trading in the Cap-and-Invest Program. The Manufacturing Decarbonization Incentive Allocation Allowances will be distinguishable from other allowances and transparently tracked for volume in the market and remaining volume in the Build Up California Reserve Account.

(I) Modifications to Section 95852

1. In section 95852(b)(4)(B), the phrase “for the entity subject to the California RPS” was replaced with the California Public Utilities Code sections pertaining to the California RPS Program to clarify requirements for imported electricity claimed for the RPS Adjustment. Additionally, language that limited eligibility for the RPS adjustment to Portfolio Content Category 2 Renewable Energy Credits (RECs) related to excess procurement was removed from this section for clarity and to reflect changes to section 95852(b)(4)(F), which limit the RPS adjustment to Portfolio Content Category 0 RECs after December 31, 2026, and which makes this text unnecessary. These changes address comments by interested parties, provide parameters for eligibility, and improve the clarity of this section.
2. In section 95852(b)(4)(F), the timeframe of REC eligibility for the RPS adjustment was changed to reflect a revised restriction and limit the eligibility to claim the RPS adjustment to Portfolio Content Category 0 RECs after December 31, 2026, instead of after December 31, 2030. These changes were made in response to recommendations from interested parties. These changes accelerate the proposed narrowing of eligibility for the RPS adjustment to only Portfolio Content Category 0 RECs to the same time frame that the electrical distribution utility allocation calculations are adjusted to better account for RPS-eligible procurement that may incur a Cap-and-Invest Program compliance obligation.
3. Section 95852(e)(2) was changed to revert changes proposed in the 45-day Amendments to align with MRR proposed changes to the point of regulation for liquified petroleum gas.

(J) Modifications to Section 95852.1

1. Section 95852.1 is updated to remove text added in the 45-day Amendments that limited a compliance obligation exemption for the use of biomass-derived fuels to only the covered entity claiming the exemption in the Cap-and-Invest Program, such that no other entity could otherwise claim emissions reductions for that same fuel use, except for the generation of RECs or Low Carbon Fuel Standard credits. The updated text removes this prohibition and instead clarifies that no other entity may claim a covered emissions exemption for that same fuel use in the Cap-and-Invest Program or in a linked external GHG emissions trading system. This change is necessary to protect the environmental integrity of the Cap-and-Invest Program and any linked emissions trading systems by prohibiting the double-claiming of covered emissions exemptions that lower a covered entity's compliance obligation. Concurrently, this change allows entities claiming an exemption from a Cap-and-Invest Program compliance obligation for use of biomass-derived fuels to also participate in unlinked external incentive programs, such as an industrial manufacturing facility that procures biomethane to lower its Cap-and-Invest compliance obligation while simultaneously participating in a "buy clean" procurement program for their low-carbon product. This change also allows entities to claim environmental benefits in a program outside of Cap-and-Invest for avoided methane emissions associated with a volume of biomethane combusted by a covered entity. These examples of incentive stacking work in tandem with the carbon price signal imparted by Cap-and-Invest to incentivize increased deployment of biomass-derived fuel use in support of deep decarbonization strategies needed to achieve California's climate goals.

(K) Modifications to Section 95852.2

1. Section 95852.2(a)(5) was changed to replace the word "including" with the phrase "such as" for clarity. Section 95852.2(a)(7) was changed to remove the word "including" for clarity.

(L) Modifications to Section 95856

1. Section 95856(f)(3)(A) was added to provide an optional one-time delay, from November 1, 2027 to November 1, 2029, in the deadline to meet the full compliance period compliance obligation for covered emissions associated with a facility that is an Independent Merchant Refinery. Responsive to public comments, the new text enables such a facility to allocate investments that support the near-term production of gasoline in substantial volumes that meet the overall near-term demand of California consumers. This provision ensures that all covered emissions from an Independent Merchant Refinery have a compliance obligation under the Program while providing additional near-term flexibility to help manage compliance costs. The new text specifies that to opt into this provision, the entity must notify the Executive Officer by January 4, 2027. This text supports clarity on how to opt into the delayed full compliance period compliance obligation and on the administrative process to support compliance with this provision.
2. Section 95856(h)(1)(A) was changed to fix a spelling mistake.
3. Section 95856(h)(1)(D) was modified to remove references added in the 45-day Amendments to section 95891(g). This change was necessary to remove reference to section 95891(g), as it was updated to clarify that Manufacturing Decarbonization

Incentive Allocation does not apply to or provide allowance allocation with true-up value. This change was necessary to avoid conflicting regulatory provisions.

4. Section 95856(h)(2)(D) was modified to remove references added in the 45-day Amendments to section 95891(g), as section 95891(g) was updated to clarify that Manufacturing Decarbonization Incentive Allocation does not apply to or provide allowance allocation with true-up value.

(M) Modifications to Section 95871

1. In Table 8-1 of section 95871, the activities for NAICS code 212 "Mining (except oil and gas) for Supplementary Cementitious Materials" and for NAICS code 327 "Nonmetallic Mineral Product Manufacturing for Supplementary Cementitious Materials," both under the NAICS Sector Definition "Cement Manufacturing," were changed in response to comments to clarify that only in-state mining and only manufacturing of materials using minerals mined in-state are eligible for industrial allowance allocation pursuant to this section, as only in-state manufacturing activities are eligible for industrial allowance allocation to minimize emissions leakage risk. Further, the heading in the rightmost column of Table 8-1 is updated to replace "2035" with "2030" as the final year in which assistance factors are established. This change is needed to align with the updated cap adjustment factors in Table 9-2, which establishes industrial allocation cap adjustment factors only through 2030. This change is responsive to comments and necessary to provide more time for CARB to analyze emissions leakage risk for covered facilities, including any updated data and information available, before setting post-2030 assistance factors in a future rulemaking.
2. In Section 95871(h), a reference to section 95871(j) is updated to 95871(k) to specify that allowances provided for Manufacturing Decarbonization Incentive Allocation, which are distributed to eligible facilities through the industrial allowance allocation process and may be used directly for compliance or trading with other entities pursuant to section 95891(g), are not included in the allowances designated for sale at auction. This change is necessary to accurately determine the remaining allowances that are designated for sale at auction after allowance allocations are complete, consistent with the treatment of all other allocated allowances.
3. In section 95871(j), the annual transfer date of allowance removals for offset use was revised from December 8 to December 31 to provide sufficient time for implementation. All references to "December 8" within this section were revised to "December 31."
4. Section 95871(k) is added to populate the Build Up California Reserve Account with 118.3 million allowances, equal to the total number removed from vintage 2027 through vintage 2030 allowance budgets in order to set the updated annual budgets in section 95841. The allowances in the Build Up California Reserve Account are made available for Manufacturing Decarbonization Incentive Allocation pursuant to section 95891(g). This provision maintains the removal of allowances available to the general market during 2027 through 2030 to reflect updates to the GHG Inventory and to support achieving emissions reduction targets as described in the Initial Statement of Reasons. Manufacturing Decarbonization Incentive Allocation Allowances are only introduced to the market over the time period specified in section 95891(g) if eligible facilities demonstrate investments in low-carbon technologies and fuels. This change is necessary to increase leakage protection for industrial facilities that invest in California, to accelerate GHG emissions reductions for industrial sectors that face technical barriers to decarbonization, and to uphold the increased environmental stringency for cumulative allowance budgets needed to drive all sectors toward the statutory 40%

statewide GHG emissions reduction by 2030 and an 85% GHG emissions reduction by 2045.

(N) Modifications to Section 95890

1. In section 95890(c), a reference to Table 9-4 is deleted. This change is necessary to align with the deletion of Table 9-4 in section 95892.

(O) Modifications to Section 95891

1. In Table 9-1 of section 95891, the activities for NAICS code 212 “Mining (except oil and gas) for Supplementary Cementitious Materials” and for NAICS code 327 “Nonmetallic Mineral Product Manufacturing for Supplementary Cementitious Materials,” both under the NAICS Sector Definition “Cement Manufacturing,” were changed to clarify that only in-state mining and only manufacturing of materials using minerals mined in-state are eligible for industrial allowance allocation pursuant to this section, as only in-state manufacturing activities are eligible for industrial allowance allocation to minimize emissions leakage risk.
2. In Table 9-1 of section 95891, the final vintage year of allowance allocation for “Thermal EOR Crude Oil Extraction” and “Non-Thermal Crude Oil Extraction” activities under NAICS code 211111 was changed from vintage 2030 to vintage 2032. The first vintage year of allowance allocation for the activity “Crude Oil Extraction” under NAICS code 211111 was changed from vintage 2031 to vintage 2033. These changes are necessary to support the intent for the timing of allowance allocation for activities under NAICS code 211111 in the 45-day amendments. Allocation through production year 2030 is expected to be based upon both thermal EOR crude oil extraction and non-thermal crude oil extraction (e.g., the allocation for production during 2030 will be made final by the vintage 2032 true-up allocation that is based on thermal EOR crude oil extraction and non-thermal crude oil extraction during 2030). Similarly, allocation for production year 2031 and beyond is expected to be based upon consolidated crude oil extraction (e.g., the allocation for production during 2031 will be made final by the vintage 2033 true-up allocation that is based on consolidated crude oil extraction during 2031).
3. In Table 9-1 of section 95891, the final vintage year of allowance allocation under the complexity weighted barrel (CWB) benchmark for “Petroleum Refining” under NAICS code 32411 was changed from vintage 2030 to vintage 2032. This change matches the intent for the timing of allowance allocation for activities under NAICS code 324110. Allocation through production year 2030 may be based upon the CWB benchmark (e.g., the allocation for production during 2030 can be made final by vintage 2032 true-up allocation that is based on CWB production during 2030).This change aligns with changes to product data reporting for refineries in MRR, where beginning with data year 2031, liquid hydrocarbon fuel production data must be reported in lieu of CWB production data.
4. In Table 9-1 of section 95891 a benchmark is added for light-duty vehicle manufacturing. This benchmark is necessary to enable product-based industrial allowance allocation for facilities that report under NAICS code 336110. The benchmark was calculated using data from reporting years 2022-2024 which were the first three years of stable production post pandemic. As only one facility produced this product, the addition establishes the benchmark at the best-in-class level, which is 0.0852

allowances per light-duty vehicle and an electricity benchmark of 0.582 MWh per light-duty vehicle.

5. In section 95891(b), the description of "$O_{a,t-2}$" for all eligible activities except for Finished Cement was changed to clarify that only in-state mining and/or manufacturing of materials mined in-state are eligible for industrial allowance allocation pursuant to this section, as only in-state manufacturing activities are eligible for industrial allowance allocation to minimize emissions leakage risk.
6. In section 95891(b), the description of "$O_{a,t-2}$" for Finished Cement for NAICS code 212 "Mining (except oil and gas) for Supplementary Cementitious Materials" and for NAICS code 327 "Nonmetallic Mineral Product Manufacturing for Supplementary Cementitious Materials" was changed to clarify that only in-state mining and only manufacturing of materials using minerals mined in-state are eligible for industrial allowance allocation pursuant to this section, as only in-state manufacturing activities are eligible for industrial allowance allocation to minimize emissions leakage risk.
7. In section 95891(b), the description of "$c_{a,t-2}$" as applied in the "$TrueUp_t$" variable for the Product Output-Based Allocation methodology was updated to remove a reference added in the 45-day Amendments for the cap adjustment factor modifier defined in section 95891(g). This update is necessary to align with changes in section 95891(g) specifying that the cap adjustment factor modifier for providing Manufacturing Decarbonization Incentive Allocation does not provide allowances with true-up value and does not apply when calculating the true-up portion of an eligible industrial facility's allowance allocation under sections 95891(b) or (c).
8. Section 95891(b)(1) was changed to enable a facility that previously received energy-based allocation to be eligible for the one-time new product true-up allocation. The one-time new product true-up allocation equation is updated to subtract the energy-based allocation for the relevant years and make it clear that new product allocation would replace, and would not be in addition to, the historic energy-based allocation to such a facility. The proposed change is necessary to support leakage protection for covered facilities based on production data that is reported and verified pursuant to MRR, CARB's preferred method of providing allowance allocation for leakage mitigation.
9. Section 95891(b)(1)(A) was changed to clarify that a facility can request one-time new product true-up allocation for budget year 2028 or 2029 allowance allocations by reporting and verifying under MRR the annual production quantities of newly covered products by the annual reporting deadline in 2027, which will be April 12, 2027, or 2028, which will be April 10, 2028, respectively. Text was added to clarify the years for which one-time new product true-up allocation from budget year 2028 and 2029 may be provided. Section 95891(b)(1)(A) was also changed to reference section 95891(b)(1)(B), which specifies that the reported data must be verified under MRR. Text was added so the term "one-time new product true-up allocation" is consistently applied in this section. These changes are needed to provide clarity to covered entities about the reporting requirements, timing, and administrative process for one-time new product true-up allocation from budget years 2028 and 2029.
10. Section 95891(b)(1)(B) was changed to reference the correct MRR subsection for reporting and verifying newly covered product data, which is necessary for accuracy.
11. Section 95891(b)(1)(C) was changed to clarify that a facility that received allocation under the CWB benchmark while operating as a petroleum refinery is not eligible for one-time new product true-up allocation under liquid hydrogen fuel (LHF) or asphalt benchmarks if it continues to operate as a petroleum refinery when the one-time new product true-up allocation could otherwise occur. This change is needed to ensure an

appropriate level of allowance allocation to each facility to minimize leakage and to avoid allocating to a facility twice for the same production.

12. Section 95891(b)(4) was added to clarify the process for a facility to irreversibly switch from allocation under the CWB benchmark to allocation under the LHF and asphalt benchmarks. The deadline to switch is December 1 of the calendar year immediately preceding the first year that the entity elects to be covered by the new benchmarks. The December 1 deadline is necessary to support administration of the switch in benchmarks and clarifies the data year that the facility will start reporting and verifying LHF and asphalt production data instead of CWB production data. For example, a facility that wants to irreversibly switch to allowance allocation under the LHF and asphalt benchmarks for the 2029 production year would need to notify the Executive Officer by December 1, 2028. Such a facility would then report and verify its 2029 LHF and asphalt production data during 2030, and the allocation for production during 2029 would be made final by vintage 2031 true-up allocation, would be based on verified 2029 LHF and asphalt production data.
13. In section 95891(c), the description of "$c_{a,t-2}$" as applied in the "$TrueUp_t$" variable for the Energy-Based Allocation methodology was updated to remove a reference added in the 45-day Amendments for the cap adjustment factor modifier defined in section 95891(g). This update is necessary to align with changes in section 95891(g) specifying that the cap adjustment factor modifier for providing Manufacturing Decarbonization Incentive Allocation does not provide allowances with true-up value or apply when calculating the true-up portion of an eligible industrial facility's allowance allocation under sections 95891(b) or (c).
14. In section 95891(c)(2), a reference to "Cap-and-Trade" was corrected to "Cap-and-Invest" for clarity and consistency with Assembly Bill 1207 (Irwin, Stats. 2025, ch. 117).
15. In section 95891(d)(3)(C)1., the word "including" was replaced with "such as" for clarity, and the word "allowances" was replaced with "compliance instruments" to clarify that the prohibition for using allocated allowance value to pay for the costs of compliance applies to all compliance instruments in the Cap-and-Invest Program, not only allowances.
16. In section 95891(d)(4)(D), the word "including" was replaced by "The description shall specify" to remove ambiguity on the scope of the description included in the report submitted by universities and public service facilities.
17. Section 95891(g) is changed to clarify and further refine the Manufacturing Decarbonization Incentive (MDI) allocation proposal included in the 45-day Amendments text. The updated proposal offers MDI allocation for budget year 2028 through 2035. This timeline provides additional time from the effective date of this Regulation to the first MDI application deadline, which allows adequate time for facilities to compile GHG reduction project proposals and submit requests, while setting a maximum timeframe for this allocation to provide a long-term investment signal that incentivizes early investments to reduce industrial GHG emissions in support of the State's 2030 and 2045 targets. Total MDI allocation is now proposed to be limited to a fixed number of allowances, as specified in section 95891(g)(9), and the number of MDI allowances provided will depend on when and how many facilities submit an MDI application that is approved by CARB pursuant to sections 95891(g)(5)-(6). The number of MDI allowances provided to each eligible facility is determined using a flat CAF Modifier of 0.8, which replaces Table 9-2a in the 45-day Amendments which differentiated CAF Modifiers by sector and budget year. This revised approach is necessary to provide consistent treatment across all eligible industrial sectors, recognizing the wide variety of technical challenges and investment opportunities for

decarbonizing industrial manufacturing in California. In contrast to the front-loaded CAF Modifier schedule in the 45-day Amendments that prioritized higher MDI allocations in the earliest years, the consistent flat CAF Modifier across all years allows facilities to design and time MDI applications and investments in a manner that minimizes risk and maximizes chances of successful GHG emissions reduction projects. Additionally, the CAF Modifier no longer applies to the true-up portion of industrial allocation. This change was made due to administrative complexity and the two-year delay between when a facility receives an initial industrial allocation for a given production year and when it receives its true-up allocation for that year. Applying the CAF Modifier to calculate the true-up allocation opens the possibility that a facility would have a negative true-up for its MDI allocation, which would bring uncertainty to the amount of MDI value that must be spent by the deadline in section 95891(g)(8). Section 95891(g) was also updated to reference new provisions in section 95891(g)(9) for the availability of MDI allowances by sector and the process for prorating remaining MDI allowances for any budget year where the number of allowances available by sector would be exhausted. CARB plans to publish the number of MDI allowances provided annually as part of its annual allocation summary report, typically published each December, to provide transparency on the number of MDI allowances distributed. Finally, section 95891(g) was restructured to reference the new Build Up California Reserve Account, which is populated with 118.3 million current vintage allowances to be used to provide MDI allocation to eligible facilities until the account is exhausted. This approach replaces the proposal in the 45-day Amendments, which drew MDI allowances from future vintage years (2034 through 2045) and would have provided those future vintage allowances to eligible facilities as allowances with true-up value. The 45-day Amendment approach would have introduced administrative complexities related to the duration of true-up value for allowance transfers and retirements. The updated approach is necessary to provide a prescribed pool of incentive value and to avoid relying on future vintage allowances that would restrict allowance supply for future allocation.

18. In section 95891(g)(1), the phrase “is eligible for” was replaced with “will be provided” to clarify the MDI allocation process; if the facility meets the objective eligibility criteria of this section, then MDI allocation will be provided. “From” is replaced with “for” to align the text with the new reserve account structure for providing MDI allowances. “If it meets” is replaced with “provided” to align grammatically with the list of criteria in subsections (A)-(D).
19. In section 95891(g)(1)(B), text is added to clarify that facilities in sectors listed in Table 9-1a are only eligible for MDI allowance allocation if they invest in eligible activities for the sequestering or utilization of captured carbon dioxide under 95891(g)(2)(H). This addition is responsive to comments to recognize investments made in carbon capture, utilization, and storage technologies by oil and gas production sectors, contingent on a Board-approved quantification methodology that is incorporated into the Regulation per section 95852.3. Apart from this project category, sectors listed in Table 9-1a remain ineligible for MDI allowance allocation pursuant to Table 9-1a.
20. In section 95891(g)(1)(C), some eligibility criteria text from the 45-day Amendments was deleted. This change clarifies that eligibility is established if a facility submits an application that meets the requirements of section 95891(g)(5)-(6). This change removes ambiguity, as much of the eligibility text in section 95891(g)(1)(C) of the 45-day Amendments was duplicative of requirements in other subsections of section 95891(g).
21. Section 95891(g)(1)(D) is added to clarify that MDI allocation will only be provided if allowances are available in the Build Up California Reserve Account for the facility’s sector as specified in section 95891(g)(9). In any year where there are no allowances

available in the account for the facility's sector, MDI allocation will not be provided. This is necessary to provide notice to eligible entities that MDI allocation is only available up to the number of allowances provided in the Build Up California Reserve Account.

22. In section 95891(g)(2), text is added to specify that MDI value may be used for eligible GHG emissions reduction expenditures on or after September 1, 2026, the expected effective date of the Regulation if approved by the Board, and that expenditures must achieve facility GHG emissions reductions. This text is responsive to public comments that sought clarity on the time bounds of project eligibility and whether GHG emissions reductions had to be achieved by the spending deadline in section 95891(g)(8). While the first application deadline for MDI allocation is not until September 1, 2027, staff find it reasonable to extend eligibility to expenditures on facility GHG emission reduction projects that occur after the MDI allocation requirements are in effect. Because MDI allocation is intended to accelerate deployment of low-carbon technologies and fuels for industrial facilities that face leakage risk and barriers to decarbonization, the changes clarify that facilities must use MDI value to achieve GHG emissions reductions. If MDI value is spent on projects that do not achieve GHG emissions reductions, then equivalent allowances must be returned to CARB pursuant to section 95891(g)(8). This provision is necessary to ensure that the value of MDI allowances is used to achieve GHG emissions reductions and to integrate into the existing design structure for allocation by increasing the CAFs.
23. Section 95891(g)(2)(A) updates the criteria for exempt biomass-derived fuel use as an eligible category for expenditure of MDI value and adds eligibility for facility methane emissions reduction projects. Changes add capital costs for biomass-derived fuels use and methane emissions reduction projects, add a spending limit of 50% for the costs of purchasing biomass-derived fuel, exclude fuels that are partially exempt from a compliance obligation due the fuel being only partially biogenic, and delete the three-year additionality criterion for historic biomass-derived fuel use, instead specifying that the biomass-derived fuel must be used to reduce the facility's covered emissions. Taken together, these changes incentivize reductions in facility covered emissions, including both CO_2 and methane, and align the incentive for biomass-derived fuel uses with the practical economics and deployment patterns of both solid biomass-derived fuels, such as agricultural waste, and gaseous fuels, such as biomethane, which is accessible to facilities connected to the natural gas transmission and distribution network provided that the biomethane is either directly delivered or injected into a common carrier pipeline in North America. These changes are responsive to public comments. The 50% spending limit for biomass-derived fuel costs, whether solid fuel, liquid fuel, or gaseous fuels, recognizes the cost premium for low-carbon fuels over fossil alternatives while not subsidizing baseline energy costs that the facility was already incurring regardless of its chosen mix of fossil and biomass-derived fuels. Biomass-derived fuels that only have a partial exemption from a Cap-and-Invest Program compliance obligation are not eligible as these fuels are not compatible with the deep decarbonization strategies envisioned for industrial sectors in CARB's 2022 Scoping Plan Update. This change is necessary to ensure that MDI value properly incentivizes biomass-derived fuel use and methane emissions reductions that reduce facility covered emissions and support the State's progress toward achieving its 2030 and 2045 climate targets.
24. Text is added to section 95891(g)(2)(B) to specify that costs of design, engineering, and permitting necessary to support capital investments for a facility electrification project are an eligible use of MDI value. These costs are directly necessary and relevant to deploying technically complex capital improvements at an industrial facility and thus are within the scope of expenditures intended to be incentivized by MDI allocation.

However, as with the direct capital costs for electrified equipment, the associated costs for design, engineering, and permitting are only allowable uses of MDI value if they result in demonstrable GHG emissions reductions via reduced or avoided fossil fuel combustion at the eligible facility. Finally, the word “new” is added to clarify that only electricity costs of the new electrified equipment are eligible, and the word “changed” is replaced with “newly installed” to clarify that not all eligible capital installations directly replace existing equipment. These changes are necessary to incentivize facility electrification while ensuring that MDI value is used to achieve GHG emissions reductions.

25. The phrase “or meets the eligibility criteria for” is added to section 95891(g)(2)(C)1. The 45-day Amendment text limits this eligibility category for low-carbon hydrogen to projects that have received a federal tax credit under 26 U.S.C. § 45V(b)(2)(A)-(D) (adopted by the federal Inflation Reduction Act). However, this federal tax credit has been limited to projects that begin construction before January 1, 2028, which means that new low-carbon hydrogen projects constructed after this date would not be eligible for the use of MDI value. Thus, the changes provide a path for a facility to use MDI value to purchase low-carbon hydrogen if it can demonstrate that the low-carbon hydrogen meets the eligibility criteria in 26 U.S.C. § 45V(b)(2)(A)-(D), regardless of the end date for federal tax credit availability. This change is necessary to incentivize the use of low-carbon hydrogen to reduce GHG emissions.
26. The word “fully” is added to section 95891(g)(2)(C)2. to limit this eligibility category for low-carbon hydrogen procurement to only hydrogen produced from biomass-derived fuels that are fully exempt from a Cap-and-Invest Program compliance obligation. This change aligns with the new limitation for biomass-derived fuels use in section 95891(g)(2)(A), where the use of a fuel that is only partially exempt based on a biogenic fraction cannot be claimed as an eligible use of MDI value. This change is necessary to ensure that the use of MDI value achieves GHG emissions reductions and is aligned with CARB’s 2022 Scoping Plan Update.
27. Text is added to section 95891(g)(2)(C)3. to clarify that low-carbon electrolytic hydrogen produced using 100% renewable electricity is only an eligible use of MDI value if that electricity was generated by an Eligible Renewable Energy Resource, as defined in section 95802(a). This text is necessary to clarify the electricity sources that qualify for producing low-carbon hydrogen that is eligible to be purchased using MDI value, with further criteria delineated in subsections a. and b.
28. Section 95891(g)(2)(C)3.a. is added to specify that, in order to produce low-carbon electrolytic hydrogen that is MDI-eligible, the electricity that is used must be supplied to the grid or directly to the facility producing the hydrogen from within the local balancing authority where the electricity is consumed or delivered to that local balancing authority without substitution. This requirement is necessary to align the MDI eligibility criteria for low-carbon hydrogen with similar requirements in the Low Carbon Fuel Standard Program.
29. Section 95891(g)(2)(C)3.b. is added to specify that, in order to produce low-carbon electrolytic hydrogen that is MDI-eligible, the electricity that is used must be generated in the same month as the electricity used by the hydrogen production facility. This new requirement is necessary to align with time-matching standards for electrolytic hydrogen in the Low Carbon Fuel Standard Program and is responsive to public comments that requested clarity on these requirements.
30. In section 95891(g)(2)(D), the word “install” is replaced with “cover capital costs of” for consistent phrasing among all MDI-eligible capital cost categories. Also, text is added to specify that costs of design, engineering, and permitting that support capital

investments for a facility electrification project are an eligible use of MDI value. These costs are directly necessary and relevant to deploying technically complex capital improvements at an industrial facility and thus are within the scope of expenditures intended to be incentivized by the MDI allocation. However, as with the direct capital costs for electrified equipment, the associated costs for design, engineering, and permitting are only allowable uses of MDI value if they result in demonstrable GHG emissions reductions via reduced or avoided fossil fuel combustion at the eligible facility. Finally, “and” is replaced with “which” to further clarify that MDI-eligible expenditures in this category must result in reduced or avoided onsite combustion of fossil fuels.

31. In section 95891(g)(2)(E), the word “install” is replaced with “cover capital costs of” for consistent phrasing between all MDI-eligible capital cost categories. Also, text is added to specify that costs of design, engineering, and permitting that support capital investments for a facility solar thermal or geothermal project are an eligible use of MDI value. These costs are directly necessary and relevant to deploying technically complex capital improvements at industrial facilities and thus are within the scope of expenditures intended to be incentivized by the MDI allocation. However, as with the direct capital costs for a solar thermal or geothermal project, the associated costs for design, engineering, and permitting are only allowable uses of MDI value if they result in demonstrable GHG reductions via reduced or avoided combustion of fossil fuels at the eligible facility. Finally, “and” is replaced with “which” to further clarify that MDI-eligible expenditures in this category must result in reduced or avoided onsite combustion of fossil fuels.
32. In section 95891(g)(2)(F), the word “and” is replaced with “which” to further clarify that MDI-eligible expenditures in this category must result in reduced or avoided onsite combustion of fossil fuels. This change is necessary to ensure that the use of MDI value achieves GHG emissions reductions.
33. Section 95891(g)(2)(G) adds a new eligible project category for the use of MDI value, which is capital costs and associated design, engineering, and permitting costs to facilitate the use of alternative materials to reduce process emissions at an eligible facility. Some covered manufacturing activities result in process emissions through chemical or physical transformation of input materials as defined in section 95802(a), which can be reduced by replacing input materials. For example, clay can be used to substitute certain portions of limestone to make cement. However, existing facilities may need equipment upgrades to facilitate the use of alternative materials. This section allows the use of MDI value for capital costs necessary to use alternative materials, provided the facility is using the alternative materials to produce the same covered product identified in Table 9-1, and provided that the use of alternative materials to reduce process emissions can be evaluated relative to the input materials included when the product’s benchmark in Table 9-1 was established. This change is necessary to further incentivize voluntary reductions of GHG emissions in difficult to decarbonize industrial processes.
34. Section 95891(g)(2)(H) adds a new potentially eligible project category for the use of MDI value, which is capital costs, electricity costs, and associated design, engineering, and permitting costs for equipment that captures CO_2 emissions, which is verified to be sequestered or utilized through use of a Board-approved quantification methodology pursuant to potential future requirements of the Regulation. Project eligibility in this category is extended to facilities otherwise ineligible for MDI allowance allocation under Table 9-1a, for investments by these sectors in carbon capture, utilization, and storage technologies. This category is contingent on Board approval of a quantification

methodology that accounts for the sequestration or utilization of captured CO_2 emissions projects and adoption in a subsequent rulemaking that incorporates the methodology into the Cap-and-Invest Regulation. Any potential future approval of that methodology would include any required analysis of such changes. At such time, CARB may consider recognition of early action projects at facilities that capture and store CO_2 that occur after the effective date of the proposed Amendments and that do not receive MDI allocation or are not otherwise accounted for in other allocation, prior to the potential Board approval of a quantification methodology. This change is necessary to incentivize early and voluntary reductions in GHG emissions.

35. In section 95891(g)(5), minor changes clarify that an application for MDI allocation must be submitted on or before a specific deadline for each compliance period to be eligible to receive the CAF modifier during that compliance period. This change is necessary for administrative function of the program and for ensuring both entities have enough time to apply and CARB has enough time to review applications.
36. Section 95891(g)(5)(A) is edited to change the first application deadline for MDI allocation to June 1, 2027. The 45-day Amendment text set the initial deadline at September 1, 2026, which would have required CARB staff to accept and review applications before the updated Regulation is in effect. Additionally, since MDI allocation is offered on compliance period cycles, any facility that missed the initial deadline would not have another opportunity to apply until 2028 (for budget years 2029 and 2030). The deadline extension to June 1, 2027, gives CARB staff and interested facilities time to plan and prepare for the application and implementation timelines, which helps facilitate rigorous and ambitious project proposals that meet all the requirements in section 95891(g) and unlock facility GHG reductions in support of achieving California's GHG reduction targets. For subsequent compliance periods in sections 95891(g)(5)(B)-(D), the application deadline is set to June 1 in the year preceding the first year of the compliance period, rather than April 10 of that year in the 45-day Amendments. This change provides facilities additional time for submitting their application to CARB, while providing CARB staff three months to review and approve or reject applications before the September 1 deadline added in section 95891(g)(6).
37. Section 95891(g)(5)(E) is deleted. This change is necessary to align the application deadlines for MDI allocation with the years in which MDI is offered, as specified in section 95891(g). Since section 95891(g) limits MDI allocation eligibility to budget years 2028 through 2035, no application deadline is needed for budget years 2036 through 2038. Depending on the number of MDI applications approved by CARB and the total number of MDI allowances distributed to eligible facilities in the initial compliance periods where MDI allocation is offered, CARB may assess in a future rulemaking whether to extend the MDI program for future compliance periods after 2035.
38. In section 95891(g)(6), text is added to clarify that CARB will approve a facility's application for MDI allocation by September 1 of the year the application is submitted if it meets the subsequent listed criteria. This change clarifies the regulatory criteria that will be used when evaluating applications and establishes a clear timeline for application approval. The September 1 approval deadline provides three months for CARB staff to review applications after the June 1 submittal deadline in section 95891(g)(5), while allowing sufficient time for CARB to calculate and transfer MDI allocation to eligible facilities ahead of the October 24 annual deadline for providing industrial allowance allocation.
39. In section 95891(g)(6)(A), minor clarifications are added to reference "allowable" activities in section 95891(g)(2), to replace "including" with "this shall include a description of," and to delete text specifying the "expected annual GHG reductions once

the project is implemented." The first two changes clarify the scope of information that is required to be included in the submitted application. The latter change removes a phrase that would otherwise be duplicative with text added in section 95891(g)(6)(B).

40. In section 95891(g)(6)(B), new text is added to include expected annual GHG emissions reductions in the application for the proposed project. This text was previously in section 95891(g)(6)(A) and is moved here to provide a clearer structure for the application requirements. Additionally, text is added to reference "alternative materials" and "Expected annual reductions of combustion GHG emissions and process GHG emissions once the project is implemented" to differentiate these emission types and align the application requirements with the list of eligible project categories in section 95891(g)(2), which includes projects that reduce both combustion and process emissions. Finally, text is deleted that referenced the three-year additionality test for exempt biomass-derived fuels in the 45-day Amendments to align with a corresponding change to eligibility for biomass-derived fuel use in section 95891(g)(2)(A).
41. The phrase "resulting changes in facility energy use and reductions in GHG emissions" is added in section 95891(g)(7). This change is necessary to ensure that the report submitted following a compliance period for which a facility received MDI value contains the necessary information for CARB staff to determine whether the use of MDI value reduced or avoided fossil fuel use and achieved GHG emissions reductions at the eligible facility, per the eligible project categories in section 95891(g)(2). A regulatory reference in this section was updated from section 95891(g)(7) to section 95891(g)(8), as this reference was incorrect in the 45-day Amendments.
42. In section 95891(g)(7)(A), the phrase "including updates to" is changed to "the assessment shall describe changes to" to clarify the scope of information required by this subsection. The word "current" is added to specify that cost estimates submitted with the report must be up-to-date relative to cost estimates submitted in the application under section 95891(g)(6). These changes are necessary to ensure clear direction on administration of the program.
43. Section 95891(g)(7)(D)1. is added to specify that the report must include contract or procurement documentation that demonstrates the eligible expenditures of MDI value during the compliance period and the monetary value of MDI value spent on those uses. This addition is necessary so that CARB staff can ensure that MDI value is used only for eligible expenditures under section 95891(g)(2), and that any unused MDI value can be quantified and required to be returned to CARB under section 95891(g)(8).
44. In section 95891(g)(7)(E), "this includes" is replaced with "as demonstrated by the following" to remove ambiguity regarding the scope of information and documentation that must be submitted to fulfill this reporting requirement. This change is necessary to ensure clear direction on administration of the program and for enforceability of the program.
45. In section 95891(g)(7)(E)1., the phrase "including" is replaced with "the description shall specify" to remove ambiguity on what the description is required to include. Further, the words "each" and "each use" are added for consistency and to clarify that multiple eligible uses of MDI value may be included in the report submitted to CARB.
46. In section 95891(g)(7)(E)2., the phrase "through the previous" is replaced with "during the" for consistency throughout section 95891(g) when referencing which compliance period is covered by the application, spending, and reporting requirements for the use of MDI value. This change is necessary for clear program administration.
47. Section 95891(g)(7)(E)2.a. is added so that the report submitted to CARB includes documentation needed to substantiate that any low-carbon hydrogen purchased using MDI value aligns with the applicable eligibility criteria in section 95891(g)(2)(C). This

change is necessary for clear program administration and to ensure that MDI allocation is used to achieve GHG emissions reductions.

48. The word “including” is deleted from section 95891(g)(7)(E)3.a. This change is necessary for better clarity on the scope of information covered by this requirement and for clear program administration.
49. Section 95891(g)(7)(E)3.c. is added so that the GHG emissions reduction calculation required in section 95891(g)(7)(E)3. includes eligible projects that use alternative materials to reduce process emissions pursuant to the new eligible project category added in section 95891(g)(2)(G). This change is necessary to ensure GHG emissions reductions from eligible expenditures covered by MDI value are calculated and reported accurately.
50. Section 95891(g)(8) is updated to clarify the GHG reduction purpose of MDI value and to align the spending deadline with the reporting cycle specified in section 95891(g)(7). The word “unused” is deleted and the phrase “and achieve GHG emissions reductions” is added to clarify that uses of MDI value are only considered “spent” for the purposes of this section if GHG emissions reductions are achieved by the spending deadline. The five-year deadline specified in the 45-day Amendments is replaced with a new deadline aligned with compliance periods, where facilities receiving MDI allowances must spend that MDI value by the end of two compliance periods following the compliance period of the MDI allowance budget year. This change aligns the spending deadline with the post-compliance period reporting in section 95891(g)(7), which ensures that CARB staff will have the proper information about project spending and outcomes to determine whether the GHG reduction purpose of the MDI value has been achieved. This change also extends the spending deadline to six or seven years, rather than the five-year deadline in the 45-day Amendments, depending on whether an entity applies for MDI allowances for a two or three year compliance period, which is responsive to public comments expressing concern that five years was not enough time to ensure that major capital projects at eligible facilities will be deployed, given the complexities and potential permitting barriers for such projects. This change is necessary to ensure that MDI allocation properly incentivizes deep decarbonization aligned with CARB’s 2022 Scoping Plan Update for eligible industrial sectors.
51. In section 95891(g)(8)(A), text is added to specify that allowances returned pursuant to this section will be transferred to the Retirement Account. This addition ensures that allowances transferred back to CARB will be retired. This change is necessary to ensure that MDI allocation is used to achieve GHG emissions reductions in eligible industrial sectors.
52. Section 95891(g)(8)(B) is added to clarify that the determination of whether MDI value has been used on eligible projects that reduce GHG emissions will be based on the reporting information and documentation submitted pursuant to section 95891(g)(7). This section also clarifies that the full amount of the MDI value for a facility that fails to meet these reporting requirements in section 95891(g)(7) for a compliance period will be considered unspent for that compliance period, and in such cases a facility must return allowances to the Executive Officer pursuant to section 95891(g)(8). This change is necessary for program administration and to ensure that MDI value is used to achieve GHG emissions reductions.
53. Section 95891(g)(9) is added to specify the availability of MDI allowances in the Build Up California Reserve Account by sector. Subsections (A) and (B) split the 118.3 million allowances created for MDI allocation pursuant to section 95871(k) into two equal portions, where one portion is available to provide MDI allocation to refineries, hydrogen producers, and associated sectors (specified in section 95891(g)(9)(A) as NACIS codes

324110 (petroleum refineries), 324121 (asphalt manufacturing), 324199 (all other petroleum and coal products manufacturing), 325120 (industrial gas manufacturing, i.e. hydrogen production), and 325199 (all other basic organic chemical manufacturing, i.e. biorefineries)). The other portion is available for all other eligible industrial sectors. This bifurcation is necessary to ensure that all eligible sectors will have an equal opportunity to apply for MDI allocation over multiple compliance periods, despite the uncertainty in the number of applications that CARB will receive and in the number of allowances that may be provided to large industrial facilities, such as petroleum refineries, through the flat CAF modifier of 0.8. Ensuring a dedicated pool of allowances for petroleum refineries, hydrogen production, and associated sectors is necessary to support ongoing investment in these facilities to meet consumer fuel demand as the state transitions towards low carbon fuels. Petroleum refineries and hydrogen production also have access to the Refinery Investment Credit under the Low Carbon Fuel Standard Program, which can be leveraged in conjunction with MDI allocation for a higher total incentive for facility decarbonization investments across CARB programs. Subsection (C) establishes the process for providing MDI allocation in the event that insufficient allowances are available in the Build Up California Reserve Account for a sector group specified in subsections (A) or (B) to fulfill all eligible and approved MDI allocation applications for facilities in that group. This subsection establishes that any remaining allowances for that sector group in the account will be prorated across all eligible facilities in that sector group in proportion to the number of allowances that each facility would receive if sufficient allowances were available. This approach is necessary to ensure that all eligible facilities are treated fairly and equally in the distribution of remaining MDI allowances upon exhaustion of allowances in the Build Up California Reserve Account. If one portion of the MDI allowances is unused, a future rulemaking could evaluate making those allowances available to all eligible sectors.

54. Table 9-1a is updated to extend MDI allocation eligibility to transportation fuel refineries and associated sectors, such as hydrogen production, ethyl alcohol manufacturing, and organic chemical manufacturing. MDI allocation support for decarbonization investments in these sectors, in conjunction with policy support and investment credits offered by the Low Carbon Fuel Standard program, is necessary to incentivize cleaner production methods for California refining that reduces GHG emissions while helping to meet consumer fuel demand and support in-state jobs through incentives to support ongoing investment in California refining. The heading of Table 9-1a is also updated to extend MDI eligibility to all sectors that invest in eligible carbon capture, utilization, and storage projects under 95891(g)(2)(H), contingent on Board approval of a quantification methodology that is adopted into the Regulation. This change is responsive to comments and is necessary to recognize investments in carbon capture, utilization, and storage technologies by oil and gas production facilities, while maintaining the long-term ineligibility for these sectors for MDI allocation in other project categories under sections 95891(g)(2)(A)-(G), as aligned with CARB’s 2022 Scoping Plan Update.
55. Table 9-2 is updated to increase cap adjustment factors for most industrial sectors relative to the 45-day Amendments and to set cap adjustment factors through 2030. In recognition of the emissions leakage risk faced by California manufacturing sectors during the current economic uncertainty with federal policies, the barriers to maintaining efficient production in the State while achieving the deep decarbonization needed to meet California’s climate targets, and slower pace of adoption for carbon pricing by other jurisdictions than anticipated when the first regulation was adopted in 2011, staff propose increasing the Cap Adjustment Factor (CAF) for Standard Activities in 2027 to 0.807, which matches the CAF for sectors with a high proportion of process emissions

(alternate CAF) for that year. From 2028-2030, the standard and alternate CAFs decline at approximately one percent less, relative to the annual allowance budget declines in the current Regulation, than in the 45-day Amendments.[1] These changes are necessary to increase emissions leakage protection relative to the 45-day Amendments during the near-term unprecedented economic uncertainty, to take a conservative approach, to support California businesses and jobs, and to align with the statutory direction to consider effects on the state's economy. For most industrial sectors, the changes increase CAFs relative to the 45-day Amendments from 2027 through 2030. Finally, CAFs for universities and public service facilities, legacy contracts, natural gas suppliers, and oil and gas producers are maintained at the level proposed in the 45-day Amendments to align with the continued decline of fossil fuel consumption in California and the broad transition to clean electricity and low-carbon fuels needed to meet California's climate targets, and to reflect that allocation provided as transition assistance for universities, public service facilities, and legacy contracts is intended to decline with overall Program allowance budgets. As directed in AB 398 and AB 1207, CARB staff is continuing to evaluate cap adjustment factors and additional and complementary mechanisms after 2030 to address the risk of emissions leakage related to both covered industrial emissions and products that are not currently covered by the Program. Post-2030 allocation will also be informed by updated data on leakageas available. As such, CARB is removing the CAFs for 2032-2035 that were proposed in the 45-day Amendments as well as the CAFs for 2031. This change is responsive to public comments and necessary to provide more time for CARB to analyze emissions leakage risk for covered facilities before setting post-2030 cap adjustment factors in a future rulemaking.

56. Table 9-2a is deleted, as a flat CAF modifier of 0.8 is adopted in section 95891(g) in place of the CAF modifier schedule in Table 9-2a that varied by budget year and sector. CARB staff project that, if future industrial production is maintained at 2024 levels, the flat CAF modifier of 0.8 provides all eligible facilities with the opportunity to receive MDI allocation over multiple compliance periods, beginning with the partial compliance period represented by budget year 2028. Because the CAF modifier is added to the CAF a facility receives for industrial allocation, facilities eligible for MDI allocation that receive the CAF for standard activities in Table 9-2 (such as a petroleum refinery) would receive a combined CAF + CAF modifier of 1.582 for budget year 2028, approximately doubling the number of allowances they would receive without the MDI.[2] Thus, the updated MDI allocation proposal represents a significant increase in leakage protection

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[1] The 45-day Amendments proposed maintaining the standard and alternate CAFs in the current Regulation through 2030, which are derived from allowance budgets that decline 4% per year on average from 2021 to 2030 (to support the 2030 GHG emissions reduction target, which is 40% below the 2020 target). The alternate CAFs were set to decline at half that rate (2%). To increase leakage protection relative to the 45-day Amendments, the 15-day Amendments set the standard CAF at the same level as the alternate CAF in 2027 (0.807), and then drop the annualized cap decline rate from 4% to 3% for the standard CAF, and from 2% to 1% for the alternate CAF.

[2] For example, a petroleum refinery that produces 300,000 complexity weighted barrels per year, with an industrial allocation benchmark of 3.89 allowances per complexity weighted barrel per Table 9-1, an Assistance Factor of 100% per Table 8-1, and the 0.8 MDI CAF modifier specified in 95891(g), would receive 933,600 MDI allowances for each budget year of eligibility, where MDI allowances are available, in exchange for monetarily equivalent investments in low-carbon technologies and fuels listed in 95891(g)(2)(A)-(H) that reduce facility GHG emissions. This same facility would also continue to receive standard industrial allocation using the annually declining CAF in Table 9-2 (in this example, with a standard CAF of 0.782 in 2028, this facility would also receive 912,594 allowances for standard industrial allocation).

for eligible facilities while requiring demonstrable investments in low-carbon fuels and technologies that reduce GHG emissions. Taken together, the 15-day Amendments to the MDI allocation proposal are necessary to maximize the ability for eligible facilities to leverage the incentive value of MDI allowances to unlock the transformative decarbonization investments needed to keep clean production in California while supporting California's climate targets and reducing long-term compliance costs.

(P) Modifications to Section 95892

1. Section 95892(a)(2) is deleted. This change is necessary to reflect the deletion of Table 9-4, as CARB is no longer proposing to set post-2030 EDU allocation in this rulemaking. This change was made in response to public comments that requested additional time to further develop the methodology for the post-2030 EDU allocation. Post-2030 allocation will be addressed in a future rulemaking in order to provide sufficient time for this work.
2. The word "residential" is added in section 95892(a)(3), which is renumbered from section 95892(a)(4) in the 45-day Amendments. This change aligns the methodology for determining how to apportion allowances transferred from natural gas investor-owned utilities to electrical distribution utilities (EDUs) in section 95893(b)(1)(A)1. with the requirement that the value of these allowances be returned to residential EDU ratepayers in section 95892(d)(9). Without specifying that these allowances will be apportioned in accordance with residential retail sales, EDUs with a higher proportion of non-residential retail sales would receive a disproportionate number of allowances and disproportionate benefit for their residential ratepayers. This change is necessary to appropriately distribute these allowances to EDUs for providing ratepayer protection.
3. In section 95892(d)(3), the phrase "Allowance value, including any allocated allowance auction proceeds" was replaced with "Allocated allowance value" for clarity and consistency with the definition of "Allocated allowance value" in section 95802(a).
4. In section 95892(d)(3)(D), the text requiring publicly owned electric utilities and electrical cooperatives to return allocated allowance value in only a non-volumetric manner was removed to align with proposed 45-day Amendments, which removed the prohibition on the volumetric return of allocated allowance value for investor-owned utilities.
5. Section 95892(d)(7)(B) was revised to align with the definition of "Compliance Instrument" in section 95802(a) and to clarify that the prohibition on the use of allocated allowance value applies to the purchase of compliance instruments and is not limited to the purchase of only allowances. The word "including" was also replaced with "such as" for clarity.
6. Section 95892(d)(7)(D) was deleted to remove the prohibition on the volumetric return of allocated allowance value for publicly owned electric utilities and electrical cooperatives, and is necessary to align with the corresponding change proposed in section 95892(d)(3)(D) and to ensure consistency.
7. In section 95892(e)(1) the word "including" was replaced with "and" for clarity, and the phrase "on those proceeds" was added to specify the interest that is to be reported on an EDU's annual Use of Allocated Allowance Value report.
8. In section 95892(e)(5)(A), the terms "including" and "this includes" were replaced with "and" for clarity.
9. In section 95892, Table 9-3, the annual allocation to each EDU during 2027-2030 , was changed to reflect the following additional information and recommendations in public comments (calculations available in Attachment B):

a. The adjustment of the "RPS Factor Applied to Sales" to reflect the California Energy Commission (CEC) Interim Renewable Portfolio Standard Targets per California Code of Regulations Section 3204(a)(5)-(6), minus 25% to represent allowable non-Portfolio Category Content 1 (PCC 1) electricity;
b. Lathrop Irrigation District and Trinity Public Utilities District identified themselves as EDUs, and they were added as new EDUs to Table 9-3;
c. Updates to the large hydroelectric supply for Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric Company were made using the CEC Power Content Label data to address double counting of hydroelectric supply with Community Choice Aggregators;
d. Updates to the nuclear supply for Southern California Edison and San Diego Gas & Electric were made using the CEC Power Content Label data to address double counting of nuclear supply with Community Choice Aggregators;
e. Per California Public Utilities Commission (CPUC) Decision *D.23-12-036*, updates were made to apportion the supply from Diablo Canyon Nuclear Power Plant to Pacific Gas & Electric Company, Southern California Edison, and San Diego Gas & Electric Company based on supply from Pacific Gas & Electric Company's Form S-2;
f. Updates were made to the calculation for Power and Water Resources Pooling Agency and PacifiCorp to reflect newly provided data; and
g. Corrections to the values entered for Truckee Donner Public Utilities District's energy to serve load.

These changes are necessary to reflect updated information.

10. In Section 95892, Table 9-4 was deleted. This change was made in response to public comments that requested additional time to further develop the methodology for the post-2030 EDU allocation. Post-2030 allocation will be addressed in a future rulemaking in order to provide sufficient time for this work.

(Q) Modifications to Section 95893

1. In section 95893(b)(1)(A)(1), "investor-owned natural gas supplier" was changed to "public utility gas corporation" to align with the Regulation's definition of "natural gas supplier" which defines investor-owned utilities pursuant to the definition in the California Public Utilities Code. This change is necessary for clarity and consistency in the usage of terms in the Regulation.
2. In sections 95893(d)(1) and (2), the references to sections 95893(d)(3) through 95893(d)(8) were updated to sections 95893(d)(3) through 95893(d)(9). These changes were needed to reflect the addition of a new section 95893(d)(8) and to ensure that it is clear that all the applicable limitations in section 95893(d) apply to publicly owned natural gas utilities and public utility gas corporations.
3. In section 95893(d)(3), "Allowance value, including any allocated allowance auction proceeds" was replaced with "Allocated allowance value" for clarity and consistency with the definition of "Allocated allowance value" in section 95802(a). "Other than as specified in section 95893(d)(7)-(8)" was added to accommodate the new low-income ratepayer requirement, which minimizes impacts to natural gas supplier low-income ratepayers during the transition of natural gas supplier allowance allocations to electric distribution utilities.
4. New section 95893(d)(3)(B) was added to clarify that newly proposed limitations on the use of allowance value by natural gas suppliers does not limit the use of previously received allocated allowance value on uses that were previously allowable under the

Regulation and approved either by the CPUC or by the board of a Publicly Owned Utility prior to September 1, 2026, which is the expected effective date of the Regulation if approved by the Board. The changes in section 95893(d)(3) reduce the scope of allowable GHG emissions reduction projects to exclude projects such as new natural gas appliances that are inconsistent with the statewide building electrification transition envisioned in CARB's 2022 Scoping Plan and that are incentivized by other CARB regulations. However, a natural gas supplier may have already approved spending plans for previously received allocated allowance value and may have taken tangible steps to implement these uses prior to the effective date of the Regulation. This change clarifies how these new limitations apply and ensures fair treatment for natural gas suppliers that authorized a previously compliant use of allowance value prior to CARB adopting updated use of allocated allowance value requirements.

5. In section 95893(d)(7)(A), "allocated allowance auction proceeds" was replaced with "allocated allowance value" for clarity and consistency with definitions in section 95802(a). In addition to the modifications described above, "allowances" was replaced with "compliance instruments" to clarify that the prohibition under "Prohibited Use of Allocated Allowance Value" applies to the purchase of compliance instruments and is not limited to the purchase of only allowances. And "including" was replaced with "such as" for clarity. These changes were necessary for enforcement and integrity of the regulation.
6. New section 95893(d)(8) adds a new requirement for a natural gas supplier that is an public utility gas corporation to annually use 30 percent of the total value of allowances calculated in section 95893(a) to provide a non-volumetric return to residential ratepayers, either on- or off-bill, that primarily benefits low-income ratepayers, as directed by the CPUC in recognition of its authority to establish just and reasonable rates and maintain safe and reliable service for public utility gas corporation ratepayers. As directed by AB 1207, the 45-day Amendments added a provision in section 95893(b)(1)(A)1. to transition allowances that would otherwise be allocated to natural gas suppliers (NGS) to EDUs pursuant to the annual transition percentages in Table 9-6A. Multiple public commentors expressed concerns that this transition may increase the burden on low-income natural gas ratepayers because low-income ratepayers are less able to invest in electrification and because the larger number of EDU ratepayers compared to NGS ratepayers would dilute the corresponding increased benefit that NGS ratepayers would see on their electric bill. In response, CARB staff propose reserving 30 percent of natural gas supplier allowances, calculated prior to transferring any allowances to EDUs, to specifically benefit low-income residential ratepayers. The 30 percent requirement is aligned with the NGS allocation transition percentage by 2031 proposed in Table 9-6A and the estimated proportion of natural gas investor-owned utility residential ratepayers that are enrolled in the California Alternate Rates for Energy (CARE) program,[3] which provides bill relief for verified low-income customers. This approach is necessary to ensure that protection from the Program costs is retained for low-income natural gas residential ratepayers for the duration of the transition of NGS allowances to EDUs, while providing flexibility for the CPUC to oversee the distribution and administration of the remaining natural gas investor-owned utility allowance value for this purpose.

[3] See *Low Income Annual Reporting* submitted to CPUC by the Investor-Owned Utilities.

7. Section 95893(d)(8) in the 45-day Amendments is renumbered to section 95893(d)(9) due to the addition of a new section 95893(d)(8) in the 15-Day Amendments.
8. In section 95893(e), the text that was added in the 45-Day Amendments to allow investor-owned natural gas suppliers (public utility gas corporations) to discontinue annual reporting after one year of reporting a zero balance, but not before June 30, 2037, is deleted. This change is necessary to align with changes to Table 9-2 and Table 9-6a, which remove post-2030 allowance allocation from this update to the Cap-and-Invest Regulation. The final year for the NGS to EDU allocation transition, as directed by AB 1207, will be established in a future rulemaking, at which time the corresponding final year for annual reporting by public utility gas corporations can be established in section 95893(e).
9. In section 95893(e)(1), the word “including” was replaced with “and” for clarity, and the phrase “on those proceeds” was added to specify the interest that is to be reported on a natural gas supplier’s annual Use of Allocated Allowance Value report.
10. In section 95893(e)(4), “investor-owned utilities” was changed to “public utility gas corporations” to align with the Regulation’s definition of “natural gas supplier” which defines investor-owned utilities pursuant to the definition in the California Public Utilities Code. This change is necessary for clarity and consistency in the usage of terms in the Regulation.
11. In section 95893(e)(5)(A), the terms “including” and “this includes” were replaced with “and” for clarity.
12. In the heading of Table 9-6A in section 95893, “investor-owned natural gas supplier” was changed to “public utility gas corporation” to align with the Regulation’s definition of “natural gas supplier,” which defines investor-owned utilities pursuant to the definition in the California Public Utilities Code. This change is necessary for clarity and consistency in the usage of terms in the Regulation. Further, Table 9-6A was updated to change the annual percentages of allowances that must be transitioned from natural gas investor-owned utilities to EDUs, as directed by AB 1207 and pursuant to section 95893(b)(1)(A)(1), for 2028-2031, and to delete the post-2031 percentages. Multiple interested parties, including the author of AB 1207, commented that the proposed transition in the 45-day Amendments was too slow and expressed that an accelerated transition by January 1, 2031, with protections maintained for low-income ratepayers, would be better aligned with AB 1207. The updated percentages in Table 9-6A are responsive to this feedback, with the transition starting one year earlier and with 70% of NGS allowances transferred to EDUs by budget year 2031. The 70% transition by 2031 ensures that natural gas utilities retain sufficient allowances to provide an equivalent non-volumetric residential return primarily to low-income ratepayers as directed by the CPUC, aligned with parallel requirements added in section 95893(d)(8). The transition starts with budget year 2028 to provide time for the CPUC to establish how that distribution should occur, for investor-owned utilities to update billing systems to implement those requirements, and for EDUs to prepare their systems and set procedures for accepting the additional NGS allowances to be used for return to EDU ratepayers per section 95892(d)(9). The transition to 70% by 2031 is phased in equally across budget years 2028, 2029, and 2030. Post-2031 percentages are deleted because cap adjustment factors for those years will be determined in a future rulemaking (see paragraph 55 in Modifications to Section 95891 above). CARB will continue to coordinate with the CPUC and assess the impact of the transition of natural gas allowances on low-income ratepayers as it considers how best to complete the transition of these allowances in a future rulemaking.

(R) Modifications to Section 95911

1. Section 95911(c)(2) was revised to revert text proposed in the 45-day Amendments back to the original text. The 45-day Amendments had proposed the announcement date of the annual Auction Reserve Price to be "…December 8, or the next business day if December 8 is not a business day…" and this proposed text is deleted so that the announcement date is "…the first day in December that is a business day…" This change reflects input from interested parties related to the timing of information needed to make decisions related to consigning allowances in the February auction.

(S) Modifications to Section 95920

1. In section 95920(f)(3)(B), a sentence was added to clarify when and how the Executive Officer will approve of updated percentage shares of the holding limit. This sentence was added for procedural clarity.

(T) Modifications to Section 95921

1. In Section 95921(b)(7)(B), the phrases "CARB-issued offset credit" and "ARB-issued offset credit" were changed to "ARB offset credit" to match the term defined in section 95802 for consistency.

(U) Modifications to Section 95923

1. In Section 95923(b)(1), the phrase "Cap-and-Trade" was changed to "Cap-and-Invest" to match the global change made to the name of the program in the 45-day Amendments and to align with AB 1207.

(V) Modifications to Section 95975

1. In section 95975(f), new text clarifies that revisions to correct discovered inaccuracies in project listing information are considered part of a registry's review for completeness. This change is necessary to ensure clear direction on program administration, that information submitted to CARB is accurate, and for market integrity.
2. In section 95975(g), new text clarifies when an offset project operator will be notified that an offset project may be listed in situations where listing information is revised to address inaccuracies or when inaccuracies may be found when reviewing for completeness. This change is necessary to ensure clearer direction on program administration, that information submitted to CARB is accurate, and for market integrity.
3. Section 95975(j) was revised to improve clarity, breaking one lengthy sentence into two sentences. The proposed changes extend the period during which missing an OPDR submittal deadline does not result in termination of the project from "through December 31, 2026" to "through June 30, 2027." Proposed changes also correct an internal regulatory reference to section 95976(d) to instead be to section 95976(d)(2) to clarify that the relevant deadline is the annual 12-month deadline to avoid project termination and not the earlier 4-month deadline for offset credit issuance. This change is necessary to ensure enough time is provided to a project operator before project termination.
4. In section 95975(m)(2), the word "sequestration" was added, since this section relates to offset project operator changes resulting from a sale or transfer of real property

interests pursuant to section 95975.1, which is specific to sequestration offset projects. This change is necessary to clarify that the requirements of this section apply only to sequestration offset projects and that non-sequestration offset projects are not impacted by this section.

(W) Modifications to Section 95975.1

1. The title of section 95975.1 is changed to include the term "Sequestration," which clarifies that the requirements of this section apply only to sequestration offset projects.
2. In section 95975.1(a)(1), the text is reordered to improve clarity without changing the meaning. The text "the following disclosures and information" is moved within the sentence for clarity. "Intending to acquire" is changed to "actively pursuing acquisition" for clarity. For instance, general or preliminary inquiries in the project area should not trigger the proposed disclosure requirements.
3. In section 95975.1(a)(1)(D), a reference to the "Cap-and-Trade Regulation" was updated to "Cap-and-Invest Regulation" to reflect the new name of the Program and align with AB 1207.
4. In section 95975.1(a)(1)(E), the word "including" was replaced with "such as" for clarity.
5. The attestation statement for the expected new project owner previously proposed in section 95975.1(a)(2)(D) in the 45-day Amendments is moved to a new section 95975.1(a)(2). The text in new section 95975.1(a)(2) requires the offset project operator to obtain the signed attestation statement from the individual or entity that is pursuing acquisition of any portion of the offset project boundary prior to the transfer of title. This change is in response to interested parties' concerns about the timing of signing the attestation statement. New section 95975.1(b)(4) requires the former Offset Project Operator or Authorized Project Designee to provide to CARB the attestation statement signed by the individual or entity that newly acquired the offset project within 60 days after the sale or transfer. The timeframe of 60 days was chosen to provide maximum amount of time for signing while also meeting the agency's needs to receive the attestation. The regulatory citation within the attestation statement is updated from section 95975.1(a)(2) to section 95975.1(a)(1)(A)-(G) to appropriately refer to the required information and disclosures.
6. Sections 95975.1(a)(2)(A)-(D) in the 45-day Amendments are renumbered to sections 95975.1(b)(1)-(4), respectively. Renumbered section 95975.1(b), previously section 95975.1(a)(2) in the 45-day Amendments, was changed to require that the notice to CARB must be provided within 60 days after the sale or transfer of title and also to clarify that the Offset Project Operator that is required to provide the notice to CARB is the "former" Offset Project Operator (i.e., the designated Offset Project Operator before the transfer of title). Moving the deadline to provide the required notice to CARB after a sale or transfer removes the burden on offset project operators to provide notice to CARB for sales or transfers that may not be complete while also meeting the agency's need for the notice.
7. In renumbered section 95975.1(b)(1), previously section 95975.1(a)(2)(A) in the 45-day Amendments, text was changed to clarify that it is contact information for each former owner that sold or transferred real property interests that must be submitted to CARB since the notice is provided to CARB after the sale or transfer of title has already occurred. This change is necessary for CARB to fully understand the scope of ownership and land title.

8. In renumbered section 95975.1(b)(2), previously section 95975.1(a)(2)(B) in the 45-day Amendments, the term "expected" was deleted since the notice is provided to CARB after the sale or transfer of title, at a time when the new owner would be the actual owner and not just the expected owner. Also, the word "and" replaces the word "including" for greater clarity.
9. In renumbered section 95975.1(b)(3), previously section 95975.1(a)(2)(C) in the 45-day Amendments, the term "former" is added to clarify that it is the Primary Account Representative or Alternate Account Representative of the former offset project operator that must sign the attestation statement that must be submitted to CARB. This change is necessary to align with the changes to section 95975.1(b) and to ensure the correct party is making the attestation, which is important for program implementation and enforceability of the regulation.
10. In renumbered section 95975.1(b)(4), previously section 95975.1(a)(2)(D) in the 45-day Amendments, the required attestation statement was moved to new section 95975.1(a)(2), and the text requiring submission of the signed attestation statement is updated to refer to section 95975.1(a)(2) for accuracy, consistency, and clarity.
11. In renumbered section 95975.1(c), previously section 95975.1(a)(3) in the 45-day Amendments, text is revised to clarify that if any requirements associated with the sale or transfer in renumbered sections 95975.1(a)(1)(A)-(G), 95975.1(a)(2), and 95975.1(b)(1)-(4) are not met, then the project being transferred terminates. The text is also revised to clarify that all project forest owner(s), not just the identified Offset Project Operator, of the compliance offset project are responsible for any required compensation in the event of termination. This change is necessary to align with section 95983 and to address situations where compensation may be needed.
12. Previous section 95975.1(b) in the 45-day Amendments was deleted. If any of the requirements in sections 95975.1(a)(1)(A)-(G), 95975.1(a)(2), and 95975.1(b)(1)-(4) are not met, then the project being transferred terminates, and there is now already a requirement to notify CARB regarding these requirements in new section 95975.1(b). This change is necessary to avoid any unnecessary or duplicative notice requirements.
13. Section 95975.1(d) was renumbered from section 95975.1(c) due to renumbering of previous sections, and a punctuation error is corrected.
14. Section 95975.1(e) was renumbered from section 95975.1(d) due to renumbering of previous sections. In section 95975.1(e)(3), changes clarify that the new forest owner(s) are responsible for any required compensation for project termination for failing to update listing information, and the citation to section 95983(d) is corrected to section 95983(c)(4). This change is necessary to provide notice on when the project will terminate and what the forest owner(s)'s requirements are.
15. Section 95975.1(f) was renumbered from section 95975.1(e) due to renumbering of previous sections. In section 95975.1(f), the term "offset project operator" is replaced by "forest owner(s)" to align with other regulatory text where all forest owners, and not just the one designated as the offset project operator, are responsible for compensation following offset project termination.

(X) Modifications to Section 95976

1. In section 95976(d) the phrase "except for a project in its monitoring period that has an extended deadline pursuant to section 95976(h)(2)" was added to align with changes to section 95976(h)(2) and clarify that a sequestration offset project in its monitoring period can have additional time to meet its reporting deadline and thereby avoid project termination. This change is necessary to ensure consistency within the regulation and

the integrity of the program so projects within their monitoring period are not unnecessarily terminated.

2. In section 95976(h)(1), changes clarify the range of dates on which a sequestration offset project developer may choose to start the monitoring period for a project and clarify when the decision about the start date for a monitoring period becomes final and irrevocable. Amendments clarify that when a project elects to go into its monitoring period early, that decision will be considered final upon the verification body submitting an Offset Verification Statement for a reporting period in the monitoring period. In other words, an offset project developer can rescind its decision about the start date for the beginning of an early monitoring period up until the time that an offset verification statement for a reporting period in the monitoring period is submitted. This is necessary to provide projects considering entering an early monitoring period flexibility to change their mind, balanced with CARB's need for the transition to be finalized at a definite point in time. References to letters or submitting a letter are replaced with requirements for notification to clarify that an offset project operator may end its crediting period early by notifying CARB by means other than submitting a letter, such as by an email with attachments, thus providing more flexibility to projects while ensuring CARB is still notified. These changes are necessary to provide flexibility and certainty for sequestration projects as they transition early into a monitoring period.
3. In section 95976(h)(2), changes provide that the offset project operator or authorized project designee for a project in its monitoring period will be notified of a missed reporting period deadline and will have 45 additional calendar days to provide the required report before the project is terminated due to the missed deadline. This change is necessary to outline process if there is a missed reporting deadline during a monitoring period. The 45 additional calendar days timeframe was chosen as it provides enough time for the offset project operator to gather the information, takes into consideration the nature of the information, while also providing the report within a reasonable timeframe to CARB to meet the regulatory need.

(Y) Modifications to Section 95977

1. In section 95977(c)(1), the phrase "an offset project with fails to submit an" [sic] is deleted, and the sentence is restructured so it does not imply that it is the role of the offset project to submit an Offset Verification Statement—that is the role of the verification body. A reference to section 95983(d)(4) was corrected to section 95983(c)(4) for accuracy. These changes are necessary to provide clarity on roles in submissions.
2. In section 95977(c)(2), a reference to section 95983(d)(4) was corrected to section 95983(c)(4) for accuracy.
3. In section 95977(d)(1), the term "will terminate" was changed to "terminates" to clarify when termination happens, and the term "pursuant to section 95983(c)(4)" was added to clarify requirements upon termination.
4. In section 95977(d)(2), the citation to section 95983(d) is corrected to section 95983(c)(4).

(Z) Modifications to Section 95977.1

1. In section 95977.1(b)(1), the text proposed in the 45-day Amendments about CARB providing written approval of early site visit dates is deleted and replaced by new text. The new text is necessary to address project developer and verification concerns related to approving earlier verification site visits.

The proposed changes remove the requirement for CARB to approve an earlier site visit when offset verification services are not being audited, instead allowing a verification body to schedule its site visit to an earlier date in instances when neither CARB nor the offset project registry notifies the verification body within 10 calendar days of its intent to audit the verification. Ten days provides a reasonable amount of time for either a registry or CARB to notify the verification body of an audit. New text also provides an exception to the requirement for an offset project data report to be submitted before offset verification services begin. The exception is for reporting periods for which CARB has been notified of an unintentional reversal. The exception is necessary to allow verifiers to begin their verification activities earlier and conduct at least part of their site visit prior to any salvage harvest. The exception does not change that the sequential sampling portion of the verification site visit should not occur until after the end of the reporting period and after the project developer's post-disturbance update to its forest inventory. The phrase “Before beginning offset verification services” was added to accommodate the inclusion of that exception to the requirement for an offset project data report to be submitted before verification services begin, and this addition is necessary to preserve the pre-existing requirement to submit a Notice of Offset Verification Services before verification services begin. These changes are necessary to streamline the verification process while enabling audits of verification bodies by CARB and offset project registries. The phrase “for the Offset Project Operator or Authorized Project Designee” was deleted as unnecessary.

2. In section 95977.1(b)(3)(D)2.i., changes were made in alignment with those in section 95989(e). Text was added to clarify that the requirement applies only to out-of-state sequestration projects and that the project must provide documentation to the verification body of activities, upon which direct environmental benefits in the State designation were contingent, that were actually completed and that will be completed, such as photographs, GIS data, and remote sensing data. This is necessary to ensure that the planned activities, upon which an out-of-state project is seeking a direct environmental benefits in the State designation, are actually occurring and providing direct environmental benefits in the State. Some text previously proposed in sections 95977.1(b)(3)(D)2.i and 95989(e) was moved between the two sections for clarity. Text in section 95977.1(b)(3)(D)2.i is now limited to verification requirements, while section 95989(e) provides for any consequences if planned activities are not verified. “Direct Environmental Benefits to California” was corrected to “Direct Environmental Benefits in the State” to be consistent with the term defined in section 95802(a). These changes are necessary to ensure environmental and program integrity.
3. Section 95977.1(b)(3)(M) was changed to clarify the reporting period for which correctable errors that result in less than 3% overstatement of the GHG emissions reductions or removal enhancements must be fixed. When verification is deferred and covers multiple reporting periods in a single verification, the clarified text describes that such errors do not need to be fixed in the reporting period(s) currently undergoing verification but do need to be fixed in all offset project data reports for future reporting periods. This change is necessary to address recommendations from interested parties and provide a clear timeline for when these errors must be fixed. Additional language was added to further clarify that any error resulting from a nonconformance must be corrected in the reporting period being verified. This change is necessary because nonconformances must be addressed presently and cannot be delayed. These changes are necessary to ensure accuracy and the need for errors to be corrected. These changes also consider the work that goes into reporting and are needed or program integrity and enforcement.

4. In section 95977.1(b)(3)(R)7., text was added to clarify how the proposed eight-month deadline for project developers and verifiers to reach resolution on outstanding issues at the time of a verifiable offset project data report petition to CARB applies to projects that petitioned CARB before the proposed amendments become effective. To address these concerns from interested parties, the proposed language established a deadline of December 31, 2027, for all projects that have petitioned CARB prior to April 1, 2027, which is eight months prior to December 31, 2027. This change was necessary to allow flexibility during the transition from the current regulatory requirements to the new eight-month deadline.

(AA) Modifications to Section 95980.1

1. In section 95980.1(d)(2), two references were updated to correctly refer to section 95980.1(d)(1) instead of to section 95980.1(d)(2).

(BB) Modifications to Section 95983

1. The text in section 95983(a)(5) is moved to section 95983(b)(5), which is a more appropriate location within the Regulation because the text is about eligibility for using the Forest Buffer Account to compensate for unintentional reversals.
2. In section 95983(b)(1), several changes are proposed. First, providing "a wildfire containment date found in official wildfire databases to the verification body was added as an alternative method of identifying a wildfire containment date. This change was necessary to enable a project developer to use an official state wildfire database, instead of relying on a written statement from the state wildfire response agency, to identify a wildfire containment date, reducing delays and agency burden. Second, the text "undertaken by the forest owner" was deleted because in some cases a third party or an agency will be the party applying prescribed fire to the landscape, so it was necessary to address real world application. Third, the term "fire authority having jurisdiction" was added based on input from CalFIRE staff to address instances where the relevant authority having jurisdiction is not a state and local agency. Fourth, the requirement for Response to Wildfire documentation was removed because that documentation is often either not produced for an incident or not available, thus making the requirement impractical. Additional changes are made for clarity on establishing the discovery dates for disturbances outside of wildfires.
3. In section 95983(b)(2), new text was added to include a second option—moving onsite carbon stocks to an existing stratum that can pass sequential sampling—for quantifying onsite carbon stocks after an unintentional reversal. This change is necessary to support Program implementation and provides added flexibility when stratifying carbon stocks.
4. Updates in section 95983(b)(3) extend the deadline to account for the associated long-term carbon storage from salvage logs to 24 months to allow more time for salvage operations to be completed and to have their impacts quantified and verified. Text proposed in the 45-day Amendments about verifiability and intentionality was removed as it was redundant with the first sentence. Verifiability is already required since accounting for the salvage harvest is required and intentionality is covered because the long-term carbon storage in wood products resulting from the salvage harvest is required to be deducted from the reversal estimate. The removed language also implied

that a pre-salvage harvest site visit was required which would be overly burdensome for projects.

5. All text in section 95983(b)(3)(A) that was proposed as part of the 45-day Amendments is deleted. Changes in other parts of section 95983(b) now provide for 24 months for both salvage harvesting and Offset Project Data Report submittal and provide 30 months for Offset Verification Report and Offset Verification Statement submittal. With those updates, projects that are terminating will no longer need additional time compared to projects that are not terminating to complete salvage harvesting, submit their Offset Project Data, and secure submittal of their verification documents. Thus, the section has been deleted as unnecessary.
6. In section 95983(b)(4), the phrase "for all reporting periods in which an unintentional reversal occurs" was added to clarify that all reporting periods affected by an unintentional reversal must quantify, report, and verify onsite carbon sources and sinks for each reporting period affected by an unintentional reversal, including when a reversal spans two or more reporting periods. Another change extends the reporting deadline following an unintentional reversal to 24 months to align with the updated timeline for salvage harvests in section 95983(b)(3). Removing the term "positive" clarifies that a verification body may submit an offset verification statement other than a positive offset verification statement when verifying reporting periods in which an intentional reversal occurred. These changes are necessary to ensure consistency within the regulation, environmental integrity, program accountability, and accuracy in the instance of unintentional reversals.
7. Section 95983(b)(5) is amended to include text proposed for section 95983(a)(5) in the 45-day Amendments. The moved text is now in a more appropriate location within the Regulation among other regulatory text about using the Forest Buffer Account to compensate for unintentional reversals. The relocated text is also amended, addressing interested party concerns about being able to quantify carbon stock losses before a reporting period or right at the end of a reporting period. The updated text clarifies that this provision applies to the reporting period being verified, which is a period that can be years earlier than when the verification occurs later. The amendments require there to be verifiable evidence that the carbon stock loss occurred during the reporting period, such as documentation of severe weather events or documentation of a specific pest or disease from a state or local authority, although quantification of that carbon stock loss may occur later. These changes are necessary to address stakeholder concerns, ensure environmental integrity, program accountability, and instruction for unintentional reversals.
8. In section 95983(d), the text "verifiable evidence" was replaced by "a positive Offset Verification Statement" to clarify the requirements that need to be met for offset credits to be retired from the Forest Buffer Account. Also, the word "reversal" was added, and the text "make good faith efforts to obtain" was replaced by "provide" for clarity.
9. In section 95983(d)(1), the text "with reasonable assurance" was deleted for clarity, as the text was redundant.
10. In section 95983(g), the text "including the detailed verification report" was deleted because the text was redundant—the detailed verification report is already encompassed in the verification.
11. In section 95983(g)(2), text was reordered for clarity.
12. In section 95983(g)(24), text was changed to replace the word "including" with the phrase "such as" for clarity.

(CC) Modifications to Section 95987

1. In section 95987(b)(2), new text clarifies when an offset project registry makes project documentation publicly available. Current regulatory text is clear that an offset project registry makes project documentation publicly available upon registry offset credit issuance. Text proposed in 45-day Amendments aimed to clarify that an offset project registry also makes project documentation publicly available in situations when the registry approves a verification that does not result in offset credit issuance, such as a verification of a forest project reversal. Stakeholder comment indicated concerns that the 45-day Amendment text is too broad and could require an offset project registry to make project documentation publicly available in situations when the registry concludes its review without being able to approve the verification, which has never been required and was not the intent of the 45-day Amendment text. New text is necessary to respond to stakeholder concerns, to clarify that documentation is not made publicly available when the offset project registry reaches a negative determination, and to align with the intent of the 45-day Amendments.

(DD) Modifications to Section 95989

1. In section 95989(e), several revisions are proposed. First, language proposed in the 45-day Amendments was clarified to specify that the verification requirement applies only to sequestration offset projects that are located outside California. This change is necessary because section 95989(a) already specifies that sequestration offset projects located within California are already deemed to provide direct environmental benefits in the State; these projects do not need to undergo verification to ensure the planned activities are occurring and providing direct environmental benefits in the State. Second, text requiring an offset project developer to provide relevant documentation to its verification body was moved to section 95977(b)(3)(D)2.i. and therefore deleted from this section as redundant. Third, the proposed text in 45-day Amendments establishing that CARB may revoke the direct environmental benefits in the State designation for unretired offset credits that were issued since the last full verification was moved from section 95977(b)(3)(D)2.i. to section 95989(e) because that text is more appropriate in this section. Text on revoking the direct environmental benefits in the State designation of offset credits now appears only in this section and not in section 95977.1(b)(3)(D)2.i. In addition, new text in section 95989(e) specifies that CARB will remove the direct environmental benefits in the State designation from offset credits issued to the project going forward, in addition to revoking the designation from any previously issued offset credits that are both unretired and from reporting periods since the last full verification. By limiting the scope of revoking to unretired offset credits, the revocation will not create an obligation on entities that have previously retired these offset credits to satisfy a compliance obligation to replace the credits with credits that do have direct environmental benefits in the State designation. These changes are necessary to ensure that the planned activities, upon which an out-of-state project is seeking a direct environmental benefits in the State designation, are actually occurring and providing direct environmental benefits in the State.

(EE) Modifications to Appendix B

1. Appendix B was changed to replace the word “including” with the phrase “such as” for clarity.

(FF) Modifications to Appendix D

1. Appendix D was changed in various sections to replace the word “including” with the phrase “such as” for clarity.
2. Section 2.5.c in Appendix D was changed to replace the word “including” with a colon for clarity about what contact information must be kept active.
3. Section 7 in Appendix D was changed to remove the word including and reference to the specific name of the Regulation for clarity.

In addition to the modifications described above, additional modifications correcting grammar, punctuation and spelling have been made throughout the proposed changes. These changes are non-substantive.

These modifications do not change implementation of the regulation in any way that changes the conclusions of the Draft Environmental Impact Analysis (Draft EIA), which was included as an appendix to the Staff Report. The modifications consist of definition and provision clarifications and minor revisions removing certain proposals. The modifications also include other related changes, including updates to revert to prior language for liquified petroleum gas to align with point of regulation changes in MRR and updates to biomass-derived fuel exemptions that enable stacking of environmental benefits from unlinked external programs. The updates also clarify entity registration and reporting requirements and disclosure of information related to consultants and corporate associations. The modifications also further support affordability for the ratepayers of electric utilities through additional allowance allocation and support for low-income natural gas ratepayers. The updates also support jobs and mitigate emissions leakage by providing additional allowance allocation to industry, which lowers compliance costs thereby lowering the risk of emissions leakage. These changes include updates to cap adjustment factors, restructuring the MDI allocation to update the source of allowances, clarify and streamline the process and further specify allowable uses, and add a new allowance benchmark for light-duty vehicles. The updates to MDI allocation include clarifying the eligibility of biomass-derived fuels and hydrogen, enable MDI for the use of alternative materials, and describing potential future consideration of carbon capture and sequestration projects. Updates were also made to the administration, approval, and verification process for ARB offset credits. The modifications do not alter the compliance responses for the project such that the significance determinations from the Draft EIA change. Additionally, the modifications will not result in any new significant environmental impacts, any substantial increases in the severity of an environmental impact, or a declined feasible alternative or mitigation measure considerably different from those considered in the Draft EIA. Therefore, no additional environmental analysis or recirculation of the Draft EIA is required.

Additional Document(s) Added to the Record

In the interest of completeness and in accordance with Government Code section 11347.1, subdivision (a), staff has also added to the rulemaking record and invites comments on the following additional documents:

1. California Air Resources Board. Annual Summary of Greenhouse Gas Emissions Data Reported to the California Air Resources Board. November 2025. https://ww2.arb.ca.gov/sites/default/files/classic/cc/reporting/ghg-rep/reported-data/2024-ghg-emissions-2025-11-04.xlsx.

2. California Air Resources Board. Cap-and-Invest Program Vintage 2026 Allocation Summary. December 2025. https://ww2.arb.ca.gov/sites/default/files/2025-12/nc-v2026%20Public%20Allocation%20Summary.pdf.
3. California Air Resources Board. Cap-and-Trade Program Workshop. June 2023. https://ww2.arb.ca.gov/sites/default/files/2023-06/nc-CapTradeWorkshop_June142023_0.pdf.
4. California Air Resources Board. Cap-and-Trade Program Workshop. May 2024. https://ww2.arb.ca.gov/sites/default/files/2024-05/nc_CapTradeWorkshop_May3124.pdf.
5. California Air Resources Board. Facility Emissions By Facility. Accessed March 2026. https://www.arb.ca.gov/carbapps/pollution-map/.
6. California Air Resources Board. Refinery Projects Application under LCFS. n.d. https://ww2.arb.ca.gov/resources/documents/refinery-projects-application-under-lcfs.
7. California Air Resources Board. State and Local Sales Tax Spreadsheet. 2025.
8. California Air Resources Board. Summary of Transfers Registered in CITSS By California and Québec Entities in 2025. February 2026. https://ww2.arb.ca.gov/sites/default/files/2026-02/nc-2025_q4_transfersummary.xlsx.
9. California Department of Finance. Economic Research Unit. National Economic Forecast – Annual & Quarterly. January 2026. https://dof.ca.gov/media/docs/forecasting/economics/economic-forecasts-u-s-california-counties/United-States-Economic-Forecast-GB-2026-27.xlsx.
10. California Department of Finance. Economic Research Unit. California Economic Forecast – Annual & Quarterly. January 2026. https://dof.ca.gov/media/docs/forecasting/economics/economic-forecasts-u-s-california-counties/California-Economic-Forecast-GB-2026-27.xlsx.
11. California Department of Finance. Economic Research Unit. National Deflators: Calendar Year averages. January 2026. https://dof.ca.gov/media/docs/forecasting/economics/economic-indicators/inflation/Implicit-Price-Deflators-CY.xlsx.
12. California Department of Industrial Relations. Consumer Price Index – California. February 2026. https://www.dir.ca.gov/oprl/CPI/PresentCCPI.PDF.
13. California Energy Commission. California Energy Demand Forecast, 2025 - 2045 Baseline 'Mid' Forecast. January 2026. https://efiling.energy.ca.gov/GetDocument.aspx?tn=268179-9&DocumentContentId=105226.
14. California Energy Commission. 2025 Integrated Energy Policy Report, Electricity Resource Plans. Accessed March 30, 2026. https://efiling.energy.ca.gov/Lists/DocketLog.aspx?docketnumber=25-IEPR-02.
15. California Public Utilities Commission. Decision Conditionally Approving Extended Operations at Diablo Canyon Nuclear Power Plant Pursuant to Senate Bill 846 (D.23-12-036). December 14, 2023. https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M521/K496/521496276.PDF.
16. Pacific Gas and Electric Company. Annual Report of Pacific Gas and Electric Company (U 39 M) On the Results of Its Energy Savings Assistance, California Alternate Rates for Energy and Family Electric Rate Assistance Programs. May 2025. https://liob.cpuc.ca.gov/wp-content/uploads/sites/14/2025/10/PGE-ESA-CARE-Annual-Report_Corrected.pdf.
17. PacifiCorp. 2025 Integrated Resource Plan Update. March 31, 2026. https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2025-irp/2025_IRP_Update.pdf.

18. San Diego Gas & Electric Company. Annual Report Activity of San Diego Gas & Electric Company (U 902 M) On Energy Savings Assistance, California Alternate Rates for Energy, and Family Electric Rate Assistance Programs for 2024. June 2025. https://liob.cpuc.ca.gov/wp-content/uploads/sites/14/2025/10/A.19-11-003-SDGE-2024-Annual-Report-6-27-2025-e-Serve.pdf.
19. Southern California Gas Company. Annual Report of Southern California Gas Company (U 904 G) On Low Income Assistance Programs for Program Year 2024. July 2025. https://liob.cpuc.ca.gov/wp-content/uploads/sites/14/2025/10/A.19-11-006-SoCalGas-2024-ESA-CARE-Annual-Report-Public-Version.pdf.
20. U.S. Energy Information Administration. Annual Energy Outlook 2025. Table 13: Natural Gas Supply, Disposition, and Prices. Accessed March 2026. https://www.eia.gov/outlooks/aeo/data/browser/#/?id=13-AEO2025&cases=ref2025&sourcekey=0.
21. U.S. Energy Information Administration. California Natural Gas Industrial Price. February 2026. https://www.eia.gov/dnav/ng/hist/n3035ca3m.htm.
22. U.S. Energy Information Administration. United States Natural Gas Industrial Price. February 2026. https://www.eia.gov/dnav/ng/hist/n3035us3m.htm.

These documents are available for inspection at the California Air Resources Board, 1001 I Street, Sacramento, California, 95814, between the hours of 9:00am to 4:00pm, Monday through Friday (excluding holidays). To inspect these documents please contact Lindsay Garcia, Regulations Coordinator, at (916) 546-2286.

Agency Contacts

Inquiries concerning the substance of the proposed regulation may be directed to Mark Sippola, Branch Chief, Climate Change Program Evaluation Branch, at (279) 208-7918 or Rachel Gold, Supervisor, Program Development Section, at (279) 208-7516.

Public Comments

Written comments will only be accepted on the modifications identified in this Notice. Comments may be submitted by postal mail or by electronic submittal no later than the due date to 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 (Gov. Code § 7920.000 et seq.), your written and verbal 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.

In order to be considered by the Executive Officer, comments must be directed to CARB in one of the two forms described above and received by CARB no later than the deadline date for public comment listed at the beginning of this notice. Only comments relating to the above-described modifications to the text of the regulations shall be considered by the Executive Officer.

If you need this document in an alternate format or another language, please contact the Clerks' Office at (916) 322-5594 or by facsimile at (916) 322-3928 no later than five (5) business days from the release date of this notice. TTY/TDD/Speech to Speech users may dial 711 for the California Relay Service.

Si necesita este documento en un formato alterno u otro idioma, por favor llame a la oficina del Secretario del Consejo de Recursos Atmosféricos al (916) 322-5594 o envíe un fax al (916) 322-3928 no menos de cinco (5) días laborales a partir de la fecha del lanzamiento de este aviso. Para el Servicio Telefónico de California para Personas con Problemas Auditivos, ó de teléfonos TDD pueden marcar al 711.

California Air Resources Board

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

Date: April 13, 2026

Attachment

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).