



May 4, 2026

*Via electronic submittal*

Lauren Sanchez and Members of the Board  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**Re: Environmental Justice Comments on the Proposed 15-Day Changes to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation**

Dear Chair Sanchez, Members of the Board, and CARB staff,

The undersigned environmental justice and environmental organizations write to raise significant concerns regarding the proposed 15-Day Changes released on April 14, 2026, and implore the Board to reject staff's current proposals. We echo the concerns raised in our comments on the January 20, 2026 Proposed Regulation and Initial Statement of Reasons (ISOR), which remain unaddressed and, in fact, are exacerbated by these 15-Day Changes. We reiterate that our communities demand and deserve more ambition from this program. CARB should reject these changes and introduce additional changes that (1) Increase program stringency; (2) Reduce leakage assistance to the oil and gas industry; (3) Eliminate the Manufacturing Decarbonization Incentive (MDI) and the Build Up California Fund; and (4) Increase allowances to electric utilities to benefit ratepayers through the California Climate Credit.

**Manufacturing Decarbonization Incentive and the Build Up California Fund provide unwarranted support for polluting industries and false solutions at the expense of Californians.**

In our prior comments on the January proposed changes, we raised concerns about the unjustified, overly generous proposed MDI, we reiterate these concerns and raise heightened concerns in light of the proposed 15-Day Changes.

Environmental justice organizations have repeatedly raised emissions and safety concerns regarding biomass-derived fuels such as crop and livestock-based biofuels and biomethane, and carbon capture and sequestration. The use of the MDI to bolster these fuels creates both environmental degradation and market distortions that hinder the development and deployment of real climate solutions. The 15-Day Changes double down on investing significant financial benefits to the tune of billions of dollars in these false solutions that harbor risks such as:

- **Biomethane:** Dairy Biomethane pathways incentivize dairy producers to increase production, inevitably resulting in increased criteria pollutants and CO<sub>2</sub> levels near dairy operations, and detrimental effects on nearby communities.
- **Biomass-derived fuels:** Biofuels contribute to toxic air pollution for fence-line communities near refineries, and at the tailpipe when combusted, in addition to their feedstock's land use change effects.
- **Low-carbon hydrogen:** The low-carbon hydrogen requirements in the proposed changes are overinclusive by allowing biomass-derived feedstocks and a range of CO<sub>2</sub> emission levels without specificity.
- **Carbon sequestration:** The legislature directed CARB to evaluate the safety and viability of CCUS and develop monitoring and reporting schedules to ensure safety and efficacy under SB 905 (2022). Until CARB has developed a regulation for CCUS, the inclusion of carbon sequestration in the MDI is premature and likely dangerous.

Not only will these allowances provide additional lavish benefits to major industrial polluters who already receive overly generous leakage assistance, resulting in a lack of real emissions reductions, but they will also divert investment from much-needed electrification and into false solutions. Changes to Section 95891 (g)(2)(A) allow polluters to cover capital costs for facility development of biomass-derived fuels, hydrogen, and CCS will redirect Cap-and-Invest dollars into infrastructure for false solutions that will delay and distract from real emissions reductions. CARB must reject the MDI and Build up California Fund.

**CARB should increase ratepayer assistance through the California Climate Credit -- but must also maintain the strength of the program to maximize the Credit.**

The California Climate Credit is a valuable tool in addressing the cost impacts of a robust and ambitious Cap-and-Invest program, and it can provide much-needed relief to Californians struggling to make ends meet. CARB should increase allowances that result in an increase to the California Climate Credit, and on the surface, these changes appear to do so. However, the entirety of this Proposal is not likely to result in cost savings for ratepayers. In fact, the proposed changes are likely to lower revenue by \$1.7 billion or

17% for the Climate Credit due to lower demand for allowances sold at official auctions, ultimately reducing cost savings for ratepayers.<sup>1</sup>

As stated in prior comments, we support the transition of the Climate Credit to EDUs. However, we urge CARB to explicitly direct the CPUC and EDUs, including publicly owned utilities and electrical cooperatives, to ensure that the additional allowances are returned as direct bill relief, preferably on-bill, to residential customers. This must include households served through master-metered properties, where accounts may be classified as commercial, despite serving residential end users. Additionally, we urge CARB to direct POU and COOPs to provide greater transparency to customers regarding the use of all allocated allowances.

We support the requirement that 30% of the value of allowances assigned to natural gas utilities be used to provide direct bill relief, preferably on-bill, to residential customers, with a focus on low-income households.

**CARB needs to strengthen offset projects that provide true environmental benefits to communities.**

We continue to have concerns that these draft regulations will further pollute the environment and endanger public health. In the 15-Day Changes, CARB proposed changes to in-state sequestration offset projects to ensure they implement planned activities that provide direct environmental benefits. As stated in our previous comments, we urge CARB to also include GHG emission reduction requirements for in-state projects, not just for out-of-state offset projects. An in-state GHG emission reduction requirement would prevent the issues seen in livestock offset projects, such as failing to reduce climate pollution and increasing costs for nearby communities due to air and water pollution. This recommendation would help all offset projects provide direct environmental benefits to California residents.

**CARB must reduce overly generous leakage assistance.**

In SB 1207 (2025), the California Legislature returned the power to set leakage rates to reflect actual leakage. No analysis has been provided to justify why CARB is retaining 100% leakage assistance across the board until 2030 and increasing allowances for refineries on top of the new MDI.

This is particularly unsettling for oil and gas assistance, because setting leakage rates at 100% has not solved the problem it sought to address in the first place - preventing refinery closures. Despite leakage assistance being set at 100% by the Legislature in 2017, refineries have elected to close, due in large part to global market factors in a trend that predates California's climate programs.<sup>2</sup> Despite windfall profits from increased gas prices, the oil and gas industry continues to receive lavish Cap-and-Invest benefits.

Leakage assistance for oil and gas infrastructure, including refineries, has never resulted in a tangible benefit to Californians. As raised in our prior comments, CARB's ISOR analysis fails to account for these

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<sup>1</sup> Kyle Meng, et al., [Potential Lost Cap-and-Invest Revenue Under the Manufacturing Decarbonization Incentive](#), April 2026. (Hereinafter "Meng, et al."). "[D]uring the 2027-2030 period, fully utilized MDI would lower GGRF funds by \$2.3 billion and CCC funds by \$1.7 billion – a 17% reduction for each."

<sup>2</sup> Thomas J.P. Hersbach, et al., [The Writing on the Wall: Why California Refineries Are Closing](#), February 11, 2026. (Hereinafter "Hersbach, et al.") Authors state that "oil companies that own private refineries in California make business decisions guided by their legal obligations to maximize corporate and shareholder value in the context of a global marketplace for oil" and the "long-term decline in California production and refining capacity is a trend that predates state climate policies and market shifts to electric vehicles and hybrids."

significant concerns. CARB must reevaluate leakage assistance to prioritize achieving the state's climate goals and reducing emissions.

**Handouts to industry take money away from programs that actually benefit Californians.**

Stacking 100% leakage assistance and the MDI will have significant GGRF implications. Conservative calculations indicate that the incentives alone would result in \$2.3 billion less in GGRF through 2030 on top of the significant free allowances from leakage policies that CARB has elected to extend.<sup>3</sup> Throughout the lifetime of the program, leakage assistance to oil refiners alone has resulted in over \$6 billion in giveaways to the industry that would have otherwise benefited Californians through environmental justice programs funded by GGRF.<sup>4</sup> In a staggering blow to the Program and environmental justice communities, the MDI and additional leakage support could result in refineries receiving free allowances well in excess of their GHG emissions.<sup>5</sup> The generous MDI on top of the leakage assistance in the 15-Day Changes is also likely to lower prices on the secondary market below the price floor, impacting demand and reducing GGRF revenue.<sup>6</sup> Under the hierarchy of appropriations created under SB 840 (2025), programs that directly benefit Californians and address affordability concerns, such as the Safe and Affordable Drinking Water Program, Affordable Housing and Sustainable Communities Program, Community Air Protection Program (AB 617), and transit programs, are likely to go unfunded.<sup>7</sup>

**CARB must eliminate provisions of the rule changes that expand opportunities to double-count emissions reduction from biogas.**

The 15-Day Changes expand the ability to *double-count* the alleged climate benefits from biomass-derived fuel. As revised, Section 95852.1 explicitly allows double-counting of emissions exemptions or emissions reductions attributed to the use of the fuel by allowing multiple entities to claim the emissions exemption or emissions reductions tied to the very same fuel molecules. The proposed regulations only prohibit multiple entities within the Cap-and-Invest Program or in a linked external GHG emissions trading system from claiming an emissions exemption to reduce a compliance obligation. It explicitly allows an entity to claim an emissions exemption for the use of biomass-derived fuel while also allowing the very same fuel to generate emissions reduction credits in other programs, including but not limited to the Low Carbon Fuel Standard and other pollution trading schemes. Not only does this double-counting increase the profitability of biomethane and other biomass-derived fuels, thus leading to environmental degradation and market distortion described above, but it also undermines the environmental integrity of the Cap-and-Invest Program. CARB should update the proposed rule to prevent all double-counting of climate benefits.

**The ISOR and Environmental review documents do not support these changes; CARB cannot move forward on changes that have not been properly analyzed.**

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<sup>3</sup> Meng, et al.

<sup>4</sup> Division of Petroleum Market Oversight, [2024 Annual Report](#), at A-8, October 2025.

<sup>5</sup> Meredith Fowlie, [A Stress Test for California Carbon Pricing](#), April 2026.

<sup>6</sup> Meng, et al.

<sup>7</sup> *see* Legislative Analysts Office, [Cap-and-Invest Expenditure Plan](#), Figure 1, February 10, 2026.

CARB's new allocation of allowances to industry and the Build Up California Fund for the MDI is in addition to the generous leakage assistance and lower stringency program put forward in the January proposal. These changes significantly weaken the program and were not analyzed in the ISOR and related Environmental Review documents. By failing to describe the project in full, CARB's proposal fails to meet requirements under the California Environmental Quality Act (CEQA) to describe the project and analyze its impacts.<sup>8</sup> These new changes similarly pose concerns regarding CARB's compliance with Administrative Procedure Act (APA) requirements for notice.<sup>9</sup> Without transparency and proper review as required by CEQA and the APA, the public cannot fully engage on the 15-Day Changes proposal.

## **Conclusion**

Overall, the Cap-and-Invest proposal will fail at its own mission by giving millions of dollars to industry instead of focusing on actual emissions reductions, environmental justice, and the health of California's residents. We cannot in good faith accept the minuscule positive changes proposed in light of the significant, adverse changes that weaken the program and expand handouts to harmful industrial polluters at the expense of our communities and environmental justice. We urge the Board to reject these flawed 15-Day Changes and reconsider the changes put forth in the January 20, 2026 rulemaking. CARB has a duty to craft changes to the program that move California towards, not away from, the State's clear emissions goals and seriously address the emissions gap in environmental justice communities. CARB must reject these changes and reformulate a program that actually has the strength to move California forward in a world of dramatically diminishing climate policy.

To correct course, CARB could draft changes to the program that:

- (1) Increase program stringency;**
- (2) Reduce leakage assistance to the oil and gas industry;**
- (3) Eliminate the Manufacturing Decarbonization Incentive and Build Up California Fund;**
- (4) Increase allowances to electric utilities to benefit ratepayers through the California Climate Credit.**

Sincerely,

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California Environmental Justice Alliance

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<sup>8</sup> Cal. Code Regs. Tit. 17, § 60004.2.

<sup>9</sup> Cal. Gov. Code §§ 11340.5 and 113346.8.

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