



CALIFORNIA LEGISLATIVE PROGRESSIVE CAUCUS

May 4, 2026

Honorable Chair Lauren Sanchez
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Urgent Revisions Needed to Proposed 15-Day Cap-and-Invest Regulation Amendments

Dear Chair Sanchez and Board Members,

The California Air Resources Board (CARB) is amending the Cap-and-Invest program at a pivotal moment for California's climate and economic future. Californians are already experiencing escalating climate impacts—wildfires, extreme heat, drought, and flooding—and these impacts are directly driving an affordability crisis across the state. Families are paying more for housing, insurance, utilities, health care, and everyday goods because climate change is increasing risk, damage, and instability across the economy.

Cap-and-Invest remains one of California's most important tools for achieving its statutory emissions targets while supporting the transition to a more affordable and resilient economy. It is also a critical source of funding for community investments, including transit, parks, clean transportation, charging infrastructure, home electrification, affordable housing, and disaster response.

The April 15-Day Amendments, as proposed, would significantly undermine this program at the exact moment it must be strengthened. The changes would reduce annual revenue to the Greenhouse Gas Reduction Fund (GGRF) by an estimated \$2 billion per year, eroding investments that help Californians address both climate impacts and rising costs. This loss in revenue is particularly concerning given significant state budget constraints that have resulted in cuts to safety net services, simultaneous rollbacks in federal climate funding, and the withholding of federal disaster relief. The reduced GGRF revenue would fall hardest on low-income and disadvantaged communities, which are disproportionately exposed to both climate harms and affordability pressures.

As written, the proposal risks compromising the integrity of the program itself. An oversupply of allowances reduces the real need to undertake emissions reductions and creates downward pressure on allowance prices. The proposed Manufacturing Decarbonization Incentive (MDI) which would create an allowance pool under the new "Build Up California Reserve" would further undermine the cap by introducing large volumes of allowances outside the emissions limit that equal the proposed cap decline, effectively offsetting emissions reductions and calling into question whether the program will deliver real climate progress. The MDI program alone is projected to lower auction revenue by \$4 billion should the incentives be fully utilized over the next four years^[1].

This proposal fails to deliver meaningful emissions reductions or durable climate investments, while providing excess allowances to the oil and gas industry with no guarantee of lower fuel prices for



consumers. Even with an oversupply of allowances, petroleum prices will continue to spike during global supply disruptions or refinery outages, leaving Californians exposed to ongoing market volatility. While gas prices soar due to international supply shortages, oil companies are raking in record profits^[2]. It is unacceptable to create handouts for the oil and gas industry at the expense of our communities.

We request that CARB swiftly update and finalize the regulation in time to implement changes this fall with the following critical revisions:

- **Eliminate the Manufacturing Decarbonization Incentive (MDI) and Build Up California Reserve**, which introduce off-cap allowances that undermine the emissions cap and have not been sufficiently evaluated through public process.
- **Correct allowance oversupply by revising allocation levels and lowering the cap adjustment factor**, ensuring the program maintains a strong and credible price signal for emissions reductions.
- **Protect GGRF revenues**, rejecting any changes that would reduce funding and jeopardize investments that help Californians address climate-driven cost increases.

California cannot afford to weaken one of its most cost-effective climate and affordability tools. Cap-and-Invest was designed to hold polluters accountable while funding solutions that help Californians manage the rising costs driven by climate change, not to expand benefits for regulated industries at the expense of climate progress and public investment. CARB must ensure program amendments do not undermine legislative commitments to maintain affordability and adequate levels of program funding for the California Climate Credit and GGRF, most critically for AB 617 communities and community air protection programs.

CARB has both the authority and responsibility to correct the course. We urge you to reject these harmful amendments and instead strengthen Cap-and-Invest so it delivers meaningful emissions reductions, real affordability benefits, and lasting resilience for Californians.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Lee".

Alex Lee

Chair, Legislative Progressive Caucus

^[1] [UC Santa Barbara. Environmental Market Labs: Potential Lost Cap-and-Invest Revenue Under the Manufacturing Decarbonization Incentive](#)

^[2] [The Guardian, "\\$30m an hour: big oil reaping huge war windfall from consumers, analysis finds"](#)