



ATTACHMENT A



February 24, 2026

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

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

Vice Chair Siva Gunda
California Energy Commission
715 P Street
Sacramento, CA 95814

The Honorable Monique Limón
Pro Tempore, California State Senate
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Robert Rivas
Speaker, California State Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

Urgent Economic Concerns with Proposed Cap-and-Invest Regulations

On behalf of the Western States Petroleum Association, we write to express our deep concern and disappointment regarding the proposed Cap-and-Invest regulations. As drafted, this proposal imposes severe costs on the remaining in-state refineries with little regard for economic viability, workforce stability, or the direct impact on consumers.

Last year, we all worked together to begin to address the needed stabilization for our industry. Most would acknowledge that there is much work to be done to ensure that refiners continue to remain viable to serve the California market. Unfortunately, these draft amendments as proposed completely miss the mark on affordability and our collective effort to preserve and protect the few remaining in-state refineries.

Independent analysis projects that the annual compliance costs for refineries could approach approximately **\$1.5 billion by 2035**, with cumulative costs to refineries between approximately **\$5 billion to potentially \$9 billion over the next decade**.¹ For an industry already operating under uniquely high costs and narrow margins in California, this additional burden is not manageable — it is existential. With roughly 18 percent of the state’s refining capacity closing within a six-month period, it is alarming that the California Air Resources Board would propose a policy that further destabilizes a critical sector of California’s economy.

¹ Capitol Matrix Consulting “Impact of Proposed Cap-and-Invest Regulations on California Refiners”



The financial strain added by these draft regulations will likely accelerate refinery contraction and be a major factor in business decisions about whether to continue producing gasoline in California at all.

At the end of the day, consumers will bear the brunt of this decision. Reduced refining capacity and heightened supply vulnerability will likely drive higher and more volatile gasoline prices, exposing Californians to supply shocks and global market disruptions. At a time when affordability remains a central concern for Californians, advancing a policy that knowingly increases fuel costs and worsens supply volatility is deeply troubling.

Ultimately, this is a policy choice that the state will have to make; refine fuel locally in the Bay Area and Los Angeles under the world's strictest standards, or become dependent on other places around the world to make fuel and deliver it to California. If the state chooses the latter, it will be a conscious decision to allow both economic and environmental leakage to occur as a result of the cap-and-invest program. Economic benefits will no longer exist, and emissions will likely be shifted or increased elsewhere while demand for gasoline remains.

We urge this administration, policymakers, the California Air Resources Board, and the California Energy Commission, to recognize the serious economic risks posed by this proposal and make meaningful revisions that protect refinery viability and shield consumers from avoidable cost increases.

Please do not hesitate to contact me with any questions.

Sincerely,

A handwritten signature in black ink that reads "Jodie Muller". The signature is written in a cursive, flowing style.

Jodie Muller
President and Chief Executive Officer
Western States Petroleum Association

CC: California State Senate
California State Assembly
California Air Resources Board
California Energy Commission



OFFICE OF THE GOVERNOR

April 21, 2025

Mr. Siva Gunda
Vice Chair
California Energy Commission
715 P Street
Sacramento, CA 95814

Dear Vice Chair Gunda,

Thank you for your leadership in protecting consumers and ensuring that California has a safe, affordable and reliable supply of transportation fuels during our energy transition over the next two decades, including through implementation of Senate Bill X1-2 (Skinner, 2023) and Assembly Bill X2-1 (Hart, 2024).

I write to direct you to redouble the State's efforts to work closely with refiners on short- and long-term planning, including through high-level, immediate engagement, to help ensure that Californians continue to have access to a safe, affordable, and reliable supply of transportation fuels, and that refiners continue to see the value in serving the California market, even as demand for fossil fuels continues its gradual decline over the coming decades.

Further, I am directing you, as my Administration's lead representative on this issue, to reinforce the State's openness to a collaborative relationship and our firm belief that Californians can be protected from price spikes and refiners can profitably operate in California – a market where demand for gasoline will still exist for years to come.

Additionally, I am directing you to engage with the Petroleum Strategy Task Force, a cross-agency effort convened by California Natural Resources Agency Secretary Wade Crowfoot and California Environmental Protection Agency Secretary Yana Garcia. That task force is evaluating the State's progress and risks in managing an energy transition in which supply and in-state demand for

petroleum products are both decreasing over the next 20 years. Building on that engagement and the California Energy Commission's (CEC) Transportation Fuels Assessment, I direct you to recommend, by July 1, any changes in the State's approach that are needed to ensure adequate supply during this transition.

As you know, increasingly in recent years, Californians have experienced rapid fluctuations in retail gasoline prices that too often mean abrupt increases followed by a slow and gradual decline, causing families to incur higher costs unexpectedly for everyday needs. The Legislature responded to this growing problem with SBX1-2, which provided the CEC with critical data transparency tools that facilitate real-time market monitoring.

Using this critical new data provided by SBX1-2, the Division of Petroleum Market Oversight (DPMO), in collaboration with the CEC, was able to identify the root causes of the fall 2022 and fall 2023 retail gasoline price spikes: inadequate supply when refineries went offline for maintenance, low inventories that led to supply shortages during unplanned outages, and a volatile spot market that has an outsized influence on the wholesale price of gasoline. These findings led the Legislature to respond by enacting ABX2-1, which provided the CEC with new tools to mitigate price spikes. The data provided by SBX1-2 has also allowed DPMO to inform the public, in real time, when volatile spot market conditions threaten to raise prices at the pump.

While we've made great progress in addressing spikes and irregularities in the gasoline market, refineries across the country and around the world are facing unprecedented uncertainty. The new federal administration has added more uncertainty and instability to the global economy than ever before – with the oil industry on the front lines of this market turmoil. Refineries have been restructuring, transitioning, consolidating, and closing across the country for years. In January, the 700-hundred-acre LyondellBasell refinery in Houston announced its closure as the company transitions to “broader decarbonization and sustainability objectives.” California is not immune to this national trend.

California will continue to lead the way in this transition, but it is imperative that we continue to ensure a safe, affordable and reliable supply of transportation fuels over the next two decades. Thank you for your attention to this critical matter on behalf of the State.

Sincerely,



Gavin Newsom
Governor of California



AB-32 Air pollution: greenhouse gases: California Global Warming Solutions Act of 2006. (2005-2006)

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Assembly Bill No. 32

CHAPTER 488

An act to add Division 25.5 (commencing with Section 38500) to the Health and Safety Code, relating to air pollution.

[Approved by Governor September 27, 2006. Filed with Secretary of State September 27, 2006.]

LEGISLATIVE COUNSEL'S DIGEST

AB 32, Nunez. Air pollution: greenhouse gases: California Global Warming Solutions Act of 2006.

Under existing law, the State Air Resources Board (state board), the State Energy Resources Conservation and Development Commission (Energy Commission), and the California Climate Action Registry all have responsibilities with respect to the control of emissions of greenhouse gases, as defined, and the Secretary for Environmental Protection is required to coordinate emission reductions of greenhouse gases and climate change activity in state government.

This bill would require the state board to adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with this program, as specified. The bill would require the state board to adopt a statewide greenhouse gas emissions limit equivalent to the statewide greenhouse gas emissions levels in 1990 to be achieved by 2020, as specified. The bill would require the state board to adopt rules and regulations in an open public process to achieve the maximum technologically feasible and cost-effective greenhouse gas emission reductions, as specified. The bill would authorize the state board to adopt market-based compliance mechanisms, as defined, meeting specified requirements. The bill would require the state board to monitor compliance with and enforce any rule, regulation, order, emission limitation, emissions reduction measure, or market-based compliance mechanism adopted by the state board, pursuant to specified provisions of existing law. The bill would authorize the state board to adopt a schedule of fees to be paid by regulated sources of greenhouse gas emissions, as specified.

Because the bill would require the state board to establish emissions limits and other requirements, the violation of which would be a crime, this bill would create a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Division 25.5 (commencing with Section 38500) is added to the Health and Safety Code, to read:

DIVISION 25.5. CALIFORNIA GLOBAL WARMING SOLUTIONS ACT OF 2006**PART 1. GENERAL PROVISIONS****CHAPTER 1. Title of Division**

38500. This division shall be known, and may be cited, as the California Global Warming Solutions Act of 2006.

CHAPTER 2. Findings and Declarations

38501. The Legislature finds and declares all of the following:

(a) Global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California. The potential adverse impacts of global warming include the exacerbation of air quality problems, a reduction in the quality and supply of water to the state from the Sierra snowpack, a rise in sea levels resulting in the displacement of thousands of coastal businesses and residences, damage to marine ecosystems and the natural environment, and an increase in the incidences of infectious diseases, asthma, and other human health-related problems.

(b) Global warming will have detrimental effects on some of California's largest industries, including agriculture, wine, tourism, skiing, recreational and commercial fishing, and forestry. It will also increase the strain on electricity supplies necessary to meet the demand for summer air-conditioning in the hottest parts of the state.

(c) California has long been a national and international leader on energy conservation and environmental stewardship efforts, including the areas of air quality protections, energy efficiency requirements, renewable energy standards, natural resource conservation, and greenhouse gas emission standards for passenger vehicles. The program established by this division will continue this tradition of environmental leadership by placing California at the forefront of national and international efforts to reduce emissions of greenhouse gases.

(d) National and international actions are necessary to fully address the issue of global warming. However, action taken by California to reduce emissions of greenhouse gases will have far-reaching effects by encouraging other states, the federal government, and other countries to act.

(e) By exercising a global leadership role, California will also position its economy, technology centers, financial institutions, and businesses to benefit from national and international efforts to reduce emissions of greenhouse gases. More importantly, investing in the development of innovative and pioneering technologies will assist California in achieving the 2020 statewide limit on emissions of greenhouse gases established by this division and will provide an opportunity for the state to take a global economic and technological leadership role in reducing emissions of greenhouse gases.

(f) It is the intent of the Legislature that the State Air Resources Board coordinate with state agencies, as well as consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing this division.

(g) It is the intent of the Legislature that the State Air Resources Board consult with the Public Utilities Commission in the development of emissions reduction measures, including limits on emissions of greenhouse gases applied to electricity and natural gas providers regulated by the Public Utilities Commission in order to ensure that electricity and natural gas providers are not required to meet duplicative or inconsistent regulatory requirements.

(h) It is the intent of the Legislature that the State Air Resources Board design emissions reduction measures to meet the statewide emissions limits for greenhouse gases established pursuant to this division in a manner that minimizes costs and maximizes benefits for California's economy, improves and modernizes California's energy infrastructure and maintains electric system reliability, maximizes additional environmental and economic co-benefits for California, and complements the state's efforts to improve air quality.

(i) It is the intent of the Legislature that the Climate Action Team established by the Governor to coordinate the efforts set forth under Executive Order S-3-05 continue its role in coordinating overall climate policy.

CHAPTER 3. Definitions

38505. For the purposes of this division, the following terms have the following meanings:

- (a) "Allowance" means an authorization to emit, during a specified year, up to one ton of carbon dioxide equivalent.
- (b) "Alternative compliance mechanism" means an action undertaken by a greenhouse gas emission source that achieves the equivalent reduction of greenhouse gas emissions over the same time period as a direct emission reduction, and that is approved by the state board. "Alternative compliance mechanism" includes, but is not limited to, a flexible compliance schedule, alternative control technology, a process change, or a product substitution.
- (c) "Carbon dioxide equivalent" means the amount of carbon dioxide by weight that would produce the same global warming impact as a given weight of another greenhouse gas, based on the best available science, including from the Intergovernmental Panel on Climate Change.
- (d) "Cost-effective" or "cost-effectiveness" means the cost per unit of reduced emissions of greenhouse gases adjusted for its global warming potential.
- (e) "Direct emission reduction" means a greenhouse gas emission reduction action made by a greenhouse gas emission source at that source.
- (f) "Emissions reduction measure" means programs, measures, standards, and alternative compliance mechanisms authorized pursuant to this division, applicable to sources or categories of sources, that are designed to reduce emissions of greenhouse gases.
- (g) "Greenhouse gas" or "greenhouse gases" includes all of the following gases: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.
- (h) "Greenhouse gas emissions limit" means an authorization, during a specified year, to emit up to a level of greenhouse gases specified by the state board, expressed in tons of carbon dioxide equivalents.
- (i) "Greenhouse gas emission source" or "source" means any source, or category of sources, of greenhouse gas emissions whose emissions are at a level of significance, as determined by the state board, that its participation in the program established under this division will enable the state board to effectively reduce greenhouse gas emissions and monitor compliance with the statewide greenhouse gas emissions limit.
- (j) "Leakage" means a reduction in emissions of greenhouse gases within the state that is offset by an increase in emissions of greenhouse gases outside the state.
- (k) "Market-based compliance mechanism" means either of the following:
- (1) A system of market-based declining annual aggregate emissions limitations for sources or categories of sources that emit greenhouse gases.
 - (2) Greenhouse gas emissions exchanges, banking, credits, and other transactions, governed by rules and protocols established by the state board, that result in the same greenhouse gas emission reduction, over the same time period, as direct compliance with a greenhouse gas emission limit or emission reduction measure adopted by the state board pursuant to this division.
- (l) "State board" means the State Air Resources Board.
- (m) "Statewide greenhouse gas emissions" means the total annual emissions of greenhouse gases in the state, including all emissions of greenhouse gases from the generation of electricity delivered to and consumed in California, accounting for transmission and distribution line losses, whether the electricity is generated in state or imported. Statewide emissions shall be expressed in tons of carbon dioxide equivalents.
- (n) "Statewide greenhouse gas emissions limit" or "statewide emissions limit" means the maximum allowable level of statewide greenhouse gas emissions in 2020, as determined by the state board pursuant to Part 3 (commencing with Section 38850).

CHAPTER 4. Role of State Board

38510. The State Air Resources Board is the state agency charged with monitoring and regulating sources of emissions of greenhouse gases that cause global warming in order to reduce emissions of greenhouse gases.

PART 2. MANDATORY GREENHOUSE GAS EMISSIONS REPORTING

38530. (a) On or before January 1, 2008, the state board shall adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with this program.

(b) The regulations shall do all of the following:

(1) Require the monitoring and annual reporting of greenhouse gas emissions from greenhouse gas emission sources beginning with the sources or categories of sources that contribute the most to statewide emissions.

(2) Account for greenhouse gas emissions from all electricity consumed in the state, including transmission and distribution line losses from electricity generated within the state or imported from outside the state. This requirement applies to all retail sellers of electricity, including load-serving entities as defined in subdivision (j) of Section 380 of the Public Utilities Code and local publicly owned electric utilities as defined in Section 9604 of the Public Utilities Code.

(3) Where appropriate and to the maximum extent feasible, incorporate the standards and protocols developed by the California Climate Action Registry, established pursuant to Chapter 6 (commencing with Section 42800) of Part 4 of Division 26. Entities that voluntarily participated in the California Climate Action Registry prior to December 31, 2006, and have developed a greenhouse gas emission reporting program, shall not be required to significantly alter their reporting or verification program except as necessary to ensure that reporting is complete and verifiable for the purposes of compliance with this division as determined by the state board.

(4) Ensure rigorous and consistent accounting of emissions, and provide reporting tools and formats to ensure collection of necessary data.

(5) Ensure that greenhouse gas emission sources maintain comprehensive records of all reported greenhouse gas emissions.

(c) The state board shall do both of the following:

(1) Periodically review and update its emission reporting requirements, as necessary.

(2) Review existing and proposed international, federal, and state greenhouse gas emission reporting programs and make reasonable efforts to promote consistency among the programs established pursuant to this part and other programs, and to streamline reporting requirements on greenhouse gas emission sources.

PART 3. STATEWIDE GREENHOUSE GAS EMISSIONS LIMIT

38550. By January 1, 2008, the state board shall, after one or more public workshops, with public notice, and an opportunity for all interested parties to comment, determine what the statewide greenhouse gas emissions level was in 1990, and approve in a public hearing, a statewide greenhouse gas emissions limit that is equivalent to that level, to be achieved by 2020. In order to ensure the most accurate determination feasible, the state board shall evaluate the best available scientific, technological, and economic information on greenhouse gas emissions to determine the 1990 level of greenhouse gas emissions.

38551. (a) The statewide greenhouse gas emissions limit shall remain in effect unless otherwise amended or repealed.

(b) It is the intent of the Legislature that the statewide greenhouse gas emissions limit continue in existence and be used to maintain and continue reductions in emissions of greenhouse gases beyond 2020.

(c) The state board shall make recommendations to the Governor and the Legislature on how to continue reductions of greenhouse gas emissions beyond 2020.

PART 4. GREENHOUSE GAS EMISSIONS REDUCTIONS

38560. The state board shall adopt rules and regulations in an open public process to achieve the maximum technologically feasible and cost-effective greenhouse gas emission reductions from sources or categories of sources, subject to the criteria and schedules set forth in this part.

38560.5. (a) On or before June 30, 2007, the state board shall publish and make available to the public a list of discrete early action greenhouse gas emission reduction measures that can be implemented prior to the measures and limits adopted pursuant to Section 38562.

(b) On or before January 1, 2010, the state board shall adopt regulations to implement the measures identified on the list published pursuant to subdivision (a).

(c) The regulations adopted by the state board pursuant to this section shall achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions from those sources or categories of sources, in furtherance of achieving the statewide greenhouse gas emissions limit.

(d) The regulations adopted pursuant to this section shall be enforceable no later than January 1, 2010.

38561. (a) On or before January 1, 2009, the state board shall prepare and approve a scoping plan, as that term is understood by the state board, for achieving the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions from sources or categories of sources of greenhouse gases by 2020 under this division. The state board shall consult with all state agencies with jurisdiction over sources of greenhouse gases, including the Public Utilities Commission and the State Energy Resources Conservation and Development Commission, on all elements of its plan that pertain to energy related matters including, but not limited to, electrical generation, load based-standards or requirements, the provision of reliable and affordable electrical service, petroleum refining, and statewide fuel supplies to ensure the greenhouse gas emissions reduction activities to be adopted and implemented by the state board are complementary, nonduplicative, and can be implemented in an efficient and cost-effective manner.

(b) The plan shall identify and make recommendations on direct emission reduction measures, alternative compliance mechanisms, market-based compliance mechanisms, and potential monetary and nonmonetary incentives for sources and categories of sources that the state board finds are necessary or desirable to facilitate the achievement of the maximum feasible and cost-effective reductions of greenhouse gas emissions by 2020.

(c) In making the determinations required by subdivision (b), the state board shall consider all relevant information pertaining to greenhouse gas emissions reduction programs in other states, localities, and nations, including the northeastern states of the United States, Canada, and the European Union.

(d) The state board shall evaluate the total potential costs and total potential economic and noneconomic benefits of the plan for reducing greenhouse gases to California's economy, environment, and public health, using the best available economic models, emission estimation techniques, and other scientific methods.

(e) In developing its plan, the state board shall take into account the relative contribution of each source or source category to statewide greenhouse gas emissions, and the potential for adverse effects on small businesses, and shall recommend a de minimis threshold of greenhouse gas emissions below which emission reduction requirements will not apply.

(f) In developing its plan, the state board shall identify opportunities for emission reductions measures from all verifiable and enforceable voluntary actions, including, but not limited to, carbon sequestration projects and best management practices.

(g) The state board shall conduct a series of public workshops to give interested parties an opportunity to comment on the plan. The state board shall conduct a portion of these workshops in regions of the state that have the most significant exposure to air pollutants, including, but not limited to, communities with minority populations, communities with low-income populations, or both.

(h) The state board shall update its plan for achieving the maximum technologically feasible and cost-effective reductions of greenhouse gas emissions at least once every five years.

38562. (a) On or before January 1, 2011, the state board shall adopt greenhouse gas emission limits and emission reduction measures by regulation to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions in furtherance of achieving the statewide greenhouse gas emissions limit, to become operative beginning on January 1, 2012.

(b) In adopting regulations pursuant to this section and Part 5 (commencing with Section 38570), to the extent feasible and in furtherance of achieving the statewide greenhouse gas emissions limit, the state board shall do all of the following:

(1) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.

(2) Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.

(3) Ensure that entities that have voluntarily reduced their greenhouse gas emissions prior to the implementation of this section receive appropriate credit for early voluntary reductions.

(4) Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

(5) Consider cost-effectiveness of these regulations.

(6) Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

(7) Minimize the administrative burden of implementing and complying with these regulations.

(8) Minimize leakage.

(9) Consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases.

(c) In furtherance of achieving the statewide greenhouse gas emissions limit, by January 1, 2011, the state board may adopt a regulation that establishes a system of market-based declining annual aggregate emission limits for sources or categories of sources that emit greenhouse gas emissions, applicable from January 1, 2012, to December 31, 2020, inclusive, that the state board determines will achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions, in the aggregate, from those sources or categories of sources.

(d) Any regulation adopted by the state board pursuant to this part or Part 5 (commencing with Section 38570) shall ensure all of the following:

(1) The greenhouse gas emission reductions achieved are real, permanent, quantifiable, verifiable, and enforceable by the state board.

(2) For regulations pursuant to Part 5 (commencing with Section 38570), the reduction is in addition to any greenhouse gas emission reduction otherwise required by law or regulation, and any other greenhouse gas emission reduction that otherwise would occur.

(3) If applicable, the greenhouse gas emission reduction occurs over the same time period and is equivalent in amount to any direct emission reduction required pursuant to this division.

(e) The state board shall rely upon the best available economic and scientific information and its assessment of existing and projected technological capabilities when adopting the regulations required by this section.

(f) The state board shall consult with the Public Utilities Commission in the development of the regulations as they affect electricity and natural gas providers in order to minimize duplicative or inconsistent regulatory requirements.

(g) After January 1, 2011, the state board may revise regulations adopted pursuant to this section and adopt additional regulations to further the provisions of this division.

38563. Nothing in this division restricts the state board from adopting greenhouse gas emission limits or emission reduction measures prior to January 1, 2011, imposing those limits or measures prior to January 1, 2012, or providing early reduction credit where appropriate.

38564. The state board shall consult with other states, and the federal government, and other nations to identify the most effective strategies and methods to reduce greenhouse gases, manage greenhouse gas control programs, and to facilitate the development of integrated and cost-effective regional, national, and international greenhouse gas reduction programs.

38565. The state board shall ensure that the greenhouse gas emission reduction rules, regulations, programs, mechanisms, and incentives under its jurisdiction, where applicable and to the extent feasible, direct public and private investment toward the most disadvantaged communities in California and provide an opportunity for

small businesses, schools, affordable housing associations, and other community institutions to participate in and benefit from statewide efforts to reduce greenhouse gas emissions.

PART 5. MARKET-BASED COMPLIANCE MECHANISMS

38570. (a) The state board may include in the regulations adopted pursuant to Section 38562 the use of market-based compliance mechanisms to comply with the regulations.

(b) Prior to the inclusion of any market-based compliance mechanism in the regulations, to the extent feasible and in furtherance of achieving the statewide greenhouse gas emissions limit, the state board shall do all of the following:

(1) Consider the potential for direct, indirect, and cumulative emission impacts from these mechanisms, including localized impacts in communities that are already adversely impacted by air pollution.

(2) Design any market-based compliance mechanism to prevent any increase in the emissions of toxic air contaminants or criteria air pollutants.

(3) Maximize additional environmental and economic benefits for California, as appropriate.

(c) The state board shall adopt regulations governing how market-based compliance mechanisms may be used by regulated entities subject to greenhouse gas emission limits and mandatory emission reporting requirements to achieve compliance with their greenhouse gas emissions limits.

38571. The state board shall adopt methodologies for the quantification of voluntary greenhouse gas emission reductions. The state board shall adopt regulations to verify and enforce any voluntary greenhouse gas emission reductions that are authorized by the state board for use to comply with greenhouse gas emission limits established by the state board. The adoption of methodologies is exempt from the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

38574. Nothing in this part or Part 4 (commencing with Section 38560) confers any authority on the state board to alter any programs administered by other state agencies for the reduction of greenhouse gas emissions.

PART 6. ENFORCEMENT

38580. (a) The state board shall monitor compliance with and enforce any rule, regulation, order, emission limitation, emissions reduction measure, or market-based compliance mechanism adopted by the state board pursuant to this division.

(b) (1) Any violation of any rule, regulation, order, emission limitation, emissions reduction measure, or other measure adopted by the state board pursuant to this division may be enjoined pursuant to Section 41513, and the violation is subject to those penalties set forth in Article 3 (commencing with Section 42400) of Chapter 4 of Part 4 of, and Chapter 1.5 (commencing with Section 43025) of Part 5 of, Division 26.

(2) Any violation of any rule, regulation, order, emission limitation, emissions reduction measure, or other measure adopted by the state board pursuant to this division shall be deemed to result in an emission of an air contaminant for the purposes of the penalty provisions of Article 3 (commencing with Section 42400) of Chapter 4 of Part 4 of, and Chapter 1.5 (commencing with Section 43025) of Part 5 of, Division 26.

(3) The state board may develop a method to convert a violation of any rule, regulation, order, emission limitation, or other emissions reduction measure adopted by the state board pursuant to this division into the number of days in violation, where appropriate, for the purposes of the penalty provisions of Article 3 (commencing with Section 42400) of Chapter 4 of Part 4 of, and Chapter 1.5 (commencing with Section 43025) of Part 5 of, Division 26.

(c) Section 42407 and subdivision (i) of Section 42410 shall not apply to this part.

PART 7. Miscellaneous Provisions

38590. If the regulations adopted pursuant to Section 43018.5 do not remain in effect, the state board shall implement alternative regulations to control mobile sources of greenhouse gas emissions to achieve equivalent or greater reductions.

38591. (a) The state board, by July 1, 2007, shall convene an environmental justice advisory committee, of at least three members, to advise it in developing the scoping plan pursuant to Section 38561 and any other pertinent matter in implementing this division. The advisory committee shall be comprised of representatives from communities in the state with the most significant exposure to air pollution, including, but not limited to, communities with minority populations or low-income populations, or both.

(b) The state board shall appoint the advisory committee members from nominations received from environmental justice organizations and community groups.

(c) The state board shall provide reasonable per diem for attendance at advisory committee meetings by advisory committee members from nonprofit organizations.

(d) The state board shall appoint an Economic and Technology Advancement Advisory Committee to advise the state board on activities that will facilitate investment in and implementation of technological research and development opportunities, including, but not limited to, identifying new technologies, research, demonstration projects, funding opportunities, developing state, national, and international partnerships and technology transfer opportunities, and identifying and assessing research and advanced technology investment and incentive opportunities that will assist in the reduction of greenhouse gas emissions. The committee may also advise the state board on state, regional, national, and international economic and technological developments related to greenhouse gas emission reductions.

38592. (a) All state agencies shall consider and implement strategies to reduce their greenhouse gas emissions.

(b) Nothing in this division shall relieve any person, entity, or public agency of compliance with other applicable federal, state, or local laws or regulations, including state air and water quality requirements, and other requirements for protecting public health or the environment.

(a) Nothing in this division affects the authority of the Public Utilities Commission.

38593. (b) Nothing in this division affects the obligation of an electrical corporation to provide customers with safe and reliable electric service.

38594. Nothing in this division shall limit or expand the existing authority of any district, as defined in Section 39025.

38595. Nothing in this division shall preclude, prohibit, or restrict the construction of any new facility or the expansion of an existing facility subject to regulation under this division, if all applicable requirements are met and the facility is in compliance with regulations adopted pursuant to this division.

38596. The provisions of this division are severable. If any provision of this division or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

38597. The state board may adopt by regulation, after a public workshop, a schedule of fees to be paid by the sources of greenhouse gas emissions regulated pursuant to this division, consistent with Section 57001. The revenues collected pursuant to this section, shall be deposited into the Air Pollution Control Fund and are available upon appropriation, by the Legislature, for purposes of carrying out this division.

38598. (a) Nothing in this division shall limit the existing authority of a state entity to adopt and implement greenhouse gas emissions reduction measures.

(b) Nothing in this division shall relieve any state entity of its legal obligations to comply with existing law or regulation.

38599. (a) In the event of extraordinary circumstances, catastrophic events, or threat of significant economic harm, the Governor may adjust the applicable deadlines for individual regulations, or for the state in the aggregate, to the earliest feasible date after that deadline.

(b) The adjustment period may not exceed one year unless the Governor makes an additional adjustment pursuant to subdivision (a).

(c) Nothing in this section affects the powers and duties established in the California Emergency Services Act (Chapter 7 (commencing with Section 8550) of Division 1 of Title 2 of the Government Code).

(d) The Governor shall, within 10 days of invoking subdivision (a), provide written notification to the Legislature of the action undertaken.

SEC. 2 No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.



AB-398 California Global Warming Solutions Act of 2006: market-based compliance mechanisms: fire prevention fees: sales and use tax manufacturing exemption. (2017-2018)

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Assembly Bill No. 398

CHAPTER 135

An act to amend, repeal, and add Sections 38501, 38562, and 38594 of, and to add and repeal Sections 38505.5, 38590.1, 38591.1, 38591.2, 38591.3, 38592.5, and 38592.6 of, the Health and Safety Code, to add Section 4213.05 to, to add Article 3 (commencing with Section 4229) to Chapter 1.5 of Part 2 of Division 4 of, and to repeal Chapter 1.5 (commencing with Section 4210) of Part 2 of Division 4 of, the Public Resources Code, and to amend Section 6377.1 of the Revenue and Taxation Code, relating to public resources, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor July 25, 2017. Filed with Secretary of State July 25, 2017.]

LEGISLATIVE COUNSEL'S DIGEST

AB 398, Eduardo Garcia. California Global Warming Solutions Act of 2006: market-based compliance mechanisms: fire prevention fees: sales and use tax manufacturing exemption.

(1) The California Global Warming Solutions Act of 2006 establishes the State Air Resources Board as the state agency responsible for monitoring and regulating sources emitting greenhouse gases. The act requires the state board to approve a statewide greenhouse gas emissions limit equivalent to the statewide greenhouse gas emissions level in 1990 to be achieved by 2020 and to ensure that statewide greenhouse gas emissions are reduced to at least 40% below the 1990 level by 2030. The act authorizes the state board to include the use of market-based compliance mechanisms.

The act requires the state board to prepare and approve a scoping plan for achieving the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions and to update the scoping plan at least once every 5 years.

The act authorizes the state board to adopt a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases, applicable from January 1, 2012, to December 31, 2020, inclusive, as specified.

This bill would require the state board, no later than January 1, 2018, to update the scoping plan, as specified. The bill would require all greenhouse gas rules and regulations adopted by the state board to be consistent with the scoping plan.

This bill would, until January 1, 2031, extend the applicability of a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit

greenhouse gases to December 31, 2030.

This bill would, until January 1, 2031, require the state board to include specified price ceilings, price containment points, offset credit compliance limits, and industry assistance factors for allowance allocation as part of a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases from January 1, 2021, to December 31, 2030, inclusive. The bill, until January 1, 2031, additionally would require the state board to develop approaches to increase offset projects in the state and to make specified reports to the Legislature as part of that regulation.

This bill would, until January 1, 2031, establish the Compliance Offsets Protocol Task Force, with a specified membership, to provide guidance to the state board in approving new offset protocols for a market-based compliance mechanism for the purposes of increasing offset projects with direct environmental benefits in the state while prioritizing disadvantaged communities, Native American or tribal lands, and rural and agricultural regions.

This bill would, until January 1, 2031, establish the Independent Emissions Market Advisory Committee with a specified membership and would require the advisory committee to at least annually hold a public meeting and report to both the state board and the Joint Legislative Committee on Climate Change Policies on the environmental and economic performance of a specified market-based compliance mechanism and other relevant climate policies.

This bill would, until January 1, 2031, require the California Workforce Development Board, in consultation with the state board, to submit a specified report to the Legislature, no later than January 1, 2019, on the need for increased education, career technical education, job training, and workforce development resources or capacity to help industry, workers, and communities transition to economic and labor-market changes related to specified statewide greenhouse gas emissions reduction goals.

This bill would, until January 1, 2031, require the Legislative Analyst's Office to annually report to the Legislature on the economic impacts and benefits of specified greenhouse gas emissions targets.

(2) Existing law requires all moneys, except for fines and penalties, collected by the state board as part of a market-based compliance mechanism to be deposited in the Greenhouse Gas Reduction Fund and to be available upon appropriation. Existing law continuously appropriates 60% of the annual proceeds of the fund for transit, affordable housing, sustainable communities, and high-speed rail purposes.

This bill would declare the intent of the Legislature that moneys collected pursuant to the market-based compliance mechanism be appropriated in accordance with a specified order of priorities.

(3) Existing law provides that the California Global Warming Solutions Act of 2006 does not limit or expand the existing authority of air pollution control and air quality management districts.

This bill instead would, until January 1, 2031, prohibit an air district from adopting or implementing an emission reduction rule for carbon dioxide from stationary sources that are also subject to a specified market-based compliance mechanism.

(4) Existing law provides that the state has the primary financial responsibility for preventing and suppressing fires in areas that the State Board of Forestry and Fire Protection has determined are state responsibility areas, as defined. Existing law requires that a fire prevention fee be charged on each habitable structure on a parcel that is within a state responsibility area, to be used for specified fire prevention activities.

This bill, until January 1, 2031, would suspend the fire prevention fee. The bill would declare that it is the intent of the Legislature that moneys derived from the auction or sale of allowances pursuant to the market-based compliance mechanism described under (1) replace the fire prevention fee to continue the funding of the fire prevention activities. The bill would repeal those provisions requiring the payment of the fire prevention fee on January 1, 2031.

(5) Existing law, commencing July 1, 2017, provides that the California Department of Tax and Fee Administration is responsible for the administration of the Sales and Use Tax Law, which was previously administered by the State Board of Equalization.

Existing sales and use tax laws impose taxes on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state, or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state, and provide various exemptions from those taxes.

Existing law exempts from those taxes, on and after July 1, 2014, and before July 1, 2022, the gross receipts from the sale of, and the storage, use, or other consumption of, qualified tangible personal property purchased by a qualified person for use primarily in manufacturing, processing, refining, fabricating, or recycling of tangible personal property, as specified; qualified tangible personal property purchased for use by a qualified person to be used primarily in research and development, as provided; qualified tangible personal property purchased for use by a qualified person to be used primarily to maintain, repair, measure, or test any qualified tangible personal property, as provided; and qualified tangible personal property purchased by a contractor purchasing that property for use in the performance of a construction contract for the qualified person, that will use that property as an integral part of specified processes.

This bill would, on and after July 1, 2014, and before July 1, 2030, additionally exempt from those taxes qualified tangible personal property purchased for use by a qualified person to be used primarily in the generation or production, as defined, or storage and distribution, as defined, of electric power or purchased for use by a contractor for the qualified person, as specified. The bill, on and after January 1, 2018, and until July 1, 2030, would also exempt from those taxes special purpose buildings and foundations used for the generation or production or storage and distribution of electric power. The bill, on and after January 1, 2018, and until July 1, 2030, would expand the definition of qualified person to include, among others, a person primarily engaged in the business of electric power generation.

Under existing law, no later than each March 1 next following a calendar year for which these provisions provide an exemption, the California Department of Tax and Fee Administration is required to provide to the Joint Legislative Budget Committee a report of the total dollar amount of exemptions taken for the immediately preceding calendar year.

This bill would require the department to also provide that exemption report to the Department of Finance. The bill would require the total dollar amount, as reported by the department, with the concurrence of the Department of Finance, to be transferred from the Greenhouse Gas Reduction Fund to the General Fund, as provided.

This bill would also make various nonsubstantive and conforming changes and would repeal this exemption on January 1, 2031.

(6) This bill would declare that it is to take effect immediately as an urgency statute.

Vote: 2/3 Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 38501 of the Health and Safety Code is amended to read:

38501. The Legislature finds and declares all of the following:

(a) Global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California. The potential adverse impacts of global warming include the exacerbation of air quality problems, a reduction in the quality and supply of water to the state from the Sierra snowpack, a rise in sea levels resulting in the displacement of thousands of coastal businesses and residences, damage to marine ecosystems and the natural environment, and an increase in the incidences of infectious diseases, asthma, and other human health-related problems.

(b) Global warming will have detrimental effects on some of California's largest industries, including agriculture, wine, tourism, skiing, recreational and commercial fishing, and forestry. It will also increase the strain on electricity supplies necessary to meet the demand for summer air-conditioning in the hottest parts of the state.

(c) California has long been a national and international leader on energy conservation and environmental stewardship efforts, including the areas of air quality protections, energy efficiency requirements, renewable energy standards, natural resource conservation, and greenhouse gas emission standards for passenger vehicles. The program established by this division will continue this tradition of environmental leadership by placing California at the forefront of national and international efforts to reduce emissions of greenhouse gases.

(d) National and international actions are necessary to fully address the issue of global warming. However, action taken by California to reduce emissions of greenhouse gases will have far-reaching effects by encouraging other states, the federal government, and other countries to act.

(e) By exercising a global leadership role, California will also position its economy, technology centers, financial institutions, and businesses to benefit from national and international efforts to reduce emissions of greenhouse gases. More importantly, investing in the development of innovative and pioneering technologies will assist California in achieving statewide greenhouse gas emissions targets established by this division and will provide an opportunity for the state to take a global economic and technological leadership role in reducing emissions of greenhouse gases.

(f) It is the intent of the Legislature that the State Air Resources Board coordinate with state agencies, as well as consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing this division.

(g) It is the intent of the Legislature that the State Air Resources Board consult with the Public Utilities Commission in the development of emissions reduction measures, including limits on emissions of greenhouse gases applied to electricity and natural gas providers regulated by the Public Utilities Commission in order to ensure that electricity and natural gas providers are not required to meet duplicative or inconsistent regulatory requirements.

(h) It is the intent of the Legislature that the State Air Resources Board design emissions reduction measures to meet the statewide emissions limits for greenhouse gases established pursuant to this division in a manner that minimizes costs and maximizes benefits for California's economy, improves and modernizes California's energy infrastructure and maintains electric system reliability, maximizes additional environmental and economic cobenefits for California, and complements the state's efforts to improve air quality.

(i) It is the intent of the Legislature that the State Air Resources Board extend the market-based compliance mechanism adopted pursuant to subdivision (c) of Section 38562 from January 1, 2021, to December 31, 2030, inclusive, in a manner that effectively reduces greenhouse gas emissions; minimizes any adverse impacts on state consumers, businesses, and the economy; and continues elements of the current program that protect state utility ratepayers.

(j) It is the intent of the Legislature that the Climate Action Team established by the Governor to coordinate the efforts set forth under Executive Order S-3-05 continue its role in coordinating overall climate policy.

(k) This section shall remain in effect only until January 1, 2031, and as of that date is repealed.

SEC. 2. Section 38501 is added to the Health and Safety Code, to read:

38501. (a) Global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California. The potential adverse impacts of global warming include the exacerbation of air quality problems, a reduction in the quality and supply of water to the state from the Sierra snowpack, a rise in sea levels resulting in the displacement of thousands of coastal businesses and residences, damage to marine ecosystems and the natural environment, and an increase in the incidences of infectious diseases, asthma, and other human health-related problems.

(b) Global warming will have detrimental effects on some of California's largest industries, including agriculture, wine, tourism, skiing, recreational and commercial fishing, and forestry. It will also increase the strain on electricity supplies necessary to meet the demand for summer air-conditioning in the hottest parts of the state.

(c) California has long been a national and international leader on energy conservation and environmental stewardship efforts, including the areas of air quality protections, energy efficiency requirements, renewable energy standards, natural resource conservation, and greenhouse gas emission standards for passenger vehicles. The program established by this division will continue this tradition of environmental leadership by placing California at the forefront of national and international efforts to reduce emissions of greenhouse gases.

(d) National and international actions are necessary to fully address the issue of global warming. However, action taken by California to reduce emissions of greenhouse gases will have far-reaching effects by encouraging other states, the federal government, and other countries to act.

(e) By exercising a global leadership role, California will also position its economy, technology centers, financial institutions, and businesses to benefit from national and international efforts to reduce emissions of greenhouse gases. More importantly, investing in the development of innovative and pioneering technologies will assist California in achieving the 2020 statewide limit on emissions of greenhouse gases established by this division and will provide an opportunity for the state to take a global economic and technological leadership role in reducing emissions of greenhouse gases.

(f) It is the intent of the Legislature that the State Air Resources Board coordinate with state agencies, as well as consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing this division.

(g) It is the intent of the Legislature that the State Air Resources Board consult with the Public Utilities Commission in the development of emissions reduction measures, including limits on emissions of greenhouse gases applied to electricity and natural gas providers regulated by the Public Utilities Commission in order to ensure that electricity and natural gas providers are not required to meet duplicative or inconsistent regulatory requirements.

(h) It is the intent of the Legislature that the State Air Resources Board design emissions reduction measures to meet the statewide emissions limits for greenhouse gases established pursuant to this division in a manner that minimizes costs and maximizes benefits for California's economy, improves and modernizes California's energy infrastructure and maintains electric system reliability, maximizes additional environmental and economic cobenefits for California, and complements the state's efforts to improve air quality.

(i) It is the intent of the Legislature that the Climate Action Team established by the Governor to coordinate the efforts set forth under Executive Order S-3-05 continue its role in coordinating overall climate policy.

(j) This section shall become operative on January 1, 2031.

SEC. 3. Section 38505.5 is added to the Health and Safety Code, to read:

38505.5. (a) "District" has the same meaning as in Section 39025.

(b) This section shall remain in effect only until January 1, 2031, and as of that date is repealed.

SEC. 4. Section 38562 of the Health and Safety Code is amended to read:

38562. (a) On or before January 1, 2011, the state board shall adopt greenhouse gas emissions limits and emissions reduction measures by regulation to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions in furtherance of achieving the statewide greenhouse gas emissions limit, to become operative beginning on January 1, 2012.

(b) In adopting regulations pursuant to this section and Part 5 (commencing with Section 38570), to the extent feasible and in furtherance of achieving the statewide greenhouse gas emissions limit, the state board shall do all of the following:

(1) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.

(2) Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.

(3) Ensure that entities that have voluntarily reduced their greenhouse gas emissions prior to the implementation of this section receive appropriate credit for early voluntary reductions.

(4) Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

(5) Consider cost-effectiveness of these regulations.

(6) Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

(7) Minimize the administrative burden of implementing and complying with these regulations.

(8) Minimize leakage.

(9) Consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases.

(c) (1) Unless otherwise required by context, terms in this subdivision shall have the definitions that apply pursuant to Section 95802 of Title 17 of the California Code of Regulations, as they read on January 1, 2017.

(2) The state board may adopt a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases, applicable from January 1, 2012, to December 31, 2030, inclusive, that the state board determines will achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions, in the aggregate, from those sources or categories of sources. In adopting a regulation applicable from January 1, 2021, to December 31, 2030, inclusive, pursuant to this subdivision, the state board shall do all of the following:

(A) (i) Establish a price ceiling. In establishing the price ceiling, the state board shall consider, using the best available science, all of the following:

(I) The need to avoid adverse impacts on resident households, businesses, and the state's economy.

(II) The 2020 tier prices of the allowance price containment reserve.

(III) The full social cost associated with emitting a metric ton of greenhouse gases.

(IV) The auction reserve price.

(V) The potential for environmental and economic leakage.

(VI) The cost per metric ton of greenhouse gas emissions reductions to achieve the statewide emissions targets established in Sections 38550 and 38566.

(ii) To implement the price ceiling, the state board shall develop a mechanism that consists of both of the following:

(I) Allowances remaining in the allowance price containment reserve as of December 31, 2020, shall be utilized solely for the purpose of sale at the price ceiling established by this section.

(II) If the allowances from the allowance price containment reserve are exhausted, the state board shall offer covered entities additional metric tons at the price ceiling if needed for compliance. All moneys generated pursuant to this clause shall be expended by the state board to achieve emissions reductions, on at least a metric ton for metric ton basis, that are real, permanent, quantifiable, verifiable, enforceable by the state board and in addition to any greenhouse gas emission reduction otherwise required by law or regulation and any other greenhouse gas emission reduction that otherwise would occur.

(B) Establish two price containment points at levels below the price ceiling. The state board shall offer to covered entities nontradable allowances for sale at these price containment points. The price containment points shall be established using two-thirds, divided equally, of the allowances in the allowance price containment reserve as of December 31, 2017.

(C) Require that current vintage allowances designated by the state board for auction that remain unsold in the auction holding account for more than 24 months to be transferred to the allowance price containment reserve.

(D) Evaluate and address concerns related to overallocation in the state board's determination of the number of available allowances for years 2021 to 2030, inclusive, as appropriate.

(E) (i) Establish offset credit limits according to the following:

(I) From January 1, 2021, to December 31, 2025, inclusive, a total of 4 percent of a covered entity's compliance obligation may be met by surrendering offset credits of which no more than one-half may be sourced from projects that do not provide direct environmental benefits in state.

(II) From January 1, 2026, to December 31, 2030, inclusive, a total of 6 percent of a covered entity's compliance obligation may be met by surrendering offset credits of which no more than one-half may be sourced from projects that do not provide direct environmental benefits in the state.

(ii) For purposes of this subparagraph, "direct environmental benefits in the state" are the reduction or avoidance of emissions of any air pollutant in the state or the reduction or avoidance of any pollutant that could have an adverse impact on waters of the state.

(F) Develop approaches to increase offset projects in the state considering guidance provided by the Compliance Offsets Protocol Task Force, established pursuant to Section 38591.1.

(G) Set industry assistance factors for allowance allocation commencing in 2021 at the levels applicable in the compliance period of 2015 to 2017, inclusive. The state board shall apply a declining cap adjustment factor to the industry allocation equivalent to the overall statewide emissions declining cap using the methodology from the compliance period of 2015 to 2017, inclusive.

(H) Establish allowance banking rules that discourage speculation, avoid financial windfalls, and consider the impact on complying entities and volatility in the market.

(I) Report to the Legislature, by December 31, 2025, on the progress toward meeting the greenhouse gas emissions reduction targets established pursuant to Sections 38550 and 38566 and the leakage risk posed by the regulation. The state board shall include recommendations to the Legislature on necessary statutory changes to the program to reduce leakage, including the potential for a border carbon adjustment, while maintaining the state's ability to reach its targets.

(J) (i) Report to the Legislature, in consultation with the Independent Emissions Market Advisory Committee, established pursuant to Section 38591.2, if two consecutive auctions exceed the lower of the price containment levels established pursuant to subparagraph (B). The report shall assess the potential for allowance prices to reach the price ceiling for multiple auctions.

(ii) A report submitted to the Legislature pursuant to this section shall be submitted in compliance with Section 9795 of the Government Code.

(K) Report to the relevant fiscal and policy committees of the Legislature, including the Joint Committee on Climate Change Policies, on all of the following:

(i) Updates to the scoping plan prepared pursuant to Section 38561 prior to adopting the update.

(ii) Updates on the implementation of the scoping plan prepared pursuant to Section 38561.

(iii) Updates on the implementation of the market-based compliance mechanism adopted pursuant to this subdivision.

(d) Any regulation adopted by the state board pursuant to this part or Part 5 (commencing with Section 38570) shall ensure all of the following:

(1) The greenhouse gas emission reductions achieved are real, permanent, quantifiable, verifiable, and enforceable by the state board.

(2) For regulations pursuant to Part 5 (commencing with Section 38570), the reduction is in addition to any greenhouse gas emission reduction otherwise required by law or regulation, and any other greenhouse gas emission reduction that otherwise would occur.

(3) If applicable, the greenhouse gas emission reduction occurs over the same time period and is equivalent in amount to any direct emission reduction required pursuant to this division.

(e) The state board shall rely upon the best available economic and scientific information and its assessment of existing and projected technological capabilities when adopting the regulations required by this section.

(f) The state board shall consult with the Public Utilities Commission in the development of the regulations as they affect electricity and natural gas providers in order to minimize duplicative or inconsistent regulatory requirements.

(g) The state board may revise regulations adopted pursuant to this section and adopt additional regulations to further the provisions of this division.

(h) This section shall remain in effect only until January 1, 2031, and as of that date is repealed, unless a later enacted statute which is enacted before that date, deletes or extends that date.

SEC. 5. Section 38562 is added to the Health and Safety Code, to read:

38562. (a) On or before January 1, 2011, the state board shall adopt greenhouse gas emissions limits and emissions reduction measures by regulation to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions in furtherance of achieving the statewide greenhouse gas emissions limit, to become operative beginning on January 1, 2012.

(b) In adopting regulations pursuant to this section and Part 5 (commencing with Section 38570), to the extent feasible and in furtherance of achieving the statewide greenhouse gas emissions limit, the state board shall do all of the following:

(1) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.

(2) Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.

(3) Ensure that entities that have voluntarily reduced their greenhouse gas emissions prior to the implementation of this section receive appropriate credit for early voluntary reductions.

(4) Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

(5) Consider cost-effectiveness of these regulations.

(6) Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

(7) Minimize the administrative burden of implementing and complying with these regulations.

(8) Minimize leakage.

(9) Consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases.

(c) In furtherance of achieving the statewide greenhouse gas emissions limit, the state board may adopt a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases, applicable from January 1, 2012, to December 31, 2020, inclusive, that the state board determines will achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions, in the aggregate, from those sources or categories of sources.

(d) Any regulation adopted by the state board pursuant to this part or Part 5 (commencing with Section 38570) shall ensure all of the following:

(1) The greenhouse gas emission reductions achieved are real, permanent, quantifiable, verifiable, and enforceable by the state board.

(2) For regulations pursuant to Part 5 (commencing with Section 38570), the reduction is in addition to any greenhouse gas emission reduction otherwise required by law or regulation, and any other greenhouse gas emission reduction that otherwise would occur.

(3) If applicable, the greenhouse gas emission reduction occurs over the same time period and is equivalent in amount to any direct emission reduction required pursuant to this division.

(e) The state board shall rely upon the best available economic and scientific information and its assessment of existing and projected technological capabilities when adopting the regulations required by this section.

(f) The state board shall consult with the Public Utilities Commission in the development of the regulations as they affect electricity and natural gas providers in order to minimize duplicative or inconsistent regulatory requirements.

(g) The state board may revise regulations adopted pursuant to this section and adopt additional regulations to further the provisions of this division.

(h) This section shall become operative on January 1, 2031.

SEC. 6. Section 38590.1 is added to the Health and Safety Code, to read:

38590.1. (a) It is the intent of the Legislature that moneys collected from the auction or sale of allowances pursuant to a market-based compliance mechanism established pursuant to the California Global Warming

Solutions Act of 2006 (Division 25.5 (commencing with Section 38500)) shall be appropriated to include, but need not be limited to, the following priorities at the time an expenditure plan is adopted:

- (1) Air toxic and criteria air pollutants from stationary and mobile sources.
- (2) Low- and zero-carbon transportation alternatives.
- (3) Sustainable agricultural practices that promote the transitions to clean technology, water efficiency, and improved air quality.
- (4) Healthy forests and urban greening.
- (5) Short-lived climate pollutants.
- (6) Climate adaptation and resiliency.
- (7) Climate and clean energy research.

(b) This section shall remain in effect only until January 1, 2031, and as of that date is repealed unless a later enacted statute that is enacted on or before that date deletes or extends that date.

SEC. 7. Section 38591.1 is added to the Health and Safety Code, to read:

38591.1. (a) The Compliance Offsets Protocol Task Force is hereby established to provide guidance to the state board in approving new offset protocols for a market-based compliance mechanism for the purposes of increasing offset projects with direct environmental benefits in the state while prioritizing disadvantaged communities, Native American or tribal lands, and rural and agricultural regions. The state board shall appoint members to the Compliance Offsets Protocol Task Force to include a representative from each stakeholder group, including, but not limited to, all of the following:

- (1) Scientists.
- (2) Air pollution control and air quality management districts.
- (3) Carbon market experts.
- (4) Tribal representatives.
- (5) Environmental Justice advocates.
- (6) Labor and Workforce representatives.
- (7) Forestry experts.
- (8) Agriculture experts.
- (9) Environmental advocates.
- (10) Conservation advocates.
- (11) Dairy experts.

(b) This section shall remain in effect only until January 1, 2031, and as of that date is repealed.

SEC. 8. Section 38591.2 is added to the Health and Safety Code, to read:

38591.2. (a) The Independent Emissions Market Advisory Committee is hereby established within the California Environmental Protection Agency.

(b) (1) (A) The committee shall be composed of at least five experts on emissions trading market design appointed according to the following:

- (i) Three members appointed by the Governor.
- (ii) One member appointed by the Senate Committee on Rules.
- (iii) One member appointed by the Speaker of the Assembly.

(B) The committee shall include a representative from the Legislative Analyst's Office.

(2) The committee members shall meet all of the following requirements:

(A) Have academic, nonprofit, and other relevant backgrounds.

(B) Lack financial conflicts of interest with entities subject to the regulation adopted by the state board pursuant to subdivision (c) of Section 38562.

(c) The committee, at least annually, shall hold a public meeting and report to both the state board and the Joint Legislative Committee on Climate Change Policies on the environmental and economic performance of the regulation adopted by the state board pursuant to subdivision (c) of Section 38562 and other relevant climate policies.

(d) This section shall remain in effect only until January 1, 2031, and as of that date is repealed.

SEC. 9. Section 38591.3 is added to the Health and Safety Code, to read:

38591.3. (a) No later than January 1, 2019, the California Workforce Development Board, in consultation with the state board, shall report to the Legislature on the need for increased education, career technical education, job training, and workforce development resources or capacity to help industry, workers, and communities transition to economic and labor-market changes related to statewide greenhouse gas emissions reduction goals, pursuant to Sections 38550 and 38566, and the scoping plan, adopted pursuant to Section 38561. The California Workforce Development Board shall ensure that the report aligns, as appropriate, with California's Unified Strategic Workforce Development Plan, developed by the California Workforce Development Board. The California Workforce Development Board and the state board shall work in consultation with all of the following:

(1) State Department of Education.

(2) California Community Colleges.

(3) Trustees of the California State University.

(4) Regents of the University of California.

(5) Governor's Office of Business and Economic Development.

(6) Interested stakeholders.

(b) The report to the Legislature shall address all of the following:

(1) Creating and retaining jobs and stimulating economic activity in the state.

(2) Imbedding workforce training and employment services in infrastructure investments so that services more directly connect to the jobs created.

(3) The use of community benefits agreements, community workforce agreements, and project labor agreements that connect workforce services and job training directly to jobs impacted or jobs created.

(4) Preparing the state's students with relevant career technical education that responds to business and industry demands.

(5) Developing worker retraining programs to assist the existing workforce with the necessary tools to upgrade their skills.

(6) Responding to the job creation and workforce needs of the state's new and emerging industries, including emerging technologies that will result in greater greenhouse gas emissions reductions.

(7) Developing job training programs to assist specific populations, such as at-risk youth, displaced workers, veterans, the formerly incarcerated, and others facing barriers to employment.

(8) Opportunities for community-based organizations to partner with local workforce agencies to improve the labor-market outcomes of targeted disadvantaged populations.

(9) Targeting workforce development programs and activities in disadvantaged communities, as identified pursuant to Section 39711, and communities that are located near entities regulated by the state board pursuant to this division.

(10) Identifying and leveraging state and federal funding resources to implement the recommendations made in the report consistent with the regulatory purposes of this division.

(c) This section shall remain in effect only until January 1, 2031, and as of that date is repealed.

SEC. 10. Section 38592.5 is added to the Health and Safety Code, to read:

38592.5. (a) (1) No later than January 1, 2018, the state board shall update the scoping plan, prepared pursuant to Section 38561, to achieve the greenhouse gas emissions reductions required pursuant to Section 38566. The state board shall designate the market-based compliance mechanism adopted pursuant to subdivision (c) of Section 38562 as the rule for petroleum refineries and oil and gas production facilities to achieve their greenhouse gas emissions reductions.

(2) All greenhouse gas rules and regulations adopted by the state board shall be consistent with the updated scoping plan.

(3) Nothing in this section shall limit the state board's authority to adopt, maintain, or revise any other measure, including, but not limited to, any of the following:

(A) Measures governing methane and fugitive emissions at refineries and oil and gas facilities.

(B) Advanced clean cars program adopted by the state board.

(C) Low-Carbon Fuel Standard regulations (Subarticle 7 (commencing with Section 95480) of Article 4 of Subchapter 10 of Chapter 1 of Division 3 of Title 17 of the California Code of Regulations).

(D) Regulations addressing short-lived climate pollutants.

(E) Implementation of the sustainable freight action plan released in July 2015 pursuant to Executive Order B-32-15.

(b) This section shall remain in effect only until January 1, 2031, and as of that date is repealed, unless a later enacted statute, which is enacted before January 1, 2031, deletes or extends that date.

SEC. 11. Section 38592.6 is added to the Health and Safety Code, to read:

38592.6. (a) The Legislative Analyst's Office shall, until January 1, 2030, annually report to the Legislature on the economic impacts and benefits of the greenhouse gas emissions targets established pursuant to Sections 38550 and 38566.

(b) This section shall remain in effect only until January 1, 2031, and as of that date is repealed, unless a later enacted statute, which is enacted before January 1, 2031, deletes or extends that date.

SEC. 12. Section 38594 of the Health and Safety Code is amended to read:

38594. (a) Except as provided in subdivision (b), nothing in this division shall limit or expand the existing authority of any district.

(b) A district shall not adopt or implement an emission reduction rule for carbon dioxide from stationary sources that are also subject to a market-based compliance mechanism adopted by the state board pursuant to subdivision (c) of Section 38562.

(c) Nothing in this section affects in any manner the authority of a district to adopt or implement, as applicable, any of the following:

(1) A rule, regulation, standard, or requirement authorized or required for a district to adopt under Division 26 (commencing with Section 39000) for purposes other than to reduce carbon dioxide from sources subject to a market-based compliance mechanism adopted by the state board pursuant to subdivision (c) of Section 38562.

(2) A rule, regulation, standard, or requirement authorized pursuant to a law affecting emissions associated with landfills, refrigerants, natural gas or methane, volatile organic compounds, or a rule required to comply with the federal Clean Air Act (42 U.S.C. Sec. 7401 et seq.) or regulations implementing that act.

(3) A rule, regulation, standard, or requirement authorized pursuant to a law to reduce vehicle trips, vehicle miles traveled, parking, or vehicular air emissions, including, but not limited to, a rule adopted pursuant to

Chapter 728 of the Statutes of 2008.

(4) A rule, regulation, standard, or requirement established pursuant to the California Environmental Quality Act (Division 13 (commencing with Section 21000) of the Public Resources Code).

(5) A rule, regulation, standard, or requirement adopted by any state agency.

(d) This section shall become inoperative if the state board repeals the market-based compliance mechanism adopted by the state board pursuant to subdivision (c) of Section 38562. The state board shall notify the Secretary of State if this section becomes inoperative.

(e) This section shall remain in effect only until January 1, 2031, and as of that date is repealed.

SEC. 13. Section 38594 is added to the Health and Safety Code, to read:

38594. (a) Nothing in this division shall limit or expand the existing authority of any district, as defined in Section 39025.

(b) This section shall become operative on January 1, 2031.

SEC. 14. Section 4213.05 is added to the Public Resources Code, to read:

4213.05. (a) Commencing with the 2017–18 fiscal year, the fire prevention fee imposed pursuant to Section 4212 shall be suspended, effective July 1, 2017. Any moneys held in reserve in the State Responsibility Area Fire Responsibility Fund shall be appropriated by the Legislature in a manner consistent with subdivision (d) of Section 4214.

(b) It is the intent of the Legislature that moneys derived from the auction or sale of allowances pursuant to a market-based compliance mechanism established pursuant to Division 25.5 (commencing with Section 38500) of the Health and Safety Code shall be used to replace the moneys that would have otherwise been collected under Section 4212 to continue fire prevention activities.

(c) This section shall become inoperative on January 1, 2031.

SEC. 15. Article 3 (commencing with Section 4229) is added to Chapter 1.5 of Part 2 of Division 4 of the Public Resources Code, to read:

Article 3. Repeal

4229. This chapter shall remain in effect only until January 1, 2031, and as of that date is repealed, unless a later enacted statute that is enacted on or before January 1, 2031, deletes or extends that date.

SEC. 16. Section 6377.1 of the Revenue and Taxation Code is amended to read:

6377.1. (a) Except as provided in subdivision (e), on or after July 1, 2014, and before July 1, 2030, there are exempted from the taxes imposed by this part the gross receipts from the sale of, and the storage, use, or other consumption in this state of, any of the following:

(1) Qualified tangible personal property purchased for use by a qualified person to be used primarily in any stage of the manufacturing, processing, refining, fabricating, or recycling of tangible personal property, beginning at the point any raw materials are received by the qualified person and introduced into the process and ending at the point at which the manufacturing, processing, refining, fabricating, or recycling has altered tangible personal property to its completed form, including packaging, if required.

(2) Qualified tangible personal property purchased for use by a qualified person to be used primarily in research and development.

(3) Qualified tangible personal property purchased for use by a qualified person to be used primarily to maintain, repair, measure, or test any qualified tangible personal property described in paragraph (1) or (2).

(4) Qualified tangible personal property purchased for use by a contractor purchasing that property for use in the performance of a construction contract for the qualified person, that will use that property as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, the generation or production,

or storage and distribution, of electric power, or as a research or storage facility for use in connection with those processes.

(5) Qualified tangible personal property purchased for use by a qualified person to be used primarily in the generation or production, or storage and distribution, of electric power.

(b) For purposes of this section:

(1) "Department" means the California Department of Tax and Fee Administration.

(2) "Fabricating" means to make, build, create, produce, or assemble components or tangible personal property to work in a new or different manner.

(3) "Generation or production" means the activity of making, producing, creating, or converting electric power from sources other than a conventional power source, as defined in Section 2805 of the Public Utilities Code.

(4) "Manufacturing" means the activity of converting or conditioning tangible personal property by changing the form, composition, quality, or character of the property for ultimate sale at retail or use in the manufacturing of a product to be ultimately sold at retail. Manufacturing includes any improvements to tangible personal property that result in a greater service life or greater functionality than that of the original property.

(5) "Primarily" means 50 percent or more of the time.

(6) "Process" means the period beginning at the point at which any raw materials are received by the qualified person and introduced into the manufacturing, processing, refining, fabricating, or recycling activity of the qualified person and ending at the point at which the manufacturing, processing, refining, fabricating, or recycling activity of the qualified person has altered tangible personal property to its completed form, including packaging, if required. Raw materials shall be considered to have been introduced into the process when the raw materials are stored on the same premises where the qualified person's manufacturing, processing, refining, fabricating, or recycling activity is conducted. Raw materials that are stored on premises other than where the qualified person's manufacturing, processing, refining, fabricating, or recycling activity is conducted shall not be considered to have been introduced into the manufacturing, processing, refining, fabricating, or recycling process.

(7) "Processing" means the physical application of the materials and labor necessary to modify or change the characteristics of tangible personal property.

(8) (A) "Qualified person" means:

(i) Prior to January 1, 2018, a person that is primarily engaged in those lines of business described in Codes 3111 to 3399, inclusive, 541711, or 541712 of the North American Industry Classification System (NAICS) published by the United States Office of Management and Budget (OMB), 2012 edition.

(ii) On and after January 1, 2018, and before July 1, 2030, a person that is primarily engaged in those lines of business described in Codes 3111 to 3399, inclusive, 22111 to 221118, inclusive, 221122, 541711, or 541712 of the North American Industry Classification System (NAICS) published by the United States Office of Management and Budget (OMB), 2012 edition.

(B) Notwithstanding subparagraph (A), "qualified person" shall not include either of the following:

(i) Prior to January 1, 2018, an apportioning trade or business that is required to apportion its business income pursuant to subdivision (b) of Section 25128 or a trade or business conducted wholly within this state that would be required to apportion its business income pursuant to subdivision (b) of Section 25128 if it were subject to apportionment pursuant to Section 25101.

(ii) On and after January 1, 2018, and before July 1, 2030, an apportioning trade or business, other than a trade or business described in paragraph (1) of subdivision (c) of Section 25128, that is required to apportion its business income pursuant to subdivision (b) of Section 25128, or a trade or business, other than a trade or business described in paragraph (1) of subdivision (c) of Section 25128, conducted wholly within this state that would be required to apportion its business income pursuant to subdivision (b) of Section 25128 if it were subject to apportionment pursuant to Section 25101.

(9) (A) "Qualified tangible personal property" includes, but is not limited to, all of the following:

(i) Machinery and equipment, including component parts and contrivances such as belts, shafts, moving parts, and operating structures.

(ii) Equipment or devices used or required to operate, control, regulate, or maintain the machinery, including, but not limited to, computers, data-processing equipment, and computer software, together with all repair and replacement parts with a useful life of one or more years therefor, whether purchased separately or in conjunction with a complete machine and regardless of whether the machine or component parts are assembled by the qualified person or another party.

(iii) Tangible personal property used in pollution control that meets standards established by this state or any local or regional governmental agency within this state.

(iv) (I) Prior to January 1, 2018, special purpose buildings and foundations used as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, or that constitute a research or storage facility used during those processes. Buildings used solely for warehousing purposes after completion of those processes are not included.

(II) On and after January 1, 2018, and before July 1, 2030, special purpose buildings and foundations used as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, or that constitute a research or storage facility used during those processes, or the generation or production or storage and distribution of electric power. Buildings used solely for warehousing purposes after completion of those processes are not included.

(B) "Qualified tangible personal property" shall not include any of the following:

(i) Consumables with a useful life of less than one year.

(ii) Furniture, inventory, and equipment used in the extraction process, or equipment used to store finished products that have completed the manufacturing, processing, refining, fabricating, or recycling process.

(iii) Tangible personal property used primarily in administration, general management, or marketing.

(10) "Refining" means the process of converting a natural resource to an intermediate or finished product.

(11) "Research and development" means those activities that are described in Section 174 of the Internal Revenue Code or in any regulations thereunder.

(12) "Storage and distribution" means storing or distributing through the electric grid, but not transmission of, electric power to consumers regardless of source.

(13) (A) "Useful life" for tangible personal property that is treated as having a useful life of one or more years for state income or franchise tax purposes shall be deemed to have a useful life of one or more years for purposes of this section. "Useful life" for tangible personal property that is treated as having a useful life of less than one year for state income or franchise tax purposes shall be deemed to have a useful life of less than one year for purposes of this section. For the purposes of this paragraph, tangible personal property that is deducted under Sections 17201 and 17255 or Section 24356 shall be deemed to have a useful life of one or more years.

(B) The board shall cancel any outstanding and unpaid deficiency determination and any related penalties and interest and shall not issue any deficiency determination or notice of determination, with respect to unpaid sales and use tax on qualified property with a useful life, as defined in subparagraph (A), that was purchased or leased on or after July 1, 2014, and before January 1, 2018. Any amounts paid by a qualified person pursuant to such determination shall be refunded by the department to the qualified person. Any cancellation or refund described in this subparagraph is contingent upon a qualified person making a request to the department, in a manner prescribed by the department, by June 30, 2018.

(c) An exemption shall not be allowed under this section unless the purchaser furnishes the retailer with an exemption certificate, completed in accordance with any instructions or regulations as the department may prescribe, and the retailer retains the exemption certificate in its records and furnishes it to the department upon request.

(d) (1) Notwithstanding the Bradley-Burns Uniform Local Sales and Use Tax Law (Part 1.5 (commencing with Section 7200)) and the Transactions and Use Tax Law (Part 1.6 (commencing with Section 7251)), the exemption

established by this section shall not apply with respect to any tax levied by a county, city, or district pursuant to, or in accordance with, either of those laws.

(2) Notwithstanding subdivision (a), the exemption established by this section shall not apply with respect to any tax levied pursuant to Section 6051.2, 6051.5, 6201.2, or 6201.5, pursuant to Section 35 of Article XIII of the California Constitution, or any tax levied pursuant to Section 6051 or 6201 that is deposited in the State Treasury to the credit of the Local Revenue Fund 2011 pursuant to Section 6051.15 or 6201.15.

(e) (1) The exemption provided by this section shall not apply to either of the following:

(A) Any tangible personal property purchased during any calendar year that exceeds two hundred million dollars (\$200,000,000) of purchases of qualified tangible personal property for which an exemption is claimed by a qualified person under this section. For purposes of this subparagraph, in the case of a qualified person that is required to be included in a combined report under Section 25101 or authorized to be included in a combined report under Section 25101.15, the aggregate of all purchases of qualified personal property for which an exemption is claimed pursuant to this section by all persons that are required or authorized to be included in a combined report shall not exceed two hundred million dollars (\$200,000,000) in any calendar year.

(B) The sale or storage, use, or other consumption of property that, within one year from the date of purchase, is removed from California, converted from an exempt use under subdivision (a) to some other use not qualifying for exemption, or used in a manner not qualifying for exemption.

(2) If a purchaser certifies in writing to the seller that the tangible personal property purchased without payment of the tax will be used in a manner entitling the seller to regard the gross receipts from the sale as exempt from the sales tax, and the purchase exceeds the two-hundred-million-dollar (\$200,000,000) limitation described in subparagraph (A) of paragraph (1), or within one year from the date of purchase, the purchaser removes that property from California, converts that property for use in a manner not qualifying for the exemption, or uses that property in a manner not qualifying for the exemption, the purchaser shall be liable for payment of sales tax, with applicable interest, as if the purchaser were a retailer making a retail sale of the tangible personal property at the time the tangible personal property is so purchased, removed, converted, or used, and the cost of the tangible personal property to the purchaser shall be deemed the gross receipts from that retail sale.

(f) This section shall apply to leases of qualified tangible personal property classified as "continuing sales" and "continuing purchases" in accordance with Sections 6006.1 and 6010.1. The exemption established by this section shall apply to the rentals payable pursuant to the lease, provided the lessee is a qualified person and the tangible personal property is used in an activity described in subdivision (a).

(g) (1) Upon the effective date of this section, the Department of Finance shall estimate the total dollar amount of exemptions that will be taken for each calendar year, or any portion thereof, for which this section provides an exemption.

(2) (A) No later than each March 1 next following a calendar year for which this section provides an exemption, the department shall provide to the Joint Legislative Budget Committee and to the Department of Finance a report of the total dollar amount of exemptions taken under this section for the immediately preceding calendar year. The report shall compare the total dollar amount of exemptions taken under this section for that calendar year with the department's estimate for that same calendar year. If that total dollar amount taken is less than the estimate for that calendar year, the report shall identify options for increasing exemptions taken so as to meet estimated amounts.

(B) No later than June 30 of that same calendar year, that total dollar amount, notwithstanding subparagraph (A) of paragraph (13) of subdivision (b), as reported by the department, with the concurrence of the Department of Finance, shall be transferred from the Greenhouse Gas Reduction Fund to the General Fund.

(h) This section is repealed on January 1, 2031.

SEC. 17. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are:

To secure a greater reduction in greenhouse gas emissions to prevent catastrophic climate change, it is necessary for this act to take effect immediately.



AB-1207 Climate change: market-based compliance mechanism: extension. (2025-2026)

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Date Published: 09/22/2025 10:00 AM

Assembly Bill No. 1207

CHAPTER 117

An act to amend Sections 38501, 38562, 38590.1, 38591.1, 38591.2, 38592.5, 38592.6, and 38594 of, and to add and repeal Section 38562.1 of, the Health and Safety Code, and to amend Section 748.5 of, and to add Section 748.5.5 to, the Public Utilities Code, relating to climate change, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor September 19, 2025. Filed with Secretary of State September 19, 2025.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1207, Irwin. Climate change: market-based compliance mechanism: extension.

The California Global Warming Solutions Act of 2006 requires the State Air Resources Board to adopt regulations for greenhouse gas emissions limits and emissions reduction measures to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions in furtherance of achieving the statewide greenhouse gas emissions limit, as defined. The act authorizes the state board to revise regulations or adopt additional regulations to further the act. The act authorizes that state board to include in those regulations the use of a market-based compliance mechanism to comply with those regulations.

This bill would require the state board to adopt regulations for greenhouse gas emissions limits and emissions reduction measures to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions to instead achieve certain emissions reductions goals and the purposes of the act. The bill would require the state board, in adopting regulations, to design the regulations in a manner that transitions support from gas corporations to electrical distribution utilities to minimize ratepayer impacts and meet the emissions reduction goals of the act. The bill would require the state board to consider the effects of the regulations on affordability, cost-effectiveness, minimization of leakage in California, and achieving the emissions reduction goals of the act. The bill would state the intent of the Legislature that the market-based compliance mechanism be known as the California Cap-and-Invest Program.

The act, until January 1, 2031, authorizes the state board to adopt a regulation establishing a market-based compliance mechanism that is a system of market-based declining aggregate emissions limits for sources or categories of sources that emit greenhouse gases meeting certain requirements, including the establishment of a price ceiling, as provide, the allowance price containment reserve, and a requirement for state board, if the allowance from the allowance price containment reserve is exhausted, to offer covered entities additional allowances at the price ceiling if need for compliance. The act requires that moneys generated by the sale of those additional allowances be expended by the state board to achieve emissions reductions, as provided. The act, until January 1, 2031, establishes the Compliance Offsets Protocol Task Force to provide guidance to the

state board in approving new offset protocols for the market-based compliance mechanism for purposes of increasing offset projects, as provided. The act, until January 1, 2031, establishes the Independent Emissions Market Advisory Committee within the California Environmental Protection Agency and requires the committee to annually report to the state board and the Joint Legislative Committee on Climate Change Policies on the environmental and economic performance of the regulation establishing the market-based compliance mechanism and other relevant climate change policies. The act, until January 1, 2031, requires the state board to designate the market-based compliance mechanism as the rule for petroleum refineries and oil and gas production facilities to achieve their greenhouse gas emissions reductions. The act provides that a violation of any rule, regulation, order, emissions limitation, emissions reduction measure, or other measure adopted by the state board under the act is a crime.

Existing law requires moneys collected by the state board from the auction or sale of allowances as part of a market-based compliance mechanism to be deposited in the Greenhouse Gas Reduction Fund and continuously appropriates a portion of the moneys in the fund for various purposes.

This bill would extend the above-described provisions until January 1, 2046. The bill would require the state board, in adopting those regulations, to additionally do certain things, including establish offset credit limits from January 1, 2026, to December 31, 2045, inclusive, as provided. The bill would require that moneys generated from the sale of additional allowances at the price ceiling be deposited into the California Climate Mitigation Fund, which the bill would create in the State Treasury. The bill would require moneys in the California Climate Mitigation Fund be available, upon appropriation by the Legislature, for purposes of providing direct rebates and investments to reduce household energy costs. Because a violation of the market-based compliance mechanism whose operation would be extended by the bill would be a crime, the bill would impose a state-mandated local program. By extending the operation of the market-based compliance mechanism, thereby extending the deposit of moneys from that market-based compliance mechanism into the fund, the bill would make an appropriation. This bill would specify that the members of the Independent Emissions Market Advisory Committee are to be considered designated employees of the California Environmental Protection Agency for purposes of the Political Reform Act of 1974.

This bill would, if the state board initiates a regulatory process to update those regulations that is expected to be a major regulation for purposes of the Administrative Procedure Act, require the chairperson of the state board, until January 1, 2046, to present to the Joint Legislative Committee on Climate Change Policies and other relevant policy committees of the Legislature on the current state of the market-based compliance mechanism and provide the rationale for updating the regulations, as provided, and to transmit certain information to the joint legislative committee and the relevant budget subcommittees, including the economic analysis required by the Administrative Procedure Act of the proposed amendments to the regulations. The bill would require the state board and other state agencies implementing programs that are funded by the Greenhouse Gas Reduction Fund, upon request, to appear annually before the Joint Legislative Committee on Climate Change Policies and the relevant budget subcommittees to give a presentation on the expenditures of those moneys.

The act requires the state board, on or before January 1, 2009, to prepare and adopt a scoping plan for achieving the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions and to update the scoping plan at least once every 5 years.

This bill would require the state board, until January 1, 2046, to include in the updates to the scoping plan the progress towards meeting certain greenhouse gas emissions reduction targets and recommendations to the Legislature on necessary statutory changes to the market-based compliance mechanism to further cost-effectively reduce emissions of greenhouse gases.

Existing law authorizes the Public Utilities Commission to allocate 15% of the revenues received by electrical corporations as a result of the direct allocation of greenhouse gas allowances to electric corporations for clean energy and energy efficiency projects that are administered by the electrical corporations or a qualified third-party administrator and that are not otherwise funded by other funding sources. Existing law requires the commission to require the balance of those revenues to be credited directly to the residential, small business, and emissions-intensive, trade-exposed retail customers of the electrical corporations. Existing law requires the commission to require the adoption and implementation of a customer outreach plan for each electrical corporation for purposes of obtaining the maximum feasible public awareness of the crediting of greenhouse gas allowance revenues.

This bill would require the credits provided to residential customers to be provided on the bills of those customers in no more than 4 high-billed months of each year to maximize customer electric bill affordability or as otherwise directed by the commission to address extreme, unforeseen, and temporary circumstances. The bill

would instead authorize the commission to require those revenues to be credited to small businesses and emission-intensive trade-exposed retail customers of the electrical corporations. The bill would require the commission, not later than January 1, 2027, to require each electrical corporation to update its customer outreach plan, as provided.

This bill would make the 15% allocation for clean energy and energy efficiency projects inoperative on July 1, 2026. The bill would require, from July 1, 2026, to January 1, 2031, inclusive, 5% of those revenues be remitted to the State Treasury for deposit into the California Transmission Accelerator Revolving Fund and be available to California Infrastructure and Economic Development Bank for purposes of the California Transmission Accelerator Revolving Fund Program.

Under existing law, a violation of the Public Utilities Act or an order, decision, rule, direction, demand, or requirement of the commission is a crime.

Because certain provisions of the bill would be part of the Public Utilities Act and a violation of a commission action implementing the bill's requirements would be a crime, this bill would impose a state-mandated local program.

This bill would require local publicly owned electric utilities receiving a direct allocation of greenhouse gas allowances in addition to the greenhouse gas allowance totals specified in the regulations implementing the market-based compliance mechanism to provide a credit, as provided. The bill would require local publicly owned electric utilities to report to the state board on the uses of all revenues received by those utilities as a result of the direct allocation of greenhouse gas allowances under those regulations and would require the state board to annually submit a report to the Legislature on the uses of those revenues. By imposing additional duties on local publicly owned electric utilities, the bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for specified reasons.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: 2/3 Appropriation: yes Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 38501 of the Health and Safety Code, as amended by Section 1 of Chapter 135 of the Statutes of 2017, is amended to read:

38501. (a) The Legislature finds and declares all of the following:

(1) Global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California. The potential adverse impacts of global warming include the exacerbation of air quality problems, a reduction in the quality and supply of water to the state from the Sierra snowpack, a rise in sea levels resulting in the displacement of thousands of coastal businesses and residences, damage to marine ecosystems and the natural environment, and an increase in the incidences of infectious diseases, asthma, and other human health-related problems.

(2) Global warming will have detrimental effects on some of California's largest industries, including agriculture, wine, tourism, skiing, recreational and commercial fishing, and forestry. It will also increase the strain on electricity supplies necessary to meet the demand for summer air-conditioning in the hottest parts of the state.

(3) California has long been a national and international leader on energy conservation and environmental stewardship efforts, including the areas of air quality protections, energy efficiency requirements, renewable and clean energy standards, natural resource conservation, and greenhouse gas emission standards for vehicles. The program established by this division will continue this tradition of environmental leadership by placing California at the forefront of national and international efforts to reduce emissions of greenhouse gases.

(4) National and international actions are necessary to fully address the issue of global warming. However, action taken by California to reduce emissions of greenhouse gases will have far-reaching effects by encouraging other states, the federal government, and other countries to act.

(5) California has positioned its economy, technology centers, financial institutions, and businesses to benefit from national and international efforts to reduce emissions of greenhouse gases. More importantly, investing in the development of innovative and pioneering technologies will continue to assist California in achieving statewide greenhouse gas emissions targets established by this division and will continue to provide an opportunity for the state to take a global economic and technological leadership role in reducing emissions of greenhouse gases.

(b) (1) It is the intent of the Legislature that the State Air Resources Board coordinate with state agencies, as well as consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing this division.

(2) It is the intent of the Legislature that the State Air Resources Board consult with the Public Utilities Commission in the development of emissions reduction measures, including limits on emissions of greenhouse gases applied to electricity and natural gas providers regulated by the Public Utilities Commission, in order to ensure that electricity and natural gas providers are not required to meet duplicative or inconsistent regulatory requirements.

(3) It is the intent of the Legislature that the State Air Resources Board design emissions reduction measures to meet the statewide emissions limits for greenhouse gases established pursuant to this division in a manner that minimizes costs and maximizes benefits for California's economy, improves and modernizes California's energy infrastructure and maintains a safe, clean, affordable, resilient, and reliable electric system, maximizes additional environmental and economic cobenefits for California, and complements the state's efforts to improve air quality.

(4) It is the intent of the Legislature that the State Air Resources Board extend the market-based compliance mechanism adopted pursuant to subdivision (c) of Section 38562 from January 1, 2021, to December 31, 2045, inclusive, in a manner that effectively reduces greenhouse gas emissions; minimizes any adverse impacts on state consumers, businesses, and the economy; and continues elements of the current program that protect state utility ratepayers, encourages decarbonization of the state's economic sectors, and further enables Californians to affordably decarbonize and power their end uses.

(5) It is the intent of the Legislature that the Climate Action Team established by the Governor to coordinate the efforts set forth under Executive Order No. S-3-05 continue its role in coordinating overall climate policy.

(6) It is the intent of the Legislature that the market-based compliance mechanism be known as the California Cap-and-Invest Program in recognition of its cost-effective, market-based approach to reduce emissions of greenhouse gases and the direct and indirect investments the mechanism has demonstrated, and should continue to demonstrate, in cost-effective emission reduction measures.

(c) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 2. Section 38501 of the Health and Safety Code, as added by Section 2 of Chapter 135 of the Statutes of 2017, is amended to read:

38501. (a) The Legislature finds and declares all of the following:

(1) Global warming poses a serious threat to the economic well-being, public health, natural resources, and the environment of California. The potential adverse impacts of global warming include the exacerbation of air quality problems, a reduction in the quality and supply of water to the state from the Sierra snowpack, a rise in sea levels resulting in the displacement of thousands of coastal businesses and residences, damage to marine ecosystems and the natural environment, and an increase in the incidences of infectious diseases, asthma, and other human health-related problems.

(2) Global warming will have detrimental effects on some of California's largest industries, including agriculture, wine, tourism, skiing, recreational and commercial fishing, and forestry. It will also increase the strain on electricity supplies necessary to meet the demand for summer air-conditioning in the hottest parts of the state.

(3) California has long been a national and international leader on energy conservation and environmental stewardship efforts, including the areas of air quality protections, energy efficiency requirements, renewable energy standards, natural resource conservation, and greenhouse gas emission standards for passenger vehicles. The program established by this division will continue this tradition of environmental leadership by placing California at the forefront of national and international efforts to reduce emissions of greenhouse gases.

(4) National and international actions are necessary to fully address the issue of global warming. However, action taken by California to reduce emissions of greenhouse gases will have far-reaching effects by encouraging other states, the federal government, and other countries to act.

(5) California has positioned its economy, technology centers, financial institutions, and businesses to benefit from national and international efforts to reduce emissions of greenhouse gases. More importantly, investing in the development of innovative and pioneering technologies will continue to assist California in achieving the 2020 statewide limit on emissions of greenhouse gases established by this division and will continue to provide an opportunity for the state to take a global economic and technological leadership role in reducing emissions of greenhouse gases.

(b) (1) It is the intent of the Legislature that the State Air Resources Board coordinate with state agencies, as well as consult with the environmental justice community, industry sectors, business groups, academic institutions, environmental organizations, and other stakeholders in implementing this division.

(2) It is the intent of the Legislature that the State Air Resources Board consult with the Public Utilities Commission in the development of emissions reduction measures, including limits on emissions of greenhouse gases applied to electricity and natural gas providers regulated by the Public Utilities Commission, in order to ensure that electricity and natural gas providers are not required to meet duplicative or inconsistent regulatory requirements.

(3) It is the intent of the Legislature that the State Air Resources Board design emissions reduction measures to meet the statewide emissions limits for greenhouse gases established pursuant to this division in a manner that minimizes costs and maximizes benefits for California's economy, improves and modernizes California's energy infrastructure and maintains a clean, safe, affordable, resilient, and reliable electric system, maximizes additional environmental and economic cobenefits for California, and complements the state's efforts to improve air quality.

(4) It is the intent of the Legislature that the Climate Action Team established by the Governor to coordinate the efforts set forth under Executive Order No. S-3-05 continue its role in coordinating overall climate policy.

(5) It is the intent of the Legislature that the market-based compliance mechanism be known as the California Cap-and-Invest Program in recognition of its cost-effective, market-based approach to reduce emissions of greenhouse gases and the direct and indirect investments the mechanism has demonstrated, and should continue to demonstrate, in cost-effective emission reduction measures.

(c) This section shall become operative on January 1, 2046.

SEC. 3. Section 38562 of the Health and Safety Code, as amended by Section 4 of Chapter 135 of the Statutes of 2017, is amended to read:

38562. (a) The state board shall adopt greenhouse gas emissions limits and emissions reduction measures by regulation to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions to achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(b) In adopting regulations pursuant to this section and Part 5 (commencing with Section 38570), to the extent feasible, to achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division, the state board shall do all of the following:

(1) (A) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.

(B) (i) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that transitions support from gas corporations to electrical distribution utilities, as defined in Section 95802 of Title 17 of the California Code of Regulations, on or before January 1, 2031, to minimize ratepayer impacts and achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(ii) For purposes of this subparagraph, "gas corporation" has the same meaning as set forth in Section 222 of the Public Utilities Code.

(iii) Except as provided in clause (i), this subparagraph shall not be construed to impact the distribution of emissions allowances to emissions-intensive, trade-exposed industrial sectors.

(2) Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.

(3) Ensure that entities that have voluntarily reduced their greenhouse gas emissions before the implementation of this section receive appropriate credit for early voluntary reductions.

(4) Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

(5) Consider cost-effectiveness of these regulations.

(6) Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

(7) Consider the effect of these regulations on affordability, cost effectiveness, minimization of leakage in California, and achieving the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(8) Minimize the administrative burden of implementing and complying with these regulations.

(9) Minimize leakage.

(10) Consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases.

(c) (1) Unless otherwise required by context, terms in this subdivision shall have the definitions that apply pursuant to Section 95802 of Title 17 of the California Code of Regulations, as they read on January 1, 2017.

(2) To achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division, the state board shall adopt a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases, applicable from January 1, 2012, to December 31, 2045, inclusive, that the state board determines will achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions, in the aggregate, from those sources or categories of sources, and ensures that programwide aggregate emissions from covered sources, at a minimum, decline with the requirements of Sections 38562.2 and 38566. In adopting a regulation applicable from January 1, 2021, to December 31, 2045, inclusive, pursuant to this subdivision, the state board shall do all of the following:

(A) (i) Establish a price ceiling. In establishing the price ceiling, the state board shall consider, using the best available science, all of the following:

(I) The need to avoid adverse impacts on resident households, businesses, and the state's economy.

(II) The 2020 tier prices of the allowance price containment reserve.

(III) The full social cost associated with emitting a metric ton of greenhouse gases.

(IV) The auction reserve price.

(V) The potential for environmental and economic leakage.

(VI) The cost per metric ton of greenhouse gas emissions reductions to achieve the statewide emissions targets established in Sections 38550 and 38566.

(ii) To implement the price ceiling, the state board shall develop a mechanism that consists of both of the following:

(I) Allowances remaining in the allowance price containment reserve as of December 31, 2020, shall be used solely for the purpose of sale at the price ceiling established by this section.

(II) If the allowances from the allowance price containment reserve are exhausted, the state board shall offer covered entities additional metric tons at the price ceiling if needed for compliance. Notwithstanding any other law, all moneys generated pursuant to this clause shall be deposited into the California Climate Mitigation Fund, which is hereby created in the State Treasury. Moneys in that fund shall be available, upon appropriation by the Legislature, for purposes, including, but not limited

to, providing direct rebates and investments to reduce household energy costs, including incentives to transition to zero-emission vehicles and energy efficient housing.

(iii) If the state board finds that the price containment reserve or the price ceiling, or both the price containment reserve and price ceiling do not adequately protect California consumers, the state board shall consider additional actions to ensure consumers are protected. Those actions may include, but are not limited to, adjustment to the allowance price containment reserve or the price ceiling, or both the allowance price containment reserve and the price ceiling.

(B) Establish two price containment points at levels below the price ceiling. The state board shall offer to covered entities nontradable allowances for sale at these price containment points. The price containment points shall be established using two-thirds, divided equally, of the allowances in the allowance price containment reserve as of December 31, 2017.

(C) Require that current vintage allowances designated by the state board for auction that remain unsold in the auction holding account for more than 24 months to be transferred to the allowance price containment reserve.

(D) Evaluate and address concerns related to overallocation in the state board's determination of the number of available allowances for years 2021 to 2030, inclusive, as appropriate.

(E) (i) Establish offset credit limits according to the following:

(I) From January 1, 2021, to December 31, 2025, inclusive, a total of 4 percent of a covered entity's compliance obligation may be met by surrendering offset credits of which no more than one-half may be sourced from projects that do not provide direct environmental benefits in state.

(II) From January 1, 2026, to December 31, 2045, inclusive, no greater than a total of 6 percent of a covered entity's compliance obligation may be met by surrendering offset credits of which no more than one-half may be sourced from projects that do not provide direct environmental benefits in the state.

(ii) For purposes of this subparagraph, "direct environmental benefits in the state" are the reduction or avoidance of emissions of any air pollutant in the state or the reduction or avoidance of any pollutant that could have an adverse impact on waters of the state.

(iii) A number of allowances equal to the total number of offset credits used for compliance obligations in the prior year shall be removed from the next year's annual allowance budget and retired.

(F) Develop approaches to increase offset projects in the state considering guidance provided by the Compliance Offsets Protocol Task Force, established pursuant to Section 38591.1.

(G) Set industry assistance factors for allowance allocation commencing in 2021 through 2030 at the levels applicable in the compliance period of 2015 to 2017, inclusive. Commencing January 1, 2031, the state board shall distribute industrial sector allowances in a manner that minimizes emissions leakage risk to cost-effectively achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(H) Consider developing additional compliance offset protocols to address sectors that are not covered by the market-based compliance mechanism but are identified in the scoping plan prepared pursuant to Section 38561, including carbon dioxide removal, or the targets established pursuant to Section 38561.5.

(I) Establish allowance banking rules that discourage speculation, avoid financial windfalls, and consider the impact on complying entities and volatility in the market.

(J) Report to the Legislature, by December 31, 2025, on the progress toward meeting the greenhouse gas emissions reduction targets established pursuant to Sections 38550 and 38566 and the leakage risk posed by the regulation. The state board shall include recommendations to the Legislature on necessary statutory changes to the program to reduce leakage, including the potential for a border carbon adjustment, while maintaining the state's ability to reach its targets.

(K) (i) Report to the Legislature, in consultation with the Independent Emissions Market Advisory Committee, established pursuant to Section 38591.2, if two consecutive auctions exceed the lower of the price containment levels established pursuant to subparagraph (B). The report shall assess the potential for allowance prices to reach the price ceiling for multiple auctions.

(ii) A report submitted to the Legislature pursuant to this section shall be submitted in compliance with Section 9795 of the Government Code.

(L) Report to the relevant fiscal and policy committees of the Legislature, including the Joint Committee on Climate Change Policies, on all of the following:

(i) Updates to the scoping plan prepared pursuant to Section 38561 before adopting the update.

(ii) Updates on the implementation of the scoping plan prepared pursuant to Section 38561.

(iii) Updates on the implementation of the market-based compliance mechanism adopted pursuant to this subdivision.

(d) Any regulation adopted by the state board pursuant to this part or Part 5 (commencing with Section 38570) shall ensure all of the following:

(1) The greenhouse gas emission reductions achieved are real, permanent, quantifiable, verifiable, and enforceable by the state board.

(2) For regulations pursuant to Part 5 (commencing with Section 38570), the reduction is in addition to any greenhouse gas emission reduction otherwise required by law or regulation, and any other greenhouse gas emission reduction that otherwise would occur.

(3) If applicable, the greenhouse gas emission reduction occurs over the same time period and is equivalent in amount to any direct emission reduction required pursuant to this division.

(e) The state board shall rely upon the best available economic and scientific information and its assessment of existing and projected technological capabilities when adopting the regulations required by this section.

(f) The state board shall consult with the Public Utilities Commission in the development of the regulations as they affect electricity and natural gas providers in order to minimize duplicative or inconsistent regulatory requirements.

(g) The state board may revise regulations adopted pursuant to this section and adopt additional regulations to further the provisions of this division.

(h) In the updates to the scoping plan prepared pursuant to Section 38561, the state board shall include the progress toward meeting the greenhouse gas emissions reduction targets established pursuant to Section 38562.2. The state board shall include recommendations to the Legislature on necessary statutory changes to the market-based compliance mechanism to further cost-effectively reduce emissions.

(i) The state board shall evaluate the cost impact of the market-based compliance mechanism on California consumers when it revises regulations implementing that mechanism pursuant to this section.

(j) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 4. Section 38562 of the Health and Safety Code, as added by Section 5 of Chapter 135 of the Statutes of 2017, is amended to read:

38562. (a) The state board shall adopt greenhouse gas emissions limits and emissions reduction measures by regulation to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions to achieve the purposes of this division.

(b) In adopting regulations pursuant to this section and Part 5 (commencing with Section 38570), to the extent feasible, to achieve the purposes of this division, the state board shall do all of the following:

(1) (A) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.

(B) (i) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that transitions support from gas corporations to electrical distribution utilities, as defined in Section 95802 of Title 17 of the California Code of Regulations, on or before January 1, 2031, to minimize ratepayer impacts and achieve the purposes of this division.

(ii) For purposes of this subparagraph, "gas corporation" has the same meaning as set forth in Section 222 of the Public Utilities Code.

(iii) Except as provided in clause (i), this subparagraph shall not be construed to impact the distribution of emissions allowances to emissions-intensive, trade-exposed industrial sectors.

(2) Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.

(3) Ensure that entities that have voluntarily reduced their greenhouse gas emissions before the implementation of this section receive appropriate credit for early voluntary reductions.

(4) Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

(5) Consider cost-effectiveness of these regulations.

(6) Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

(7) Consider the effect of these regulations on affordability, cost-effectiveness, minimization of leakage in California, and achieving the purposes of this division.

(8) Minimize the administrative burden of implementing and complying with these regulations.

(9) Minimize leakage.

(10) Consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases.

(c) To achieve the purposes of this division, the state board shall adopt a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases, applicable from January 1, 2012, to December 31, 2045, inclusive, that the state board determines will achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions, in the aggregate, from those sources or categories of sources, and ensures that programwide aggregate emissions from covered sources, at a minimum, decline in line with the purposes of this division.

(d) Any regulation adopted by the state board pursuant to this part or Part 5 (commencing with Section 38570) shall ensure all of the following:

(1) The greenhouse gas emission reductions achieved are real, permanent, quantifiable, verifiable, and enforceable by the state board.

(2) For regulations pursuant to Part 5 (commencing with Section 38570), the reduction is in addition to any greenhouse gas emission reduction otherwise required by law or regulation, and any other greenhouse gas emission reduction that otherwise would occur.

(3) If applicable, the greenhouse gas emission reduction occurs over the same time period and is equivalent in amount to any direct emission reduction required pursuant to this division.

(e) The state board shall rely upon the best available economic and scientific information and its assessment of existing and projected technological capabilities when adopting the regulations required by this section.

(f) The state board shall consult with the Public Utilities Commission in the development of the regulations as they affect electricity and natural gas providers in order to minimize duplicative or inconsistent regulatory requirements.

(g) The state board may revise regulations adopted pursuant to this section and adopt additional regulations to further the provisions of this division.

(h) This section shall become operative on January 1, 2046.

SEC. 5. Section 38562.1 is added to the Health and Safety Code, to read:

38562.1. (a) If the state board initiates a regulatory process to update the market-based compliance mechanism, consistent with Section 38562, that is expected to be a major regulation as defined in Section 11342.548 of the

Government Code, the chairperson of the state board shall present to the Joint Legislative Committee on Climate Change Policies and other relevant policy committees of the Legislature on the current state of the market-based compliance mechanism and provide the rationale for updating the market-based compliance mechanism, including the specific issues that the update is meant to address. The presentation by the chairperson of the state board pursuant to this section shall satisfy the requirements of subdivision (b) of Section 9147.10 of the Government Code and subdivision (b) of Section 38531 of this code for the year in which the presentation occurs.

(b) The state board shall transmit the economic analyses required by Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code for a regulatory process subject to subdivision (a) to the Joint Legislative Committee on Climate Change Policies and the relevant budget subcommittees. Within 30 days of that transmittal, if requested by the chair of the Joint Legislative Committee on Climate Change Policies or the chairs of the relevant policy committees or budget subcommittees of the Legislature, the chairperson of the state board shall make themselves available for a hearing on the proposed regulatory amendments.

(c) The state board shall transmit to the Joint Legislative Committee on Climate Change Policies and other relevant policy committees of the Legislature the public agenda, when it is available, for the board meeting at which the amendments for a rulemaking under the regulatory process subject to subdivision (a) will be considered by the state board. If requested by the chair of the Joint Legislative Committee on Climate Change Policies or the chairs of the relevant policy committees or budget subcommittees of the Legislature, the chairperson of the state board shall make themselves available for a hearing on the amendments.

(d) The legislative hearings and notifications in this section shall not delay the state board's rulemaking process pursuant to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

(e) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 6. Section 38590.1 of the Health and Safety Code is amended to read:

38590.1. (a) It is the intent of the Legislature that moneys collected from the auction or sale of allowances pursuant to a market-based compliance mechanism established pursuant to this division shall be appropriated to include, but need not be limited to, the following priorities at the time an expenditure plan is adopted:

- (1) Air toxic and criteria air pollutants from stationary and mobile sources.
- (2) Low- and zero-carbon transportation alternatives.
- (3) Sustainable agricultural practices that promote the transitions to clean technology, water efficiency, and improved air quality.
- (4) Healthy forests and urban greening.
- (5) Nature-based climate solutions, as defined in Section 38561.5.
- (6) Short-lived climate pollutants.
- (7) Climate adaptation and resiliency.
- (8) Climate and clean energy research.

(b) Upon request of the chair of the Joint Legislative Committee on Climate Change Policies or the chair of the relevant budget subcommittees, the state board and any other agencies that have implemented programs funded using moneys collected from the auction or sale of allowances pursuant to a market-based compliance mechanism established pursuant to this division shall annually appear before the Joint Legislative Committee on Climate Change Policies and the relevant budget subcommittees of the Legislature to give a presentation on the expenditures of those moneys.

(c) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 7. Section 38591.1 of the Health and Safety Code is amended to read:

38591.1. (a) The Compliance Offsets Protocol Task Force is hereby established to provide guidance to the state board in approving new offset protocols for a market-based compliance mechanism for the purposes of

increasing offset projects with direct environmental benefits in the state while prioritizing disadvantaged communities, Native American or tribal lands, and rural and agricultural regions. The state board shall appoint members to the Compliance Offsets Protocol Task Force to include a representative from each stakeholder group, including, but not limited to, all of the following:

- (1) Scientists.
- (2) Air pollution control and air quality management districts.
- (3) Carbon market experts.
- (4) Tribal representatives.
- (5) Environmental justice advocates.
- (6) Labor and workforce representatives.
- (7) Forestry experts.
- (8) Agriculture experts.
- (9) Environmental advocates.
- (10) Conservation advocates.
- (11) Dairy experts.

(b) The Compliance Offsets Protocol Task Force shall consider the development of additional offset protocols, including, but not limited to, protocols for the enhanced management or conservation of agricultural and natural lands, and for the enhancement and restoration of wetlands.

(c) The Compliance Offsets Protocol Task Force shall develop recommendations for the state board on the inclusion of methodologies to allow groups of landowners to jointly develop natural and working lands offset projects under the approved offset protocols. The recommendations shall address how to lower project transaction costs for participants and enable a greater number of landowners to participate in those projects while protecting the integrity and transparency of those projects.

(d) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 8. Section 38591.2 of the Health and Safety Code is amended to read:

38591.2. (a) The Independent Emissions Market Advisory Committee is hereby established within the California Environmental Protection Agency.

(b) (1) (A) The committee shall be composed of at least five experts on emissions trading market design appointed according to the following:

- (i) Three members appointed by the Governor.
- (ii) One member appointed by the Senate Committee on Rules.
- (iii) One member appointed by the Speaker of the Assembly.

(B) (i) The committee shall include a representative from the Legislative Analyst's Office.

(ii) The representative from the Legislative Analyst's Office shall be a nonvoting committee member.

(2) The committee members shall meet all of the following requirements:

- (A) Have academic, nonprofit, and other relevant backgrounds.
- (B) Lack financial conflicts of interest with entities subject to the regulation adopted by the state board pursuant to subdivision (c) of Section 38562.

(3) Notwithstanding any other law, committee members shall be considered designated employees, as defined in Section 82019 of the Government Code, of the California Environmental Protection Agency for the purposes of Section 82019 of the Government Code.

(c) The committee, at least annually, shall hold a public meeting and report to both the state board and the Joint Legislative Committee on Climate Change Policies on the environmental and economic performance of the regulation adopted by the state board pursuant to subdivision (c) of Section 38562 and other relevant climate policies.

(d) The activities of the committee pursuant to this section shall not be subject to subdivision (b) of Section 11122.5 of the Government Code.

(e) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 9. Section 38592.5 of the Health and Safety Code is amended to read:

38592.5. (a) (1) No later than January 1, 2018, the state board shall update the scoping plan, prepared pursuant to Section 38561, to achieve the greenhouse gas emissions reductions required pursuant to Section 38562.2 or 38566. The state board shall designate the market-based compliance mechanism adopted pursuant to subdivision (c) of Section 38562 as the rule for petroleum refineries and oil and gas production facilities to achieve their greenhouse gas emissions reductions.

(2) All greenhouse gas rules and regulations adopted by the state board shall be consistent with the updated scoping plan.

(3) This section does not limit the state board's authority to adopt, maintain, or revise any other measure, including, but not limited to, any of the following:

(A) Measures governing methane and fugitive emissions at refineries and oil and gas facilities.

(B) Advanced clean cars program adopted by the state board.

(C) Low-Carbon Fuel Standard regulations (Subarticle 7 (commencing with Section 95480) of Article 4 of Subchapter 10 of Chapter 1 of Division 3 of Title 17 of the California Code of Regulations).

(D) Regulations addressing short-lived climate pollutants.

(E) Implementation of the sustainable freight action plan released in July 2015 pursuant to Executive Order B-32-15.

(b) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 10. Section 38592.6 of the Health and Safety Code is amended to read:

38592.6. (a) The Legislative Analyst's Office shall, until January 1, 2046, annually report to the Legislature on the economic impacts and benefits of the greenhouse gas emissions targets established pursuant to Sections 38550, 38562.2, and 38566.

(b) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 11. Section 38594 of the Health and Safety Code, as amended by Section 12 of Chapter 135 of the Statutes of 2017, is amended to read:

38594. (a) Except as provided in subdivision (b), nothing in this division shall limit or expand the existing authority of any district.

(b) A district shall not adopt or implement an emission reduction rule for carbon dioxide from stationary sources that are also subject to a market-based compliance mechanism adopted by the state board pursuant to subdivision (c) of Section 38562.

(c) Nothing in this section affects in any manner the authority of a district to adopt or implement, as applicable, any of the following:

(1) A rule, regulation, standard, or requirement authorized or required for a district to adopt under Division 26 (commencing with Section 39000) for purposes other than to reduce carbon dioxide from sources subject to a market-based compliance mechanism adopted by the state board pursuant to subdivision (c) of Section 38562.

(2) A rule, regulation, standard, or requirement authorized pursuant to a law affecting emissions associated with landfills, refrigerants, natural gas or methane, volatile organic compounds, or a rule required to comply

with the federal Clean Air Act (42 U.S.C. Sec. 7401 et seq.) or regulations implementing that act.

(3) A rule, regulation, standard, or requirement authorized pursuant to a law to reduce vehicle trips, vehicle miles traveled, parking, or vehicular air emissions, including, but not limited to, a rule adopted pursuant to Chapter 728 of the Statutes of 2008.

(4) A rule, regulation, standard, or requirement established pursuant to the California Environmental Quality Act (Division 13 (commencing with Section 21000) of the Public Resources Code).

(5) A rule, regulation, standard, or requirement adopted by any state agency.

(d) This section shall become inoperative if the state board repeals the market-based compliance mechanism adopted by the state board pursuant to subdivision (c) of Section 38562. The state board shall notify the Secretary of State if this section becomes inoperative.

(e) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.

SEC. 12. Section 38594 of the Health and Safety Code, as added by Section 13 of Chapter 135 of the Statutes of 2017, is amended to read:

38594. (a) Nothing in this division shall limit or expand the existing authority of any district, as defined in Section 39025.

(b) This section shall become operative on January 1, 2046.

SEC. 13. Section 748.5 of the Public Utilities Code is amended to read:

748.5. (a) (1) Except as provided in subdivisions (c), (d), and (e), the commission shall require revenues, including any accrued interest, received by an electrical corporation as a result of the direct allocation of greenhouse gas allowances to electric utilities pursuant to subdivision (b) of Section 95890 of Title 17 of the California Code of Regulations to be credited directly to the residential customers of the electrical corporation.

(2) Small business, emissions-intensive, trade-exposed retail customers of the electrical corporation that are covered entities under the regulations adopted pursuant to Section 38562 of the Health and Safety Code, and emissions-intensive, trade-exposed retail customers of the electrical corporation that are not covered entities under the regulations adopted pursuant to Section 38562 of the Health and Safety Code, may also be credited from the revenues in paragraph (1), as determined by the commission.

(3) The credits provided to residential customers of an electrical corporation shall be provided on the bills of those customers in no more than four high-billed months of each year to maximize customer electric bill affordability, or as otherwise directed by the commission to address extreme, unforeseen, and temporary circumstances.

(b) (1) Not later than January 1, 2013, the commission shall require the adoption and implementation of a customer outreach plan for each electrical corporation, including, but not limited to, such measures as notices in bills and through media outlets, for purposes of obtaining the maximum feasible public awareness of the crediting of greenhouse gas allowance revenues. Costs associated with the implementation of this plan are subject to recovery in rates pursuant to Section 454.

(2) Not later than January 1, 2027, the commission shall require each electrical corporation to update the customer outreach plan developed pursuant to paragraph (1) to include a statement at the top of customer bills in applicable months specifying the amount of money saved on a utility bill in that month and attributing those savings to the climate credit and the California Cap-and-Invest Program.

(c) The commission may allocate up to 15 percent of the revenues, including any accrued interest, received by an electrical corporation as a result of the direct allocation of greenhouse gas allowances to electrical distribution utilities pursuant to subdivision (b) of Section 95890 of Title 17 of the California Code of Regulations, for clean energy and energy efficiency projects established pursuant to statute that are administered by the electrical corporation, or a qualified third-party administrator as approved by the commission, and that are not otherwise funded by another funding source. This subdivision shall become inoperative on July 1, 2026.

(d) (1) The commission shall require an electrical corporation to annually remit to the State Treasury 5 percent of the revenues, including any accrued interest, received by the electrical corporation as a result of the direct allocation of greenhouse gas allowances to electrical distribution utilities pursuant to subdivision (b) of Section

95890 of Title 17 of the California Code of Regulations for deposit in the California Transmission Accelerator Revolving Fund, pursuant to Section 63049.72 of the Government Code. This paragraph shall become operative on July 1, 2026, and shall become inoperative on July 1, 2031.

(2) The revenues deposited in the fund shall be available to the California Infrastructure and Economic Development Bank for purposes of the California Transmission Accelerator Revolving Fund Program established pursuant to Sections 63049.71 to 63049.73, inclusive, of the Government Code.

SEC. 14. Section 748.5.5 is added to the Public Utilities Code, to read:

748.5.5. (a) A local publicly owned electric utility that receives an allowance allocation in addition to the allowance totals specified in Section 95892 of Title 17 of the California Code of Regulations pursuant to subparagraph (B) of paragraph (1) of subdivision (b) of Section 38562 of the Health and Safety Code shall provide a credit in an amount equal to the total value of that additional allocation directly to ratepayers. This section does not limit the acceptable uses, as specified in paragraph (3) of subdivision (d) of Section 95892 of Title 17 of the California Code of Regulations, of other allowances allocated to local publicly owned electric utilities.

(b) A local publicly owned electric utility shall report to the State Air Resources Board on the uses of all revenues, including any accrued interest, received by that local publicly owned electric utility as a result of the direct allocation of greenhouse gas allowances to electric utilities pursuant to subdivision (b) of Section 95890 of Title 17 of the California Code of Regulations.

(c) Notwithstanding Section 10231.5 of the Government Code, the State Air Resources Board shall annually submit a report to the Legislature on the uses of revenues specified in subdivision (b) in accordance with Section 9795 of the Government Code.

SEC. 15. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because a local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the program or level of service mandated by this act or because costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.

SEC. 16. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are:

To secure a greater reduction in greenhouse gas emissions to prevent catastrophic climate change, it is necessary for this act to take effect immediately.