



May 4, 2026

**Chair Lauren Sanchez**

California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**Members of the Board**

California Air Resources Board  
1001 I Street  
Sacramento, CA 95812

**RE: Comments on Proposed 15-Day Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation**

Dear Chair Sanchez and Members of the Board:

Ceres appreciates the opportunity to submit these comments in response to the proposed 15-day amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (Cap-and-Invest), released by the California Air Resources Board (CARB) on April 14, 2026.

Ceres is a national nonprofit organization working with major investors and companies— including 80 major brands that make up the [Ceres Policy Network](#) — to advance actions and policies that build a cleaner economy.

Last year, Ceres— along with a [diverse group of over 40 businesses](#) —as well as several business associations and nonprofit organizations collectively representing nearly 1,000 companies— urged the California legislature to strengthen the state’s Cap-and-Trade Program, calling it the most cost-effective way to meet climate goals, improve affordability, and support communities in California, and also called on CARB to promptly resume its rulemaking thereafter.

We strongly recommend that CARB finalize the regulations on schedule at the May 28 hearing while resolving ambiguity about the Manufacturing Decarbonization Incentive (MDI) before that vote in order to deliver essential policy certainty for California’s climate, subnational leadership on carbon markets, and the businesses and communities that depend on both.

**Timely Implementation Is Non-Negotiable for Market Confidence**

The Cap-and-Invest Program is a proven cornerstone of California’s climate and economic strategy, and businesses across the state support a durable and ambitious program that continues to deliver economic, environmental, and equity benefits.

Completing the current rulemaking on schedule at the May 28 hearing is critical for carbon market stability, long-term business planning, and California's continued climate leadership. The risks of

inaction were noticed by [companies and investors](#), who urged the California legislature to take swift action to reauthorize the program and for CARB to resume its rulemaking process last year.

Completing the rulemaking on schedule provides the regulatory certainty companies need to make major capital investments in clean energy and industrial decarbonization. Missing the May window would delay the next compliance cycle, disrupting market participants' planning and signaling instability when the program needs to demonstrate not only momentum, but strong performance to deliver community benefits.

Timely implementation is also needed to reinforce California's leadership as linkage expansion with Quebec and Washington moves forward. Linkage further strengthens the efficiency of the program through the power of a larger market, maintaining affordability while driving needed investment in innovation, low-carbon products, and infrastructure.

### **The Manufacturing Decarbonization Incentive (MDI) Poses Risks That Must Be Addressed to Protect the Cap's Integrity**

The latest draft regulations introduced the Manufacturing Decarbonization Incentive (MDI), a major change to the program that raises questions about the cap's integrity. We appreciate the intent behind the MDI as a program design element with potential benefit, particularly aimed at supporting industrial decarbonization. However, as currently written, the MDI carries inherent risks for the cap-and-invest program to effectively function as both an economic and climate tool, undermining the program's ability to deliver on its legally binding obligation under SB 32: reducing GHG emissions to 40% below 1990 levels by 2030.

CARB took an important step towards achieving 2030 targets by removing 118 million metric tons (MMT) of allowances to tighten the cap, deemed necessary in the Initial Statement of Reasons (ISOR). The subsequent proposed 15-day amendments in the Final Statement of Reasons (FSOR) introduced the Manufacturing Decarbonization Incentive (MDI) program as a new reserve of 118 MMT created *outside and above* the official statewide cap in a newly established "Build up California Reserve Account" (BUCA) that industrial entities may apply and use for compliance if they undertake specific clean investments.

As currently designed, the MDI risks introducing a structural flaw into the program by allowing facilities to access additional allowances outside the cap based on proposed investments rather than verified emissions reductions. In effect, this shifts the cap from a fixed limit to a potentially expandable one through the actions of individual facilities who may use the MDI for compliance.

The introduction of the MDI raises fundamental questions for the cap-and-invest program: where do these new compliance allowances (BUCA's) come from, and what effect will reinjecting them have on the market?

These questions come as there are already signs of strain in the market. An [estimated \\$3 billion in potential 2025 revenue was foregone](#) by California as auction demand fell amid delays in updating the program. Auction undersubscription is a concern, and uncertainty about how the MDI will be implemented and administered may further undermine program credibility and market confidence.

New modeling from [Greenline Insights](#) confirms the risk that adding 118 million allowances above the cap would flood the market, depressing prices and slashing auction revenue that fund the GGRF and California Climate Credit, thus creating a significant risk of reduced GGRF revenues by diverting allowances away from auction. In contrast, their analysis shows that in situations when the cap is preserved, undersubscription is avoided, price signals strengthen, and GGRF revenue is maintained or grows through 2045. A [UC Santa Barbara Environmental Markets Lab analysis](#) reaches a similar conclusion, finding that full MDI utilization over the next four years could cut auction revenues by \$4 billion.

Without guardrails, the MDI functions as a compliance subsidy that relaxes the cap, erodes the carbon price signal in one of the world's largest economies, and puts California's legally binding 2030 emissions reduction target at risk

Should the MDI be retained in the final regulations, we urge CARB to put forth resolution language to implement guardrails around MDI management with consideration for the following:

- Transparency on MDI implementation, including timely public disclosure on the number of applications received, allowances awarded, vintages, and projects supported
- Ongoing monitoring of program performance against GHG targets; annual tracking and verification tied to SB 32 attainment, with reporting on adjustments as needed
- The 2027 CARB Scoping Plan update as a natural checkpoint for comprehensive program review

### **Ceres Recommendations for Timely Action While Mitigating Risk**

California's Cap-and-Invest Program is one of the state's most powerful tools for meeting its climate goals while supporting a competitive economy. Ceres and the businesses we represent have been consistent champions of this program, which is precisely why we write with urgency today.

To preserve both the environmental integrity and economic effectiveness of the program, we urge CARB to consider tools at its discretion to mitigate risks associated with the MDI before the May 28 vote to ensure successful timely implementation.

At its core, the program should deliver three things:

1. **Protect the integrity of the cap.** The cap is the foundation of the program's climate ambition, and the final regulations must ensure that the emissions ceiling is fixed and enforceable. Any mechanism introduced alongside it should reinforce—not weaken—that foundation. Allowances used for compliance should reflect real, additional emissions reductions and remain aligned with the overall emissions trajectory.
2. **Provide market certainty.** Clear rules, transparent implementation, and well-defined limits on how the MDI and BUCAs will be managed by CARB are essential to maintaining confidence among market participants. Ambiguity around how and when BUCAs may enter the market risks undermining price signals and reducing the program's effectiveness.
3. **Continue to drive meaningful investment.** California's cap-and-invest program has been successful in part because it channels capital into emissions reductions and clean

technologies. Any updates should strengthen, not dilute, those incentives. If the MDI is retained as a tool to support industrial decarbonization, it must be designed to reward BUCAs for genuine, additional emissions reductions, not simply the commitment to invest.

CARB has the authority and the opportunity to get this right before May 28. We urge the Board to act decisively by finalizing the rulemaking on schedule while ensuring the MDI does not compromise the program's integrity or California's 2030 target. A clear, workable rule on time will show that California's climate commitments are durable and enforceable, while providing the market the certainty it needs to keep moving.

Respectfully submitted,



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Ceres