Natural Resources Defense Council (Jo Gardias)

Natural Resources Defense Council (NRDC) Comments on C&I Proposed Amendments (March 9, 2026)

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Summary of Comments

The Natural Resources Defense Council (NRDC) appreciates the opportunity to provide comments on the California Air Resources Board (CARB) 2026 proposed amendments to the Cap-and-Invest (C&I) program regulations.[1] NRDC is an environmental organization with over 550,000 members working to safeguard people and natural systems from the climate crisis and protect the right to clean air, clean water and healthy communities.

The proposed C&I amendments improve California's trajectory toward achieving at least 40 percent emissions reductions by 2030 and net-zero by 2045. In particular, we applaud that the proposed amendments remove barriers for a more equitable distribution of the climate credit, provide a Manufacturing Decarbonization Incentive Allocation (Incentive Allocation), and refine a critical definition of cement. We also appreciate the work CARB staff has taken to promptly develop updated program regulations to secure continuity of the C&I program trajectory.

NRDC recommends CARB consider several opportunities that would strengthen savings to high electricity bills and send a correct price signal to industrial facilities and back up generation. We ask the following changes be considered prior to approval of the amendments:

1. Enhance the electric climate credit through a more ambitious natural gas climate credit transition and updated Renewable Portfolio Standard accounting assumptions (pg. 2)
2. Address concerns about the exemption for electricity generation that becomes covered by the C&I program during state grid emergencies (pg. 7)
3. Strengthen the Incentive Allocation by crediting cement facilities for process emissions reductions and by removing qualifying hydrogen produced using exempt-biomass or renewable electrolytic hydrogen without guardrails (pg. 9)
4. Commit to supplemental leakage regulations for emission-intensive trade exposed industries, which should consider long-term solutions like a carbon boarder adjustment mechanism (pg. 12)

[1] CARB, "Staff Report: Initial Statement of Reasons," (January 2026a); CARB, "Appendix A-2: Proposed Regulation Order: Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms," (2026b).

Recommendation 1: Reduce high electricity bills through a more ambitious transition of the natural gas climate credit & modification to RPS assumptions

The proposed amendments make numerous accounting, structural, and governing changes to the distribution of the climate credit, the program's primary tool to avoid utility customer costs from the C&I program. Some of these changes strengthen the mechanisms of the credit, but two significant proposed amendments fail to immediately reduce high electricity bills and should be updated.

Several proposed changes positively increase the amount of direct-to-consumer benefit of the climate credit and provide more options to target low-income electricity customers. First, the proposed amendments remove the prohibition to distribute the electric climate credit volumetrically.[2] Striking this prohibition provides the California Public Utilities Commission (CPUC) with another tool to target residential rate relief toward low-income households that are disproportionally represented amongst the highest electricity users.[3] Second, the amendments prohibit investor-owned (IOU) and public (POU) utilities from using climate credit revenues from being used to purchase voluntary offsets or participate within carbon market trading systems.[4] This modification will ensure that these funds are appropriately being used to provide direct benefits to customers.

Unfortunately, two of the proposed amendments should be modified to ensure customers continue to receive an electric climate credit that covers all costs resulting the C&I program: (1) the delayed proposed transition of the natural gas climate credit, and (2) accounting assumptions made about the electric distribution utilities (EDUs) Renewable Portfolio Standard compliance.

First, CARB should avoid delaying the transition of the natural gas climate credit for the IOUs and instead opt to provide more flexible pathways for POUs and co-ops who require time to stand up billing systems. The proposed amendments transition the natural gas climate credit from compliance year 2029 through 2037, starting with a 20 percent reduction in natural gas credit allowances followed by 10 additional percentage decline each year thereafter.[5] This

[2] CARB (2026b), pg. 227
[3] Severin Borenstein, "(Mis)Judging Energy Hoggs," (2023)
[4] CARB (2026b), pg. 228
[5] CARB (2026a), pg. 244

transition is 6 years after the date permitted within AB 1207. CARB should move up the start date of the transition of the climate credit to compliance year 2028, transitioning the allowances at a more rapid pace to achieve a finalized transition away from natural gas IOU allowances by or on compliance year 2031-2032.

Stakeholders have raised concerns about the timing and logistics needed to transition the natural gas climate credit to EDUs. Some publicly owned utilities (POUs) and co-ops have raised concerns that they require time to stand up new billing systems to smoothly provide customers with a credit.[6,7] Note that this opinion isn't unanimous among POUs, as LADWP has proposed a more ambitious transition that would be complete by compliance year 2031.[8]

To address these concerns and simplify the natural gas climate credit transition, CARB should include changes to the proposed amendments that reduce administrative burden on the CPUC, CARB and the EDUs and reduce uncertainty associated with forecasting of the natural gas climate credit allowance revenue values:

(a) ***Reduce administrative requirements on the CPUC, CARB and gas EDUs for the natural gas climate credit.*** CARB could prohibit natural gas suppliers (NGS) from spending climate credit value on outreach and public educational costs to reduce process and planning requirements for the CPUC. Currently, CARB allows for a portion of the natural gas climate credit to be spent on outreach and education about the natural gas climate credit or activities that reduce GHG emissions.[9] CARB could remove this requirement to reduce the administrative burden currently imposed on the CPUC and the gas IOUs to update these materials and programs, which delays the amount of time available for updating and transferring the revenues. Given that the natural gas climate credit revenues are transitioning to the electric side, marketing and outreach programs only related to the electric climate credit are sufficient to serve the purpose of public outreach on the C&I consumer benefits.

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[6] CMUA, Letter to CARB on C&I Workshops, "RE: Comments on Potential Amendments to the Cap-and-Invest Program, October 29, 2025, Workshop" (2026)
[7] NCPA, Letter to CARB on C&I Workshops, "Northern California Power Agency Comments on October 29 Cap-and-Invest Workshop" (2026).
[8] LADWP, Letter to CARB of C&I Workshops, "" (2026).
[9] CARB (2026b), pg. 247

(b) ***Increase certainty with the natural gas revenues to simply the true-up process and redistribution calculations.*** CARB could require all NGS to sell natural gas climate credit allowances during the first auction of each year**.** Current C&I regulations require a NGS to offer for sale its natural gas climate credit allowances provided for the current and prior year within one calendar year.[10] Requiring the NGS to sell their allowances within the each first annual auction could reduce discrepancies between revenues per estimated emissions between different natural gas IOUs, which could provide the CPUC with the actual natural gas climate credit revenues earlier in the year, and discourage the perverse incentive for gas IOUs to minimize natural gas revenues by auctioning the natural gas climate credit during auctions with lower anticipated revenues.

(c) ***Provide POUs and Co-ops with more flexible compliance options and financing support.*** At least three changes could increase flexibility for the POUs and co-ops with the natural gas transition, which CARB could provide as an alternative pathway to prevent a delay to the natural gas credit transition for the electric IOUs.

- CARB could allow POUs and co-ops to distribute the natural gas revenues through existing methods under a more ambitious natural gas transition scenario. If the amendments hasten the transition dates for the natural gas climate credit, CARB could proportionately increase the permitted number of years when the POUs and co-ops are allowed to use natural gas climate credit revenues toward clean energy and energy efficiency investments. This approach could comply with AB 1207 requirements to provide this allowance value "directly to ratepayers" because the costs used to pay for clean energy infrastructure and energy efficiency result in direct bill reductions for consumers through a reduction in the rate base.[11] To the extent concerns remain about those costs reducing customer's bills over the period of amortization rather than immediately, CARB could also consider expanding qualifying projects to operations and maintenance costs that result in immediate cost-savings but also provide economy-wide GHG reductions benefits, such as renewable power production costs or wildfire mitigation costs.

[10] CARB (2026b), pg. 225

[11] AB 1207 (Irwin), Section. 748.5.5(b)

- CARB could allow POUs and co-ops to ask the NGS to hold revenues until their billing systems are modernized. As proposed by LADWP, CARB could require NGS to hold the proceeds from allowance sales until a POU has a complete distribution billing system and requests the proceeds.[12] The CPUC has the capacity to evaluate how to distribute delayed climate credit values to customers in future years to prevent electricity bill volatility for customers.
- CARB could allow the CPUC to redirect NGS climate credit administrative costs to support billing updates for POUs and co-ops**.** Currently, revenues from the natural gas climate credit are required to go toward "administrative costs only in so far as those costs are solely limited to necessary costs to administer the projects and activities funded.[13] This means that the POUs and co-ops cannot use those revenues to pay billing system costs, until the credit is formally transferred. This requirement no longer serves its intended purpose, given that the credit values will be transited to customers on the electric side. CARB could allow the CPUC to redirect some of the NGS supplier revenues to offset near-term administration costs incurred by the POUs and Co-ops who require additional support to stand up IT systems to distribute their newly required electric climate credit.

Second, CARB should ensure that all costs of the C&I program are offset through the allowances provided for the electric climate credit. Various stakeholders have raised concerns that the proposed amendments will reduce the allowances allocated for the climate credit relative to previously proposed amendments and have floated proposals to additionally increase the allowances provided to EDU customers.[14] Historically, CARB has provided climate credit allowances in line with the potential cost exposure that utility customers would experience associated with C&I compliance. This approach remains an appropriate method to provide consumer protection, while maintaining market flexibility necessary to endure future uncertainty. This approach also means that the climate credit revenues will continue to decline as EDUs comply with regulations about renewable procurement, and that the credit is a short-term,

[12] LADWP (2026)
[13] CARB (2026b), pg. 245
[14] Joint Legislative Committee on Climate Change Policies, " Reauthorized and Renamed: California's Cap-and-Invest Program," (2026)

temporary tool. CARB should reject any excessive subsidies of the climate credit allowances which weren't required in AB 1207, and avoid reducing the market's ability to adapt to changing economic and policy priorities, which may be challenging to remove in the future.

At the same time, the proposed amendments should ensure that electricity bill cost impacts are fully offset by the climate credit to the best of CARB's forecasting abilities and available data. The Joint Utilities Group raised concerns that the proposed amendments forecasting of reduced GHG emissions attributed to the Renewable Portfolio Standard requirement of 60 percent renewable retail sales by 2030 may underestimate actual RPS-associated emissions reductions between 2027-2030.[15,16] They argue this underestimate may be occurring since SB 100 allows for a higher percentage of procurement to use Product Content Category 2 or 3 standards relative to CARB's assumed calculation. Given the lesser risk associated with over crediting climate credit allowances versus under crediting, we align with this concern and ask CARB to reevaluate opportunities to right-size the assumption about RPS compliance flexibility provided for types of imports and renewable energy credits to ensure electricity C&I costs are fully covered through 2030. To the extent the RPS-adjustment mechanism may double credit some for some of these emissions, we also support moving up the program retirement date before 2030.

Offsetting any electricity rate impacts from the C&I program, particularly for low-income customers, is important given California continues to face the highest electricity rates across the nation due to electric utility non-core spending.[17] Retail electricity rates are 240 percent above the total social marginal cost of electricity, as compared to only 140 percent for natural gas and 90 percent for gasoline.[18] The legislature enacted policy changes that prioritize electricity competitiveness by redirecting the consumer protection mechanism of the natural gas climate credit to provide relief on customer's electric bills — which is most appropriate pathway for CARB to focus on promptly complying with. Ensuring no price impacts from C&I on electricity costs, as well as quickly transitioning the natural gas climate credit, is critical to close the gap for

[15] CARB, "Appendix D-1: Updated 2027-2030 and Post-2030 Allowance Allocation to Electrical Distribution Utilities," (2026).
[16] Joint Utilities Group, Letter to CARB on C&I Workshops, "RE: Joint Utilities Group Comments on Updates to the California Cap-and-Invest Program" (2025).
[17] Severin Borenstein, "Locating the Electricity Affordability Crisis" (2026)
[18] Mohit Chhabra, "Powering Change," (2025)

customers to opt for residential, commercial and industrial building electrification and zero-emission vehicles.

Recommendation 2: Clarify or Eliminate the Exemption for Generation Triggered into Compliance during Emergencies

The proposed amendments provide an exemption for generation facilities whose GHG emissions occurring during state emergencies result in a compliance obligation.[19,20] CARB estimates will apply to 20 facilities within the state.[21]

> *"Emissions from an electricity generating facility occurring during a State of Emergency order that is declared by the Governor to address high energy demand or electric grid reliability are excluded from the facility's annual emissions when comparing to the applicability threshold if the facility is not already a covered entity."*

Although this issue wasn't raised during workshops for stakeholder input, CARB's Initial Statement of Reasons (ISOR) explains this amendment by stating that extreme heat waves can strain supply, which is useful in circumstances like when the Governor called a state emergency in 2022.[22] The ISOR notably doesn't explain why the C&I price exemption is necessary for managing grid emergencies.

Providing an arbitrary exclusion from the C&I program eliminates a price signal for those facilities. In the near term, this means that the owners or operators of these facilities will be encouraged to marginally operate more often or at a higher capacity and are less likely to prioritize least emitting resources first. This also means that, in the future when a fossil free alternative can provide an emergency generation contract at a lower social and economic cost, the purchaser won't be financially incentivized to purchase the clean version. In other words, this arbitrary exemption chooses to shift the costs of the associated GHG emissions, as well as correlated co-pollutants, back onto Californians to pay in the short and long term.

[19] CARB (2026b), pg. 57
[20] CARB (2026a), pg. 76
[21] Ibid
[22] Ibid

Consequently, this exemption risks creating a moral hazard for California's long-term power sector renewable planning, where utilities, the state government and other relevant stakeholders grow increasingly dependent on the backup strategies like the Strategic Reliability Reserve, rather than ensuring compliance with traditional load serving avenues. This exemption is particularly troubling as California is faces moderate to high load growth from data centers, which are changing expectations about the scale and demand for clean energy supply.[23]

Given the potential to exacerbate adverse public health impacts during stressed grid conditions, we seek clarity and transparency on why this exemption is included, and ask CARB to remove this exemption within these proposed amendments. Questions which CARB should consider answering within the ISOR include:

- CARB's ISOR cites the 2022 emergency grid conditions as a reason for this exemption. Since 2022, California has made reforms to improve grid reliability conditions, including procuring required additional battery storage procurements, increasing the planning reserve margin, transitioning Resource Adequacy planning to account for a 'slice of day' framework, developing an extended day ahead market, and many others. As a result, the California Independent System Operator (CAISO) summer reliability assessment for the last two years have forecasted sufficient and improving resources summer generation resources to meet reliability standards, attributed to accelerated resource development.[24] Similarly, the annual California Energy Commission (CEC) Energy Resources and Reliability Outlook reports for 2024 and 2025 concluded "cautiously optimistic" resources outlooks projected through the next 5 years, with emergency resources only likely relegated to a "coincident of extreme events." Both reports included analyses of sufficient capacity in stressed and exceptional grid and weather conditions.[25] *Given California's continuing improved reliability circumstances since 2022, why did CARB deem it necessary to remove the C&I price signal for these facilities to maintain grid reliability during state emergencies?*

[23] CEC, "IEPR ," 2025 IEPR California Energy Demand Forecast LSE/BA Tables and RASS Kick Off" (2025), Slide 18
[24] CAISO, "Seasonal Assessments," webpage (accessed 2026)
[25] CEC, "California Energy Resource and Reliability Outlook 2024" (2024); CEC, "California Energy Resource and Reliability Outlook 2025" (2025)

- California's Electric Supply Strategic Reliability Reserve (ESSRR) makes purchases using general fund sources to ensure sufficient grid service capacity during extreme grid events, which has primarily been used to extend significant capacity of natural gas generation and provide reimbursement for above-market imports. *How many of the 20 exempted facilities are contracted through ESSRRP, versus privately funded off-grid onsite generation or utility-owned generation?*
- To declare a State of Emergency, the California Governor must proclaim the existence of conditions where "extreme peril to the safety of persons and property within the state" caused by listed extreme circumstance, including a "severe energy shortage."[26] The proposed amendments, on the contrary, allow for the exemption whenever the Governor declares a State of Emergency related to "address high energy demand or electric grid reliability." *Do the amendments intend for the definitions provided through the C&I exemption to align with those conditions allowed in a State of Emergency, or is the exemption intended to cover more broader circumstance?* For example, would a scenario with high energy demand from high industrial sector load growth from data centers that hasn't been sufficiently planned for in advance be covered by this exemption?
- The proposed amendment doesn't include a sunset or time limitation, meaning the amendment would remain in place through the end of the program's extension. *How does this exemption align with the state's expected emissions reductions attributed to the power sector through 2045?*

CARB should reconsider rushing this exemption within these C&I amendments, particularly as many Strategic Reliability Reserve resource contracts expire this year, and future procurement conditions and constraints are uncertain. If CARB decides to maintain this exemption within the regulation, the agency should address the lack of clarity around why exempting emergency generation facilities is necessary within the broader context of California's electricity grid reliability planning.

[26] California Governor Code, Section 8558

Recommendation 3: Strengthen the Incentive Allocation by crediting cement facilities for process emissions reductions and removing qualifying hydrogen produced using exempt-biomass or renewable electrolytic hydrogen without guardrails

The proposed amendments provide improved incentives, clearer definitions, and opportunities for emissions-intensive, trade-exposed industries (EITE) to decarbonize, including for the hard-to-decarbonize cement industry. For example, one positive change in support of cement industry decarbonization is that the proposed amendments properly categorize low-carbon cement facilities, revising the definition of cement within the regulations to include Supplementary Cementitious Materials and other materials used in lower carbon cement blends.[27] This definition is more inclusive of the decarbonization levers for the cement sector and now appropriately includes substitution materials that can be used to displace clinker.

Another positive addition within the amendments is the addition of the Manufacturing Decarbonization Incentive Allocation (Incentive Allocation). The Incentive Allocation will help offset the cost of decarbonized production in California, sending a strong signal to encourage instate industrial decarbonization investments – during an especially critical moment as federal incentives are repealed. The list of eligible facilities that qualify for the incentives appropriately includes cement, glass, metals, and food processing, while excluding energy industries.

To build on these positive improvements, we provide two recommendations to strengthen the Incentive Allocation within the 2026 regulations: (1) allow for process emissions reductions to qualify for cement facilities, and (2) tighten the definition of qualifying hydrogen.[28]

First, CARB should expand the Incentive Allocation for process emissions reductions as a potential decarbonization activity for cement facilities. Current eligible project types that can be financed through the Incentive Allocation include onsite renewable generation, and capital and electricity costs for electrified equipment that reduces or avoids emissions.[29] CARB should consider expanding this list to allow regulated cement facilities to receive incentives for process emissions reductions as a covered decarbonization activity. During cement production, the

[27] CARB, (2026a), pg. 9
[28] NRDC comments within this section do not address the full scope of impacts on the broader market's performance, given limitations in public data and timing of the comment period.
[29] CARB (2026b), pg. 212

majority of the GHG emissions, roughly 60 percent, come from the processing of the limestone into clinker, rather than from the fuel source.[30] Given that there are cement production companies and technologies, such as Fortera and LEILAC, that reduce both fuel and process emissions, both types of emissions reductions should be eligible for the incentive to maximize market transformation potential and appropriately address the single largest source of cement emissions.

Second, CARB should reduce the scope of qualifying onsite generation activities that can receive financing from the Incentive Allocation to ensure that incentivized activities don't result in unaccounted GHG emissions or unnecessary co-pollutants. The proposed amendments permit EITE facilities to receive financing for the following types of onsite hydrogen generation to qualify from the Industrial Allocation:[31]

> *Low-carbon hydrogen. An eligible facility may use the value of manufacturing decarbonization incentive allocation allowances to purchase low-carbon hydrogen that meets at least one of the following requirements:*
>
> 1. *The hydrogen is produced through a process that has received a tax credit pursuant to 26 U.S.C. § 45V(b)(2)(A-D): Credit For Production of Clean Hydrogen (July 2024) herein incorporated by reference; or*
> 2. *The hydrogen is produced from exempt biomass-derived feedstocks as defined in section 95852.2(a); or*
> 3. *The hydrogen is produced from the electrolysis of water using 100 percent renewable electricity.*

Using the first definition of hydrogen which cross-references 6 U.S.C. § 45V(b)(2)(A-D) is appropriate because it provides the necessary guardrails for ensuring proper accounting of actual greenhouse gas emissions reductions, as outlined NRDC's comments submitted to the U.S. Department of Treasury on February 26, 2024.[32] Should the 45V tax credit expire at the federal level, we would encourage CARB to continue using the criteria that is in 26 U.S.C. § 45V(b)(2)(A-D) alongside the 2025 regulations issued by the IRS.

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[30] CARB, " Draft Net-Zero Greenhouse Gas Emissions Strategy for the California Cement Sector" (2025).
[31] CARB (2026b), pg. 214
[32] https://www.regulations.gov/comment/IRS-2023-0066-29696

In contrast, the second and third definitions do not provide sufficient guardrails to prevent additional grid emissions, which would exceed the emissions associated with the first definition. This is because the first definition adequately includes all lifecycle emissions associated with the hydrogen generation. The DOE's brief on lifecycle hydrogen generation emissions developed a definitional threshold that all "emissions are addressed when an incremental unit of low-GHG electricity generation is supplied to the grid at the same location and time as an incremental unit of load consumes power from the grid."[33] In simpler terms, all lifecycle grid emissions from hydrogen are not included unless all three of those criteria — hourly matching, deliverability, and incrementality — materialize. California was granted an exemption from incrementality in the final 45V guidance because of the state's standard to achieve 100 percent clean electricity sales by 2050 that meets the requirements in the 45V final guidance. However, California was not exempt from hourly matching or deliverability. Additionally, there are important assurances in the 45V final rule for biomass derived hydrogen pathways that are not listed in the second definition from CARB for exempt biomass, as detailed in NRDC's comments submitted Department of Treasury. [34] These criteria would not be guaranteed to be achieved under hydrogen that meets the second or third definition. Furthermore, CARB should avoid prematurely allowing for exempt biomass-derived feedstocks to qualify for the Incentive Allocation at this point, given that the public health, land and biodiversity impacts of biomass-derived feedstocks needs further study. [35]

Recommendation 4: Complete the signal for emission-intensive trade exposed industries to decarbonize through a supplemental regulation

While the new Incentive Allocation and updated cement definition provide a strong step in the correct direction for industrial decarbonization, the proposed amendments fail to adopt a long-term strategy for right-sizing the price signal for EITE facilities and dealing with leakage risk. This creates market uncertainty about whether California will provide policy tools that protect against leakage as the state moves to achieve 85 percent emissions reductions by 2045.

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[33] Department of Energy, "Assessing Lifecycle Greenhouse Gas Emissions Associated with Electricity Use for the Section 45V Clean Hydrogen Production Tax Credit" (2023).
[34] NRDC, " Comments by the Natural Resources Defense Council (NRDC) on the NPRM relating to electrolytic hydrogen production and biomethane-derived hydrogen production" (2024).
[35] CEC, "Biomass Energy in California," (accessed 2026).

Foremost, CARB is missing a key opportunity to right-size the signal for EITE facilities to decarbonize by not reducing industrial allowances based on leakage risk until after 2035. AB 1207 required CARB to set industry assistance starting on January 2031 in a manner that "minimizes emissions leakage" and achieves the state's GHG emissions reductions targets.[36] The proposed amendments delay potential reductions until after 2035, and CARB has not provided certainty about the timing of a future rulemaking that would address EITE allowances if conditions change. While CARB indicated they have engaged in analysis of the leakage risk of EITE facilities, this information hasn't been released publicly for verification.[37] The lack of direction of enacting a price signal on EITE facilities creates market limbo and uncertainty about the presence of long-term solutions that would protect instate support for industry decarbonization as California transitions to reduce its emission by 85 percent through 2045. Additionally, the proposed amendments did not analyze options for long-term leakage solutions beyond 2035, such as the adoption of a Carbon Boarder Adjustment Mechanism (CBAM) or reporting on import emissions.

The proposed amendments punt analyzing key tools that are necessary to avoid long-term leakage risk among EITE facilities. Because of this lack of analysis on long-term leakage solutions, we remain concerned about the impact of emissions from industrial imports, specifically those for the California cement sector. This means that the policy signal necessary to encourage early investment, support early market transformation, or begin to construct the infrastructure necessary for industrial decarbonization is delayed through at a minimum 2035, seeding an opportunity for California markets and supply chains to mature.

As a consequence of this lackluster approach to EITE free allowances, CARB's proposal not to adjust the allocation of free allowances until 2035 casts concerns about whether the cement industry will meet its emission reduction targets in SB 596. SB 596 (Becker, 2021) requires the emissions intensity of cement used in California to be 40 percent below 2019 levels by 2035, and net-zero by 2045. Absent further regulation, and accounting for the step-down in allocations in 2032, preliminary estimates indicate the cement industry would likely still need to reduce

[36] AB 1207 (Irwin)
[37] CARB, "Cap-and-Invest Program Workshop" (2025), slide 35

emissions by at least 5 percent in order to meet the SB 596 2035 target and is unlikely to meet the 2045 net-zero target.

Historic cap-and-trade allocations over the past two decades have failed to drive meaningful transformation in California's cement sector, leaving it as a decarbonization laggard. The proposed allocations risk repeating this pattern — and past experience shows that without a strong C&I signal, the industry won't meet SB 596 targets on its own. This occurred because of the C&I free allocations which didn't encourage decarbonization capital investment in the last two decades, leaving those who have not yet acted dependent on future research and development investment and advancements to meet their targets. At the same time, imported cement products are not held to the same standards as cement produced in California. Long-term solutions to address leakage are necessary to protect California cement manufacturing jobs and close a loophole for cement importers, many of whom are also in-state cement producers. A strong, predictable policy signal is essential to unlock the long-term investment needed to decarbonize the sector.

CARB should change the proposed amendments to include a stronger price signal for the cement industry or otherwise commit to a supplemental regulation on long-term EITE leakage solutions as soon as possible. **CARB should modify the proposed amendments so that cement allowance allocation covers 60% of emissions by 2035,** and aligns cement allowances with net-zero by 2045, in line with SB 596. While the Industrial Allocation does backfill a portion of financial support that would have been provided through the federal DOE Office of Clean Energy Demonstration awards, the dedicated incentives may be inadequate to close the full financial gap and incentives for EITE facilities. Reducing EITE allowances in line with leakage risk sends a signal discouraging continuing the polluting option for industries less at risk of leakage, which would result in more EITE fuel switching compared to the incentive alone. **To round out a strategy and price signal for industrial decarbonization, we recommend CARB open a supplemental rulemaking as soon as possible to develop a long-term pathway to avoiding leakage and achieve industrial decarbonization.** As one example of what should be considered within the supplemental regulation, in our Nov 12, 2025 comments, NRDC encouraged CARB to require reporting on import emission and establishing an incremental carbon boarder adjustment mechanism (CBAM). A CBAM for cement would ensure that all

cement used in California is subject to the same emissions requirements and provide certainty that there will be a market for ultra-low-greenhouse gas emission cement that may be more expensive to produce. CARB should also publicly release its analysis of industrial leakage risk of EITE industries within this secondary workstream.

Conclusion

NRDC appreciates CARB's efforts to align California's C&I program with opportunities to maintain progress in line with the state's 2045 net-zero target, while seeking opportunities to enhance existing features that support reductions in electricity bills, and encourage targeted sectoral decarbonization actions. We also appreciate CARB staff's dedication to completing a timely regulation process to maintain a consistent trajectory of the C&I program, which continues to serve as a foundational backstop to achieving the state's climate change targets. Identifying and securing these opportunities aligns with the opportunities and requirements championed within California's extension of the C&I program with AB 1207 (Irwin, 2025). CARB's leadership provides critical market stability and an appropriate signal at a time when federal incentives and programs are being reduced.