

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
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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.

Appropriation: 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 XIIIIB 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.

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