CONCURRENCE IN SENATE AMENDMENTS
AB 1207 (Irwin, et al.)
As Amended September 10, 2025
2/3 vote. Urgency

SUMMARY

Extends authorization for the Air Resources Board (ARB) cap-and-trade regulation through 2045; requires ARB to ensure that emissions from covered sources decline with the 2030 and 2045 greenhouse gas (GHG) emissions targets; maintains existing offsets limits, but requires offsets to be exchanged for allowances under the emissions cap; unfreezes industry assistance factors used to determine allocation of free allowances, allowing ARB, beginning in 2031, to set factors to minimize leakage risk; extends regulatory protections for the oil and gas industry; revises use of revenue from allocation of allowances to utilities to increase and target credits on electric utility bills, except for 5% of revenues directed to support public financing of transmission projects.

Senate Amendments delete the Assembly version of the bill and add the following provisions:

1) Revises and updates AB 32 findings, including to express intent that the cap-and-trade regulation be extended through 2045 and be known as the California Cap-and-Invest Program.

2) Requires ARB to design GHG regulations, including distribution of emissions allowances, in a manner that transitions support from gas corporations to electrical distribution utilities to minimize ratepayer impacts.

3) Requires ARB to adopt the regulation now known as cap-and-trade, applicable through 2045, and additionally requires ARB to ensure that program-wide aggregate emissions from covered sources decline with the existing GHG targets for 2030 (40% GHG reduction) and 2045 (85% GHG reduction and net zero GHG emissions).

4) Replaces the requirement that revenue generated from ARB's sale of additional metric tons to covered entities at the price ceiling, if needed for compliance if the allowances from the allowance price containment reserve (APCR) are exhausted, be expended by ARB to achieve emissions reductions, on at least a metric ton for metric ton basis, that are real, permanent, quantifiable, verifiable, enforceable by ARB, and in addition to any GHG emission reduction otherwise required by law or regulation and any other GHG emission reduction that otherwise would occur with a new requirement that such revenue be deposited in a new Climate Mitigation Fund subject to legislative appropriation.

5) Maintains the cap on the use of offset credits at 6% of a covered entity's compliance obligation from 2026-2045, at least half of which must provide direct environmental benefits (DEBs) in state.

6) Requires allowances equal to offsets used for compliance obligations in the prior year to be removed from the next year's allowance budget and retired (i.e., moving offsets from outside the cap to under the cap).

7) Requires ARB to consider developing additional compliance offset protocols to address sectors not covered by cap-and-trade.

8) Terminates the existing freeze on industry assistance and cap adjustment factors (used to determine allocation of free allowances to trade-exposed industries), instead requiring ARB, commencing in 2031, to set industry assistance factors in a manner that minimizes leakage risk.

9) Requires future ARB scoping plan updates to include progress toward meeting the 85% by 2045 GHG emissions reduction target and recommendations to the Legislature to further cost-effectively reduce emissions.

10) Requires the ARB Chair to present and provide specified details to the Joint Committee on Climate Change Policies (JLCCCP) and other relevant policy committees regarding proposed major updates to the cap-and-trade regulation, as specified.

11) Adds "nature-based climate solutions" to the list of priority expenditures of revenue from the auction of allowances.

12) Requires ARB and other agencies to annually appear, upon request of the chair, before the Joint Climate Committee and budget subcommittees to the give a presentation on expenditure of allowance auction revenues.

13) Extends sunsets on the Compliance Offsets Protocols Task Force, Independent Emissions Market Advisory Committee (IEMAC), and annual reports by the Legislative Analyst's Office (LAO) from 2031 to 2046.

14) Extends from 2031 to 2046 the following regulatory protections for the oil and gas industry:

    a) Requires ARB to designate the cap-and-trade regulation as "the rule for petroleum refineries and oil and gas production facilities to achieve their GHG emissions reductions."

    b) Prohibits an air district from adopting or implementing an emission reduction rule for carbon dioxide for sources subject to cap-and-trade.

15) Redirects revenues received by an electrical corporation as a result of the direct allocation of allowances, as follows:

    a) Directs revenues currently credited directly to residential, small business, and emission-intensive trade-exposed customers (i.e., the Climate Credit) to instead be provided residential customers in no more than four high-billed months each year, with specified exceptions.

    b) Directs 5% of revenues, until July 1, 2031, to the California Transmission Accelerator Revolving Fund, to be available to the Infrastructure Bank for public financing of transmission projects.

16) Requires local publicly-owned electric utilities to use revenue from the sale of additional allowances from any allocation of allowances previously allocated to gas utilities to provide a credit directly to ratepayers.

17) Is an urgency statute.

EXISTING LAW:

1) Requires ARB to (1) adopt a statewide GHG emissions limit equivalent to 1990 levels by 2020, (2) ensure that statewide GHG emissions are reduced to at least 40% below the 2020 statewide limit no later than December 31, 2030, and (3) adopt rules and regulations to achieve maximum technologically feasible and cost-effective GHG emission reductions. (Health and Safety Code (HSC) 38500, *et seq*.)

2) Declares the policy of the state to achieve net zero GHG emissions as soon as possible, but no later than 2045, and to achieve and maintain net negative GHG emissions thereafter. (HSC 38562.2)

3) Requires ARB to prepare and approve a scoping plan every five years for achieving the maximum technologically feasible and cost-effective reductions in GHG emissions from sources or categories of sources of GHGs. (HSC 38561)

4) Requires any direct regulation or market-based compliance mechanism to achieve GHG reductions that are real, permanent, quantifiable, verifiable, and enforceable by ARB. (HSC 38562)

5) Authorizes ARB, in furtherance of achieving the 2020 statewide limit, to adopt a regulation that establishes a system of market-based declining annual aggregate emission limits for sources or categories of sources that emit GHG emissions, applicable from January 1, 2012, to December 31, 2020, to comply with GHG reduction regulations, once specified conditions are met. In 2017, AB 398 (E. Garcia), Chapter 135, Statutes of 2017, extended ARB's cap-and-trade authority to 2030, required ARB to establish a price ceiling on GHG emission allowances in consideration of specified factors, added several new conditions governing the management and allocation of allowances, and reduced limits on compliance offsets. (HSC 38562)

   Specifically, AB 398 requires ARB to:

   a) Evaluate and address concerns related to over-allocation of the number of available allowances;

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

   c) Limit the use of offsets to 4% of a covered entity's compliance obligation from 2021 to 2025 and 6% from 2026 to 2030, of which no more than one-half may be sourced from projects that do not provide DEBs in state;

   d) Report to the Legislature, in consultation with the IEMAC, if two consecutive auctions exceed specified allowance price limits; and,

e) Report to the relevant fiscal and policy committees of the Legislature, including the JLCCCP, with updates on scoping plan adoption and implementation, as well as implementation of the cap-and-trade regulation.

6) Establishes the IEMAC within the California Environmental Protection Agency, and requires the IEMAC to hold a public meeting at least annually and report to both ARB and the JLCCCP on the environmental and economic performance of the cap and trade regulation and other relevant climate policies. (HSC 38591.2)

   Requires the IEMAC to be composed of at least five experts on emissions trading market design appointed according to the following:

   a) Three members appointed by the Governor;

   b) One member appointed by the Senate Committee on Rules;

   c) One member appointed by the Speaker of the Assembly; and,

   d) Requires IEMAC to include a representative from the Legislative Analyst's Office (LAO), and requires members to meet all of the following requirements:

      i) Have academic, nonprofit, and other relevant backgrounds; and,

      ii) Lack financial conflicts of interest with entities subject to the cap and trade regulation.

7) Requires the LAO to annually report to the Legislature on the economic impacts and benefits of the 2030 GHG emissions targets. (HSC 38592.6)

COMMENTS

The cap-and-trade regulation sets a statewide cap on GHG emissions from sources responsible for approximately 85% of California's GHG emissions (large industrial facilities and electricity generators emitting more than 25,000 metric tons of CO_2 equivalent per year, as well as distributors of fuels, including gasoline, diesel, and natural gas). The cap declines each year to achieve the target emission level.

Two main forms of compliance instruments are used: allowances and offsets. Allowances are generated by the state in an amount equal to the cap and may be "banked" (i.e., allowing current allowances to be used for future compliance). An offset is a credit intended to represent a real, verified, permanent, and enforceable emission reduction project from a source outside a capped sector (e.g., a certified carbon-storing forestry project).

ARB issues allowances through a combination of free allocation to industrial facilities, consignment to electric and gas utilities on behalf of ratepayers, and quarterly auctions. Once issued, allowances may be traded among entities. At the end of each compliance period, covered entities are required to surrender enough allowances to match their emissions for the period.

ARB allocates free allowances to trade-exposed industrial facilities. Allocation of allowances for most industrial sectors is set at about 90% of average emissions, based on benchmarks that reward efficient facilities. ARB consigns allowances to electrical distribution and natural gas utilities, with the requirement that the value of allowances must be used to benefit ratepayers and achieve GHG emissions reductions.

In addition to allowances, voluntary, additional emission reductions from sources that are outside the cap, called offsets, can be used to meet a fraction of a facility's compliance obligation. In the first phase of the regulation, ARB limited offsets to 8% of the compliance obligation (or roughly half the reduction obligation). AB 398 reduced offset limits going forward: to 4% from 2021 through 2025, then 6% from 2026 through 2030. Under AB 398, no more than one-half of offsets may be sourced from projects that do not provide DEBs in state. Unlike allowances sold at ARB's auctions, purchase of offsets generates no revenue for the state.

Six compliance offset protocols were adopted by ARB in the first phase of the cap-and-trade regulation, with the last updates occurring in 2015. The six protocols are:

U.S. Forest Projects – adopted 2011, 2014 and 2015

Ozone Depleting Substances (ODS) Projects – adopted 2011 and 2014

Mine Methane Capture (MMC) Projects – adopted 2014

Livestock Projects – adopted 2011 and 2014

Urban Forest Projects – adopted 2011

Rice Cultivation Projects – adopted 2015

Compliance offsets have been produced under four of the six adopted protocols: U.S. Forest, ODS, MMC, and Livestock. More than 80% of compliance offsets are from U.S. Forest projects. Compliance offsets are sourced from projects across the U.S., with MMC entirely outside of California and a large share of U.S. Forest projects in Alaska.

In the 2021-2023 compliance period, offsets were used for about 3% of covered entities' compliance obligations.

According to the Author
AB 1207 reauthorizes and renames California's Cap-and-Invest program, one of the strongest, most cost-effective emissions reduction programs in the world, through 2045. AB 1207 also makes changes to maximize the affordability benefit of the California Climate Credit, maintain and improve offsets, restructure industrial allowance allocation to prioritize California's highest leakage risk industries, increase transparency and accountability for ARB, and align the Cap-and-Invest program with California's overall climate strategy for achieving net-zero emissions statewide by 2045.

Arguments in Support
According to Environmental Defense Fund, NextGen California, and Union of Concerned Scientists, AB 1207 will ensure the program can deliver on the state's climate goals while generating revenue for critical climate, transit, renewable energy, air pollution, and affordability programs across California.

Arguments in Opposition
According to a coalition of environmental justice organizations, AB 1207 as amended would extend the harms of cap-and-trade for fifteen years without providing meaningful protections either within the program or through other related programs.

FISCAL COMMENTS

Unknown

VOTES:

ASM NATURAL RESOURCES: 11-0-3
YES: Bryan, Connolly, Ellis, Garcia, Haney, Kalra, Muratsuchi, Pellerin, Schultz, Wicks, Zbur
ABS, ABST OR NV: Alanis, Flora, Hoover

ASM APPROPRIATIONS: 11-0-4
YES: Wicks, Arambula, Calderon, Caloza, Elhawary, Fong, Mark González, Hart, Pacheco, Pellerin, Solache
ABS, ABST OR NV: Sanchez, Dixon, Ta, Tangipa

ASSEMBLY FLOOR: 60-2-17
YES: Addis, Aguiar-Curry, Ahrens, Alvarez, Arambula, Ávila Farías, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Elhawary, Ellis, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO: DeMaio, Patterson
ABS, ABST OR NV: Alanis, Bains, Castillo, Chen, Davies, Dixon, Flora, Gallagher, Jeff Gonzalez, Hadwick, Hoover, Lackey, Macedo, Nguyen, Sanchez, Ta, Tangipa

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