
SENATE COMMITTEE ON ENVIRONMENTAL QUALITY

Senator Blakespear, Chair

2025 - 2026 Regular

Bill No: SB 1035
Author: Strickland
Version: 2/11/2026
Urgency: Yes
Consultant: Heather Walters

Hearing Date: 3/18/2026
Fiscal: Yes

SUBJECT: Motor vehicle fuel tax: greenhouse gas reduction programs: suspension

DIGEST: This bill exempts transportation fuel suppliers from California's cap-and-trade program, the Low-Carbon Fuel Standard, and gas tax for one year.

ANALYSIS:

Existing law:

- 1) Establishes the California Air Resources Board (CARB) as the air pollution control agency in California and requires CARB, among other things, to control emissions from a wide array of mobile sources and coordinate, encourage, and review the efforts of all levels of government as they affect air quality. (Health and Safety Code (HSC) §39500 et seq.)
- 2) Requires CARB to ensure that statewide GHG emissions are reduced to at least 40% below the 1990 level by December 31, 2030 (i.e., SB 32); and allows CARB, until December 31, 2030, to adopt regulations that utilize market-based compliance mechanisms (i.e., the cap-and-trade program) to reduce GHG emissions. (HSC §§ 38566, 38562)
- 3) Establishes the Low-Carbon Fuel Standard (LCFS) regulations to encourage the innovation, use, and production of cleaner, low-carbon fuels in California in order to reduce GHG emissions. (Subarticle 7 (commencing with Section 95480) of Title 17 of the California Code of Regulations).

This bill:

- 1) Suspends the Low Carbon Fuel Standard (LCFS) as defined, for one year, and further:
 - a) Stipulates that savings must be passed on to the end consumer; and
 - b) Provides details of how violations will be handled.

- 2) Exempts transportation fuel suppliers from California’s Cap-and-Trade program for one year, and further:
 - a) Backfills an amount (equal to 2024-2025 fiscal year Greenhouse Gas Reduction Fund (GGRF) revenue from fuel suppliers) of funds from the General Fund to GGRF, with the exception of funding to the High-Speed Rail Authority;
 - b) Stipulates that savings must be passed on to the end consumer; and
 - c) Provides details of how violations will be handled.

- 3) Suspends specified taxes on motor vehicle fuels for one year, and further:
 - a) Requires any sale of a motor vehicle fuels includes a receipt that indicates the amount of motor vehicle fuel tax that otherwise would have applied;
 - b) Backfills an amount (equal to the amount collected pursuant to the suspended taxes in the 2024-2025 fiscal year) of funds from the General Fund to the Motor Vehicle Fuel Account in the Transportation Tax Fund.
 - c) Stipulates that savings must be passed on to the end consumer; and
 - d) Provides details of how violations will be handled.

Background

- 1) *Why’s California gasoline so expensive?* Higher prices on gasoline fuel can have crippling effects for residents on fixed or limited incomes, especially those who rely on long commutes to get to work or home, or those who require driving as part of their job.

Californians generally pay higher prices for gasoline compared to the rest of the country, which is the result of, according to the CEC, five main reasons: (1) higher taxes on gasoline, (2) higher gasoline production costs, (3) environmental program costs, (4) California’s shorter winter season, and (5) the isolated nature of the California fuels market.

Even beyond the explainable differences, there is also a so-called “mystery gasoline surcharge.” For example, in February 2020, the fact that California had higher taxes and environmental fees and a cleaner gas formulation could account for only 72 cents of the \$1.18 price differential between us and other states. Dr. Severin Borenstein—who coined the term mystery gasoline surcharge—has said that the cost is hidden within “refining, marketing, and retailing” and has been kept in place by gasoline suppliers charging more because they can.¹

¹ “California’s Gasoline Price Problem” Presentation of Severin Borenstein to the Assembly Petroleum and Gasoline Supply Committee. September 19, 2024.

As of February 28th, California’s average statewide price for a gallon of gas was \$4.64, about \$1.66 more than the national average, according to AAA.² This is up slightly from December 2025 (the most current update available on gasoline price breakdowns and margins available from the California Energy Commission (CEC)), when the average retail gasoline price in California was \$4.18.³

According to the breakdown from the CEC based on data provided directly from fuel suppliers (pursuant to the California Oil Refinery Cost Disclosure Act), of the \$4.18 average retail gasoline price the cost of crude oil (37% of the total price) is the single biggest contributing factor to gasoline prices, with fuel supplier margins (refining (12%), and distribution (21%)) accounting for another 33%. The three contributors to gas prices named in SB 1035—the LCFS (3%), cap-and-trade (6%), and state excise taxes (15%)—are responsible for 24% of the price of gasoline.

- 2) *Recent special sessions and other actions.* As oil companies evaded questions about unexplained gas price increases, Governor Gavin Newsom convened a special session of the California Legislature on December 5, 2022 to pass a so-called “price gouging penalty” on oil companies.

The Governor’s action came on the heels of a state hearing – which five major oil refiners refused to attend – to investigate 2022’s unprecedented spike in gasoline prices. The spike in gasoline prices had resulted in record refiner profits of \$63 billion in just 90 days, disproportionately affecting low- and middle-income families. In calling for the special session, Governor Newsom said, “Big oil is ripping Californians off, and the deafening silence from the industry yesterday is the latest proof that a price gouging penalty is needed to hold them accountable for profiteering at the expense of California families.”

A nearly-identical bill to this one, co-authored by the entirety of the Senate Republican Caucus, was introduced as SB 32 and SBX1-1 on the first day of that extraordinary session, seemingly as a counterpoint to the price gouging penalty called for by the Governor.

That first special session culminated in the passage of SBX1-2 (Skinner), which authorized the CEC to establish a maximum gross gasoline refining margin and penalty on gasoline sold by refiners in the state. The bill also required pricing transparency from gasoline refiners and directed an

² <https://gasprices.aaa.com/?state=CA> Accessed 2/28/2026

³ <https://www.energy.ca.gov/estimated-gasoline-price-breakdown-and-margins> Estimated Gasoline Price Breakdown and Margins, California Energy Commission. Data last updated 2/18/2026.

independent watchdog division at CEC to detect efforts to manipulate gas prices. A second special session was convened in 2024, which led to the passage of AB X2-1 (Hart) which expanded several of CEC's authorities and responsibilities established by SB X1-2 in order to better prevent price spikes.

On the heels of these two special sessions, two of the state's at-the-time nine refineries announced their intent to cease operations: Phillips 66's Los Angeles refinery was announced in October of 2024, and Valero's Benicia refinery was announced in April of 2025. This led to Governor Newsom writing to CEC Vice Chair Siva Gunda to "redouble the State's efforts to work closely with refiners on short- and long-term planning, including through high-level, immediate engagement, to help ensure that Californians continue to have access to a safe, affordable, and reliable supply of transportation fuels..." A subsequent response to that letter from the Vice Chair called for actions to stabilize fuel supply, provide confidence regarding fossil fuel infrastructure, and develop and execute a holistic transportation fuels transition strategy. Some of these recommendations were subsequently implemented in SB 237 (Grayson, 2025).

3) *Climate programs and fuel suppliers.* As a world leader on climate policy, California has a number of policies that financially affect the suppliers of transportation fuels. Two major climate programs are specifically named in this bill, the Low-Carbon Fuel Standard (LCFS), and cap-and-trade.

a) *LCFS.* The Low Carbon Fuel Standard is designed to decrease the carbon intensity of California's transportation fuel pool and provide an increasing range of low-carbon and renewable alternatives, which reduce petroleum dependency and achieve air quality benefits. It was established pursuant to AB 32 (Nunez, 2006) as an "early action GHG emission reduction measure" and has been administered by CARB—with several regulatory amendments—since its adoption in 2007.

The program sets a declining target of carbon intensity and, briefly, requires conventional fossil fuel-based transportation fuel (i.e. gasoline and diesel) producers to purchase "credits" from low-carbon fuel (i.e. biofuels, hydrogen, electricity, etc.) producers. Thus, fossil fuel-based transportation fuel producers directly subsidize the production of lower-carbon alternative fuels by buying credits from them.

b) *Cap-and-trade.* Also established pursuant to AB 32 (Nunez, 2006), California's cap-and-trade program is a market-based compliance mechanism that requires certain polluters (totaling roughly 80% of the

state’s overall emissions) to obtain an allowance for each ton of GHG emissions they release. Those allowances can be traded between entities, purchased at auction from the state, or are allocated freely to certain industries. Over time, the total number of allowances issued declines, which should reduce statewide emissions accordingly.

Moreover, the proceeds from allowance auctions are collected in the GGRF. In turn, the GGRF supports a plethora of state efforts to equitably and rapidly decarbonize the state’s economy and address the impacts of air pollution. In the past several years, GGRF proceeds have hovered around \$4 billion annually.

In 2024, cap-and-trade covered 257 million tons of GHG emissions; 162 million of all covered emissions were from fuel supplier covered emissions—roughly 63%.⁴

- 4) *Proposition 6*. In 2018, Californian voters were given the opportunity to repeal the SB 1 gas tax (as well as require any future fuel taxes or vehicle fees approved by the Legislature to also be approved by the voters) with Proposition 6. The voters roundly rejected the measure by more than a 13-point margin.

In opposition to the proposition, the Los Angeles Times’ editorial board wrote, “It’s hard to overstate how destructive Proposition 6 would be for California. It would eliminate \$5 billion a year from the state budget, wiping out funds that could be used to fill potholes on local streets, smooth highways and stabilize bridges. It would cancel funding for highway and rail projects designed to move cargo more cleanly and efficiently, hurting the state’s vital freight industry. It would slash money for light rail lines and commuter rail service, meaning fewer trains for people trying to get to work.”

Although the gas tax revenues lost through SB 1035 would be backfilled by General Fund revenues, California’s current budget problem means the General Fund is already unable to cover all existing obligations, even without this proposal.

Comments

- 1) *Purpose of Bill*. According to the author, “Californians are paying some of the highest gas prices in the country, and they deserve relief now. Families, commuters, and small business owners are being squeezed by inflation, refinery closures, and multiple layers of state-imposed taxes and regulations

⁴ 2024 GHG Emissions Data. CARB. <https://ww2.arb.ca.gov/mrr-data> Updated 11/4/2025

that drive up costs at the pump. While fuel prices are declining in much of the nation, Californians continue to face a continually increasing financial burden.

“Senate Bill 1035, the Temporary Regulatory and Gas Tax Relief Act, suspends the state gas tax, the Low Carbon Fuel Standard (LCFS), and the LCFS cap-and-invest compliance system for one year. This bill also requires that any savings from these suspensions be passed directly on to consumers and reflected at the pump. It also increases transparency by requiring fuel receipts to show the fuel tax that would have otherwise been applied.

“When families are struggling to afford groceries, rent, and transportation-related expenses, we cannot ignore the impacts of state policies on everyday costs. SB 1035 provides immediate, responsible relief while ensuring transportation funding continues through the use of General Fund dollars. This is a practical step that buys time to evaluate long-term energy and regulatory reforms, while putting money back where it belongs - in the pockets of hardworking Californians.”

- 2) *Taxes and fees.* SB 1035 proposes to pause three surcharges on gasoline for one year: the gas tax, cap-and-trade, and LCFS. As described in the background, according to the breakdown from the CEC based on data provided directly from fuel suppliers, of the \$4.18 average retail gasoline price the three contributors to gas prices named in SB 1035—the LCFS (3%), cap-and-trade (6%), and state excise taxes (15%)—are responsible for 24% of the price of gasoline.

Should this measure be passed by the committee today, it will go to the Senate Governance and Finance committee, which will be the more appropriate venue for discussion of the gas tax suspension. The remainder of this analysis will discuss the impacts of the proposed pause on the two climate programs named in this bill.

- 3) *Fatal pause.* Despite the fact that SB 1035 proposes to suspend cap-and-trade and the LCFS for only one year, the bill would have ramifications far beyond that year. As noted in the background, nearly two-thirds of the emissions produced in 2024 were from transportation fuel providers. It is notable that those millions of tons of GHG emissions are important to the state’s cap-and-trade program for two reasons: the auction proceeds provided to the GGRF, but also the demand for 139 million allowances to be claimed for the associated emissions.

Under SB 32, the lost GGRF revenues would be backfilled from the General

Fund, but no such accommodations are made for the impacts on the market for allowances.

According to recent data from CARB at the end of the latest cap-and-trade compliance period (as reported on by the Legislative Analyst's Office)⁵ there are already over 300 million allowances banked to meet future compliance obligations. These 300 million banked allowances alone will make meeting our 2030 GHG emission reduction goal difficult, and doing so is a topic of significant ongoing discussions and deliberations. All of the concerns raised about the stringency of these programs would be worsened by reducing demand for allowances by over a hundred million tons of GHGs for a year.

Under current levels of demand, there are likely too many allowances available at too low of a price to achieve the state's emission reductions goals. If SB 32 passed, what impact would it have on the sale (and banking) of allowances for the year of the pause? Would covered entities and speculators purchase even more low-cost allowances to bank for future compliance obligations without truly reducing emissions? Would other industries reduce their decarbonization ambitions because of the abundance of cheap allowances? SB 32 includes no direction for addressing any of these potential issues.

For LCFS, the impacts to the compliance instrument market are different but still massively harmful. The price of LCFS credits is a product of supply and demand, without any of the additional containment mechanisms cap-and-trade has. If fuel suppliers were not required to purchase credits for one year, there would be virtually zero demand. This would cause the value of credits to plummet. Any producers who could weather the storm and still produce fuels and credits for that year would find that even once fuel suppliers are required to purchase credits again, their struggles would not be over. Thanks to a year of producing LCFS credits without any demand for them, there may be such a glut of surplus credits that the value of those credits may be slow to restore its current price, if ever.

Market-based compliance mechanisms are complicated, and their success depends on careful tuning over time of compliance instrument supply, demand, and banking. It is not clear if solutions could be developed to reconcile any of the above issues with the contents of this bill. Ultimately then, the question before the committee is whether these potentially foundational, lasting damages to two of the state's biggest climate programs are justified by reducing a portion of the California-specific surcharges on gasoline sales for

⁵ California's Cap-and-Trade Program: Frequently Asked Questions. Legislative Analyst's Office. October 24, 2023. <https://lao.ca.gov/Publications/Report/4811>

one year.

As described above, higher gasoline prices do have real consequences for Californians. Addressing these challenges is unfortunately not as simple as avoiding and minimizing every single consumer cost in every context. The state must maintain adequate near-term transportation fuel supplies, pursue concurrent system-wide strategies to support reliable operations, and pursue a holistic transition strategy, all simultaneously. Aiding Californians through this transition may be better accomplished through parallel supportive policies, rather than purely deregulatory efforts.

The proposed pause of LCFS and cap-and-trade would reduce the cost to consumers of \$4.18 gasoline by 38 cents—around 9%—for one year. The cost to the state of irreversibly damaging its two flagship climate policies is impossible to estimate. *Given the extent to which SB 1035 would permanently cripple the state's climate efforts in order to provide temporary and modest reduction in fuel prices, SB 1035 may be the wrong solution to this important problem.*

DOUBLE REFERRAL:

If this measure is approved by the Senate Environmental Quality Committee, the do pass motion must include the action to re-refer the bill to the Senate Governance and Finance Committee.

Related/Prior Legislation

SB 32 (Jones, 2023) was identical to this bill. It died in this committee.

SOURCE: Author

SUPPORT:

California Independent Petroleum Association (CIPA)
California Tow Truck Association
Howard Jarvis Taxpayers Association (HJTA)
Western States Trucking Association
5 Individuals

OPPOSITION:

3degrees INC.
American Biogas Council
Amp Americas

Bioenergy Association of California
California Electric Transportation Coalition
California Hydrogen Business Council
California Hydrogen Coalition
California Renewable Transportation Alliance
Calstart
Center for Sustainable Energy
Ceres
Cft – a Union of Educators & Classified Professionals, Aft, Afl-cio
Clean Energy Fuels
Coalition for Clean Air
Coaliton for Renewable Natural Gas
Counsel to Powering America’s Commercial Transportation
District Council of Iron Workers of the State of California and Vicinity
Electric Vehicle Charging Association
Forum Mobility
Greenlane Infrastructure
Los Angeles Business Council
Low Carbon Fuels Coalition
Pacific Merchant Shipping Association
Plug in America
Republic Services
State Building & Construction Trades Council of California
The Transport Project
Volvo Group North America
Waste Management
Workhorse Group INC.
World Energy Net Zero Services
Zero Motorcycles INC.

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