MANUFACTURING DECARBONIZATION INCENTIVE

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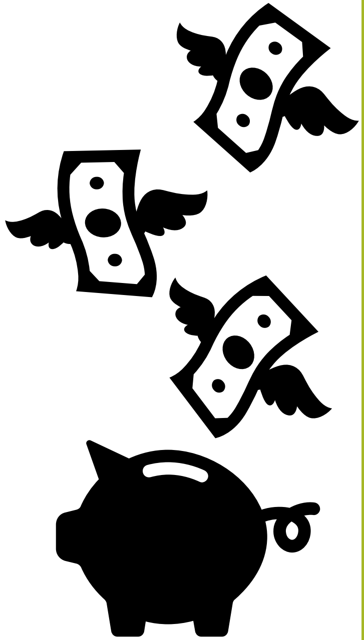
Communities for a Better Environment

August 13, 2026 presentation for The Climate Center

What is the Manufacturing Decarbonization Incentive?

Free allowances to subsidize **manufacturers** and **refiners** for:

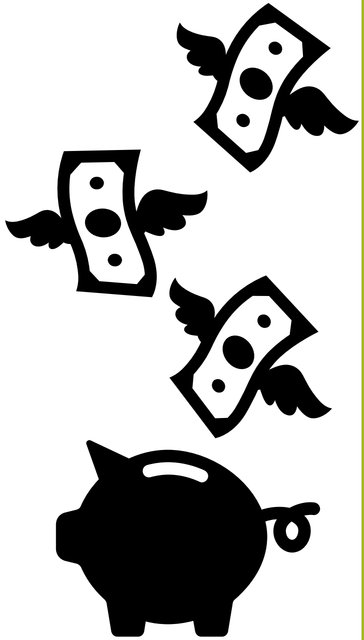
- Biomass-derived fuels/methane reductions;
- Electrified equipment;
- Low carbon hydrogen;
- Renewable electricity generation or storage;
- Solar thermal or geothermal energy generation;
- Electrified thermal energy procurement;
- Carbon sequestration



What is the Manufacturing Decarbonization Incentive?

CARB created a new "**Build Up California Reserve**" to fund these subsidies.

CARB minted 118.3 million new allowances to stock the reserve. Value? $4 billion!



EASY AS PIE?

(9) Availability of Manufacturing Decarbonization Incentive Allocation Allowances. The total number of Manufacturing Decarbonization Incentive Allocation Allowances in the Build Up California Reserve Account available to provide Manufacturing Decarbonization Incentive Allocation to eligible facilities shall be determined by sector in the following manner:

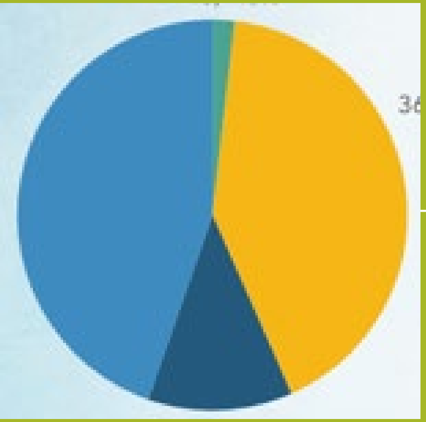
(A) Up to 59,150,000 allowances for industrial activities with NAICS codes of 324110, 324121, 324199, 325120, and 325199.

(B) Up to 59,150,000 allowances for all other eligible industrial activities.

(C) For any budget year where the number of Manufacturing Decarbonization Incentive Allocation Allowances in the Build Up California Reserve Account that would be provided to eligible facilities with an approved application pursuant to section 95891(g)(5)-(6) is greater than the number of remaining allowances available by sector in sections 95891(g)(9)(A)-(B), the remaining allowances will be distributed to each eligible facility in those sectors in proportion to the number of allowances it would be eligible to receive if sufficient allowances were available for those sectors in the Build Up California Reserve Account, rounded to the nearest whole allowance.

Table 9-1a: NAICS Codes Ineligible for Manufacturing Decarbonization Incentive Allocation, Except for Eligible GHG Emissions Reduction Activities Pursuant to Section 95891(g)(2)(H).

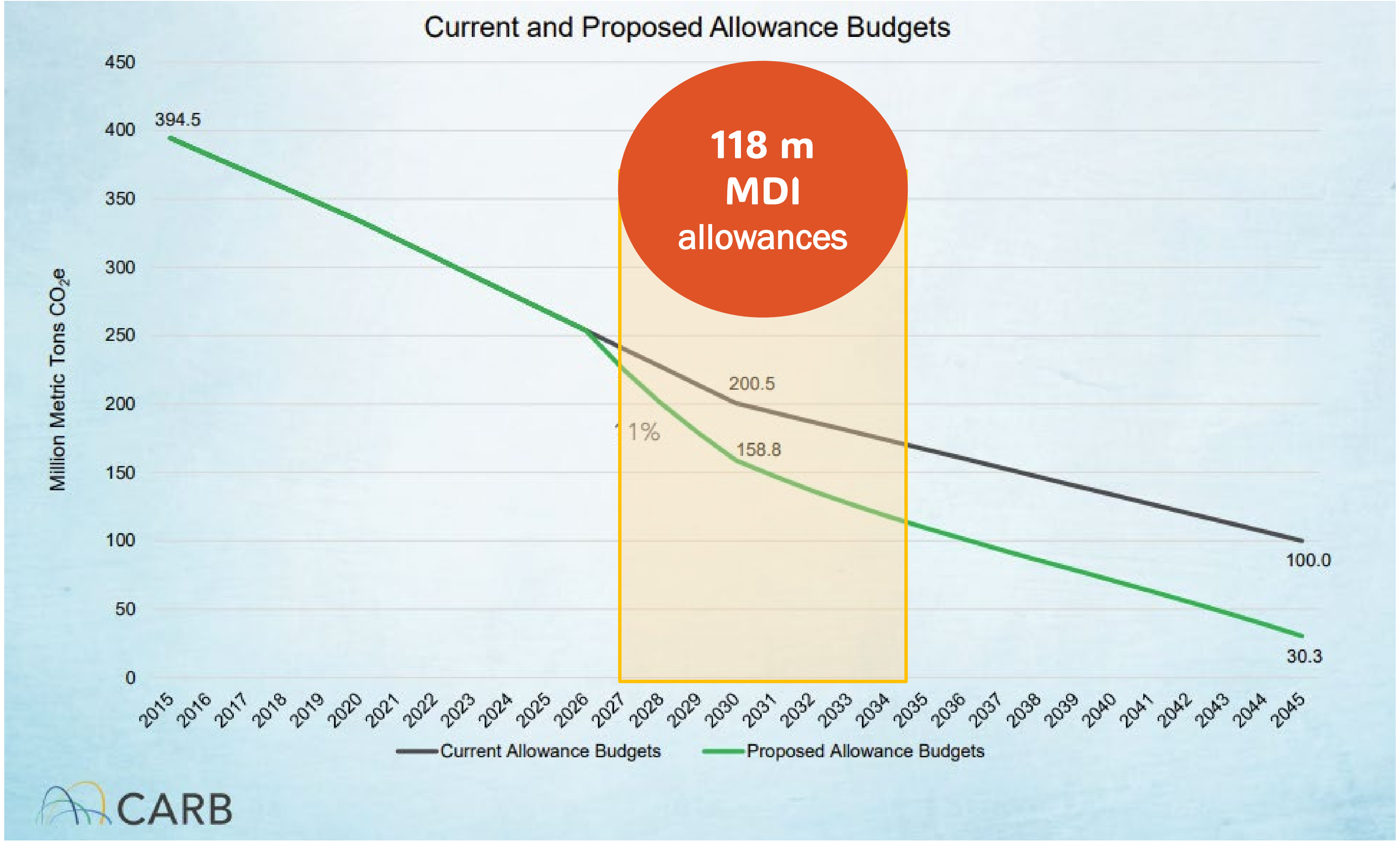
Industrial Sector	NAICS Code
Crude Petroleum and Natural Gas Extraction	211111
Natural Gas Liquid Extraction	211112
~~All Other Petroleum and Coal Products Manufacturing~~	~~324199~~
~~Industrial Gas Manufacturing~~	~~325120~~
~~All Other Basic Organic Chemical Manufacturing~~	~~325199~~
~~Petroleum Refineries~~	~~324110~~
~~Asphalt Paving Mixture and Block Manufacturing~~	~~324121~~
~~Ethyl Alcohol Manufacturing~~	~~325193~~



Subsidies Without Guardrails

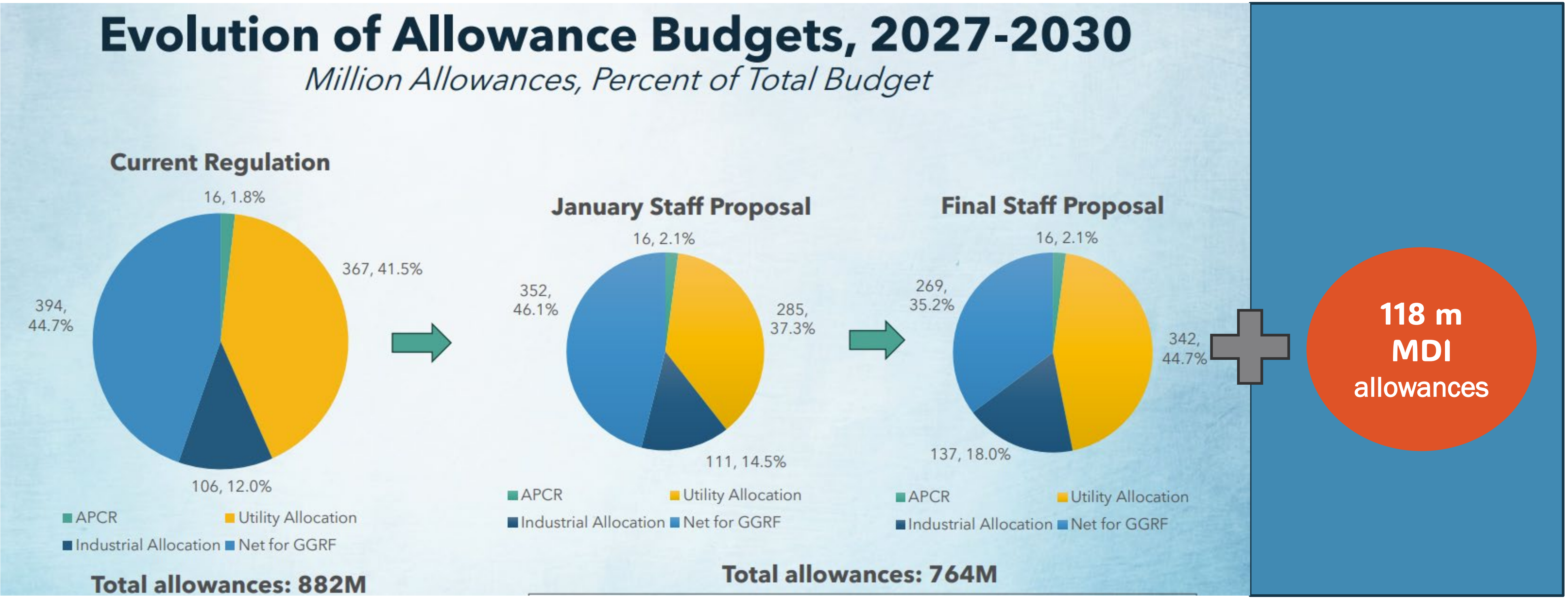
- No process to verify or dispute:
  - Free MDI allowances when refiners/manufacturers submit an application and claim emissions reductions. No standard methodology or requirement to check accuracy. No process to dispute reductions claimed.
- Not linked to proven emissions reduction technologies:
  - MDI allowances can be for "capital costs" with self-claimed emissions reductions
- Self-reporting completed before emissions are reduced:
  - Reports at most a year after allowances issue, long before project completion

Because so many significant questions about the administration of the MDI were left open, CARB will be holding a public workshop on the MDI in Fall 2027



The green line represents the new “cap” with 118 million allowances removed before 2030, and 146 million after 2030.

The orange represents the 118 million allowances that can be reintroduced into the program through the MDI from 2027-2035 and used indefinitely.



Here you can see the evolution of CARB's allowance allocation. The MDI Build Up California Reserve allowances represent a separate, additional pie.

Subsidies for Industry = Cuts for Communities

- The Legislative Analysts Office reports that the changes will **reduce the GGRF by $2 billion a year**
- Kyle Meng and Jordan Wingenroth at UC Santa Barbrara estimate that a fully utilized MDI will **lower the California Climate Credit by $1.7 billion**.
- Meredith Fowlie, at the Haas Energy Institute projects that by combining MDI allowances and industrial assistance free allowances **refineries can receive more allowances than they have emissions**

The LAO reports that with GGRF reductions of $2 billion a year, there will be **NO funding for 'Tier 3" programs:**

Tier 3 Programs	Annual Funding
Affordable Housing and Sustainable Communities Program	$800 million
Transit and Intercity Rail Capital Program	$400 million
Community Air Protection Program (AB 617)	$250 million
Low Carbon Transit Operations Program	$200 million
Wildfire and forest resilience	$200 million
Safe and Affordable Drinking Water Program	$130 million

SB 1216 (Laird)

SB 1216 is making its way through the Legislature now

It will require additional review and reporting on the MDI and prevent MDI from going into effect if there is inadequate funding for existing GGRF commitments

This QR code links to action on SB 1216

SOURCES

Legislative Analysts Office, Proposed Amendments to The Cap-and-Invest Program, May 19, 2026.

Kyle Meng, et al., Potential Lost Cap-and-Invest Revenue Under the Manufacturing Decarbonization Incentive, April 2026. (Hereinafter “Meng, et al.).

Meredith Fowlie, A Stress Test for California Carbon Pricing, April 2026.

California Air Resources Board, Cap-and-Invest Regulation Amendments and Mandatory Reporting Regulation Amendments Presentation, May 28, 2026

Legislative Analysts Office, Assessing California’s Climate Policies—Cap-and-Trade Reauthorization, May 7, 2025.

CBE LEGAL CHALLENGE

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CBE Lawsuit

Link to Petition

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IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
IN AND FOR THE COUNTY OF LOS ANGELES

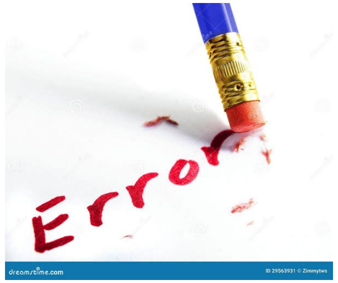
COMMUNITIES FOR A BETTER ENVIRONMENT, a California nonprofit corporation, Petitioner, v. CALIFORNIA AIR RESOURCES BOARD; STEVEN S. CLIFF, in his official capacity as Executive Officer of the California Air Resources Board; and DOES 1-20, Respondents.	Case No. 26STCP02498 **VERIFIED PETITION FOR WRIT OF MANDATE AND COMPLAINT FOR INJUNCTIVE AND DECLARATORY RELIEF** Code Civ. Proc., §§ 1085; 525; 1060; Pub. Resources Code, § 21168.5 **CALIFORNIA ENVIRONMENTAL QUALITY ACT CASE**

CBE Allegations: CARB Violated CEQA

- EIA fails to describe the rule changes, particularly the new MDI
- EIA does not disclose impacts of the rule changes, esp. on air quality and GHGs
- EIA does not reduce or mitigate the impacts of the rule changes
- EIA fails to consider reasonable alternatives
- CARB did not adequately respond to comments
- CARB did not recirculate after significant changes

CEQA Remedies

- Enjoin



- Vacate

- Make a writ return with compliant environmental review

Review by Office of Administrative Law

- The rule changes cannot go into effect until the Office of Administrative Law (OAL) has completed review for compliance with the Administrative Procedure Act
- OAL has until August 25 to complete review
- OAL can disapprove of the rulemaking and send it back to CARB for corrections. **Will the changes will go into effect by September 1, 2026?**