California Cap-and-Invest Program

CHILEAN MINISTRY OF ENERGY WEBINAR

AUGUST 12, 2026

Background: Legislation

Global Warming Solutions Act of 2006 (Assembly Bill 32, 2006)

- Achieve 1990 emissions by 2020
- Provide a consistent policy approach to drive investment in clean technology
- Provide a scoping plan that guides California's GHG strategy and informs future broader climate change efforts

Senate Bill 32 (2016)

- Codify the 2030 greenhouse gas target of 40% below 1990 levels
- Companion legislation (AB 197) provides additional direction for developing Scoping Plan

Assembly Bill 398 (2017)

- Provide direction on a post-2020 Cap-and-Invest Program
- Companion legislation (AB 617) directs CARB and air districts to engage with impacted communities, follow their guidance, and address criteria and toxic air pollutant concerns

Assembly Bill 1279 (2022)

- Reduce anthropogenic GHG emissions by 85% below 1990 levels and achieve carbon neutrality by 2045

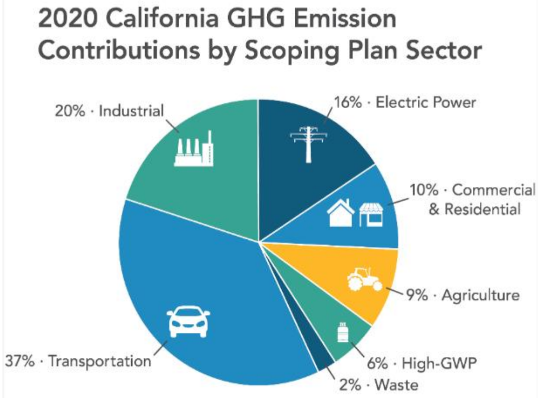
Assembly Bill 1207 (2025)

- Authorizes Program through 2045 and provides Program direction
- Changes program name to Cap-and-Invest

California's Climate Policy Framework

GHG Targets & Goals

Legislation & Executive Orders: Total GHGs (AB 32/SB 32/AB 1279) or sector targets (SB 1383/SB 100), etc.

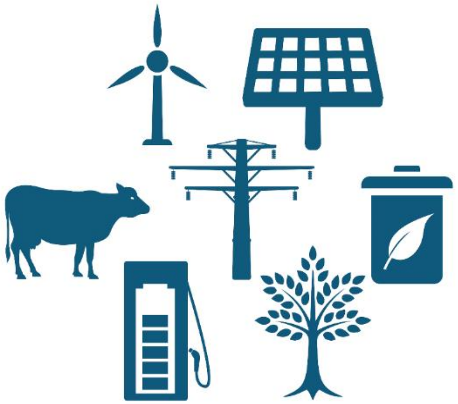


Scoping Plan

Actionable plan across all sectors

Action

Regulations & Incentives: Advanced Clean Cars, climate change investments, etc.

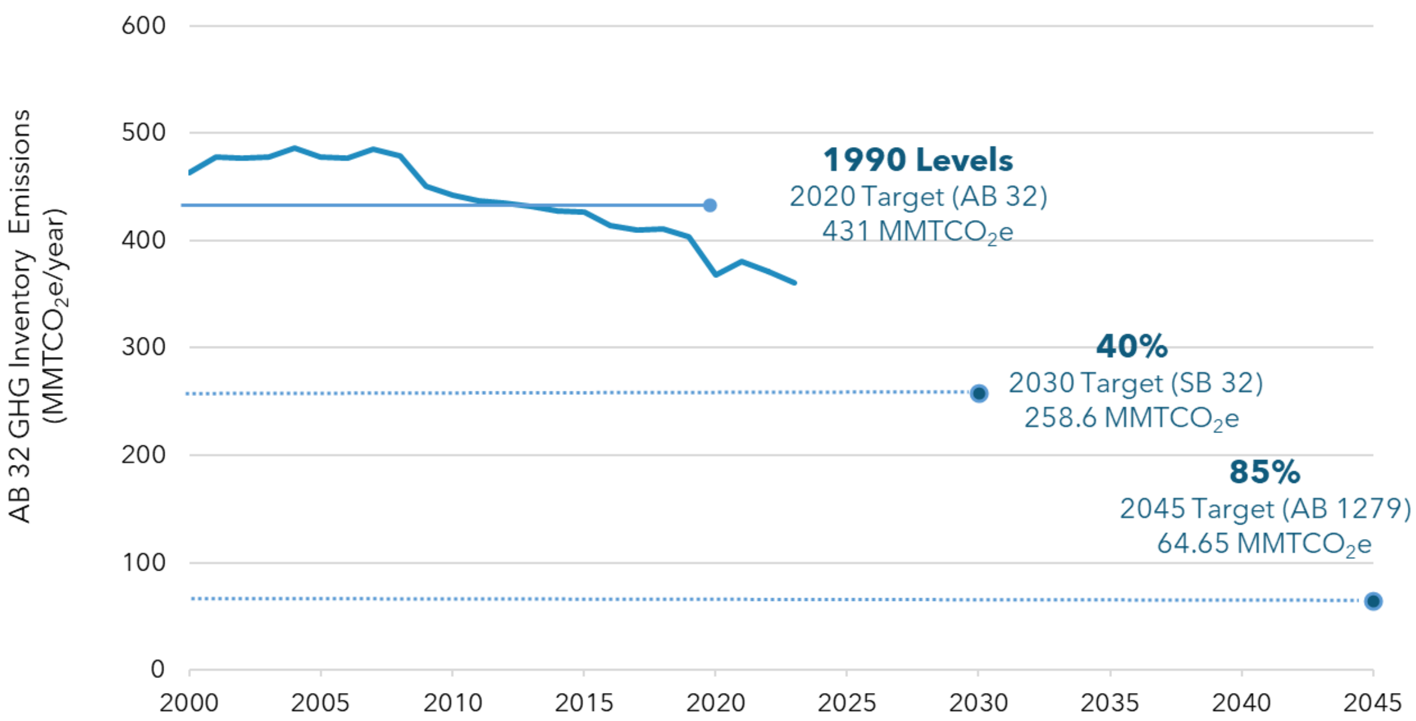


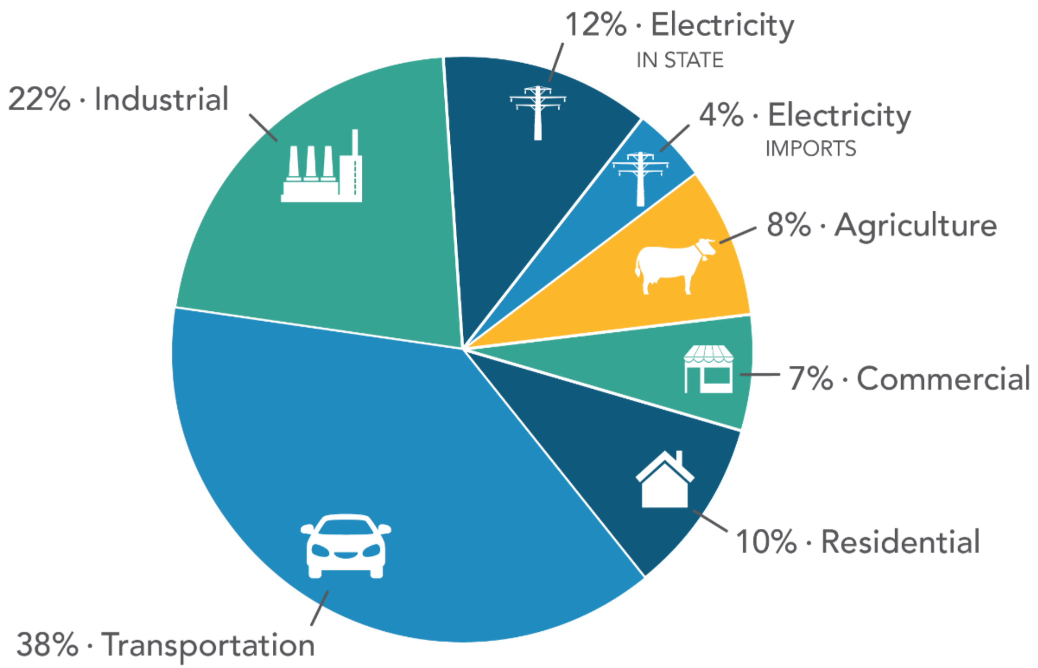
Projects

Examples: Zero-emission trucks, energy infrastructure and renewables, compost facilities, digesters, etc.

California GHG Reduction Targets

Achieved AB 32 target in 2014





360.4 MMT CO$_2$e
2023 TOTAL CA EMISSIONS

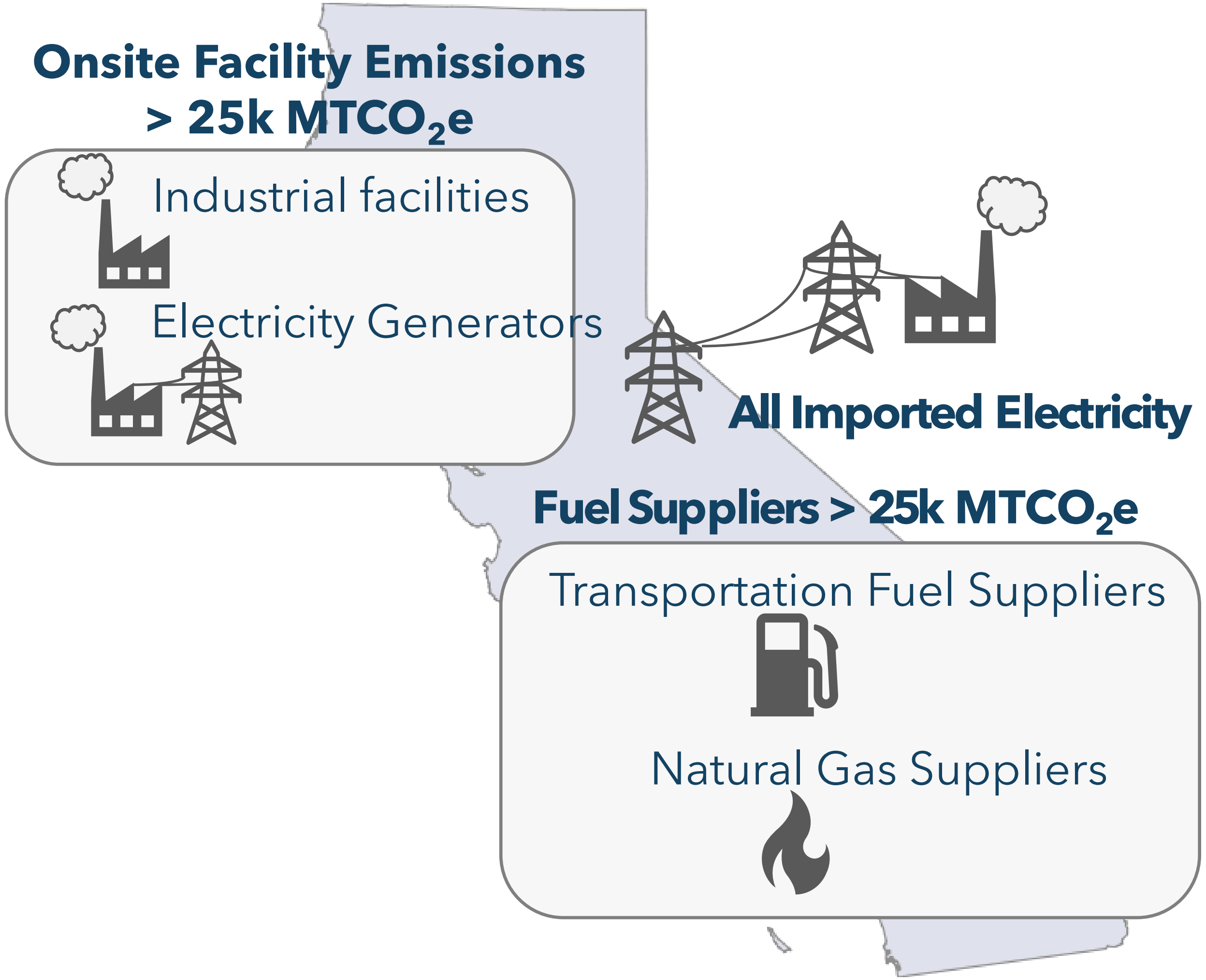
Cap-and-Invest Program Overview

- The Cap-and-Invest Program is a centerpiece of California's portfolio approach to achieve the State's GHG emissions reduction targets
  - Establishes economy-wide, declining caps on 80% of statewide GHG emissions
- Compliance obligations
  - Covered entities must surrender compliance instruments equal to emissions
  - One allowance = one offset credit = permit to emit one MTCO2e
  - Compliance instruments are tradable
- Linked with Québec's Cap-and-Trade System

Declining Caps → Steadily Increasing Price Signal → Targets Lowest Cost Reductions First → Long-Term Price Signal for Clean Technology Investments

Cap-and-Invest Program Coverage

- 80% of California's GHG emissions
- Covered sectors
  - Facilities and Fuel Suppliers ≥ 25,000 $MTCO_2e$ per year
  - All emissions associated with imported electricity



Requirements of Covered Entities

- Register with the Compliance Instrument Tracking System Service (CITSS)
- Report and verify GHG emissions (and product data) annually
- Acquire and surrender compliance instruments (allowances and offsets) per each entity's compliance obligation
  - Reductions are program-wide, not facility specific
- Comply with recordkeeping, market rules, verification, and other requirements in the regulation
- Compliance obligations are calculated annually based on covered emissions

Cap-and-Invest Compliance Flexibility

- Compliance flexibility leads to cost-effective emission reductions
  - Reduce emissions or acquire allowances and offsets
  - Compliance obligation: allowances and offset credits
  - Allowance purchase: auction or secondary market
  - Entities can bank allowances
  - Multi-year compliance periods
- Facilitates integration with other GHG reduction programs
  - Linkage with Québec Cap-and-Trade System

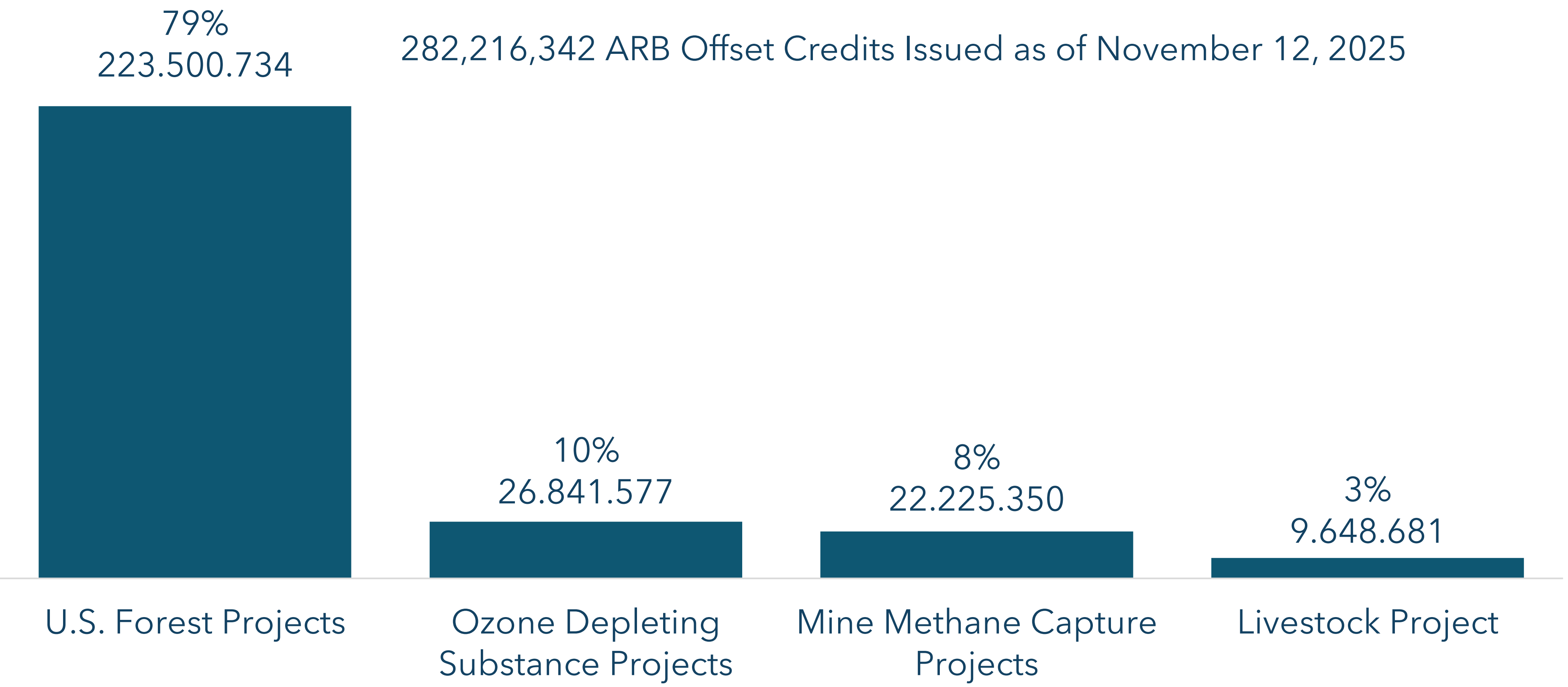
Compliance Offset Credits

- Credits represent verified GHG emission reductions from sectors not covered by Cap-and-Invest
- Reductions must be:
  - Real, permanent, quantifiable, verifiable, enforceable, and additional (beyond regulation or what would otherwise occur)
- Can be used to meet up to 6% of an entity's compliance obligation

Offset Protocols:

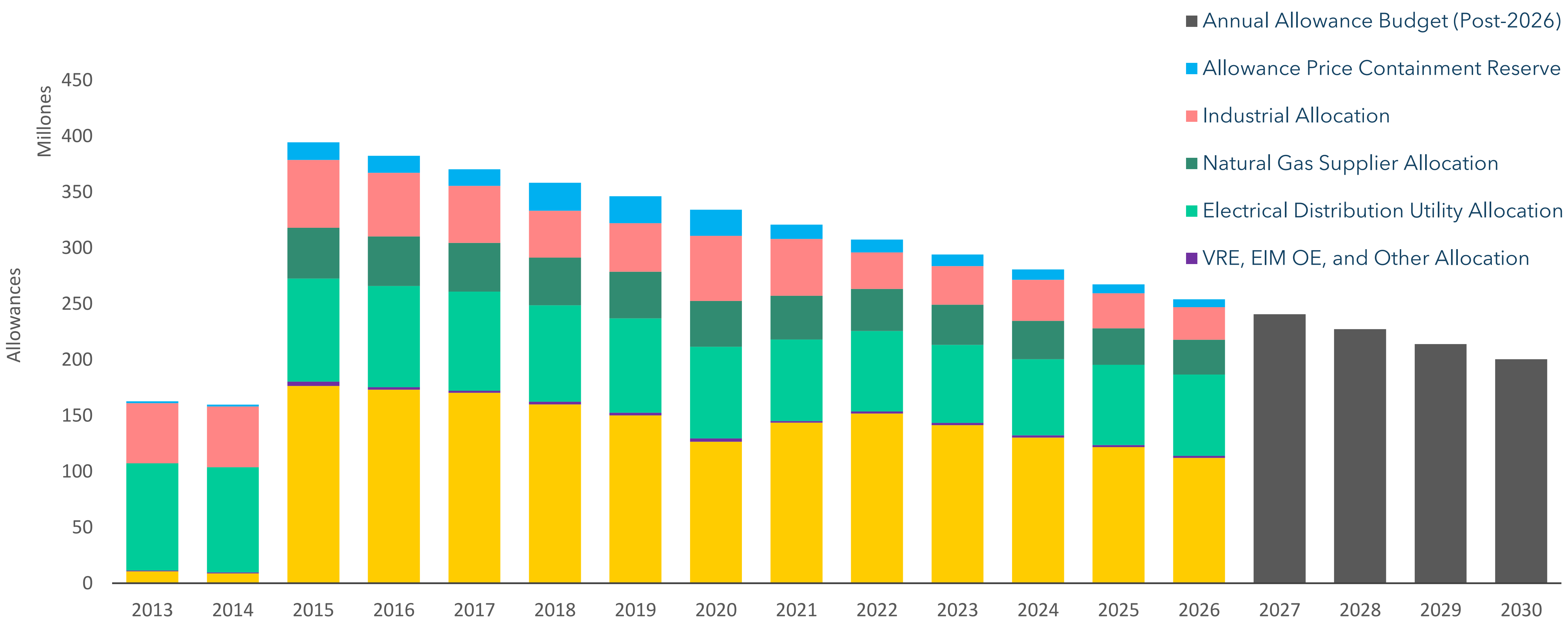
- U.S. Forest Projects
- Ozone Depleting Substances Projects
- Mine Methane Capture Projects
- Livestock Projects
- Urban Forest Projects
- Rice Cultivation Projects

ARB Offset Credit Issuance



[*Offset Credit Issuance Table*]

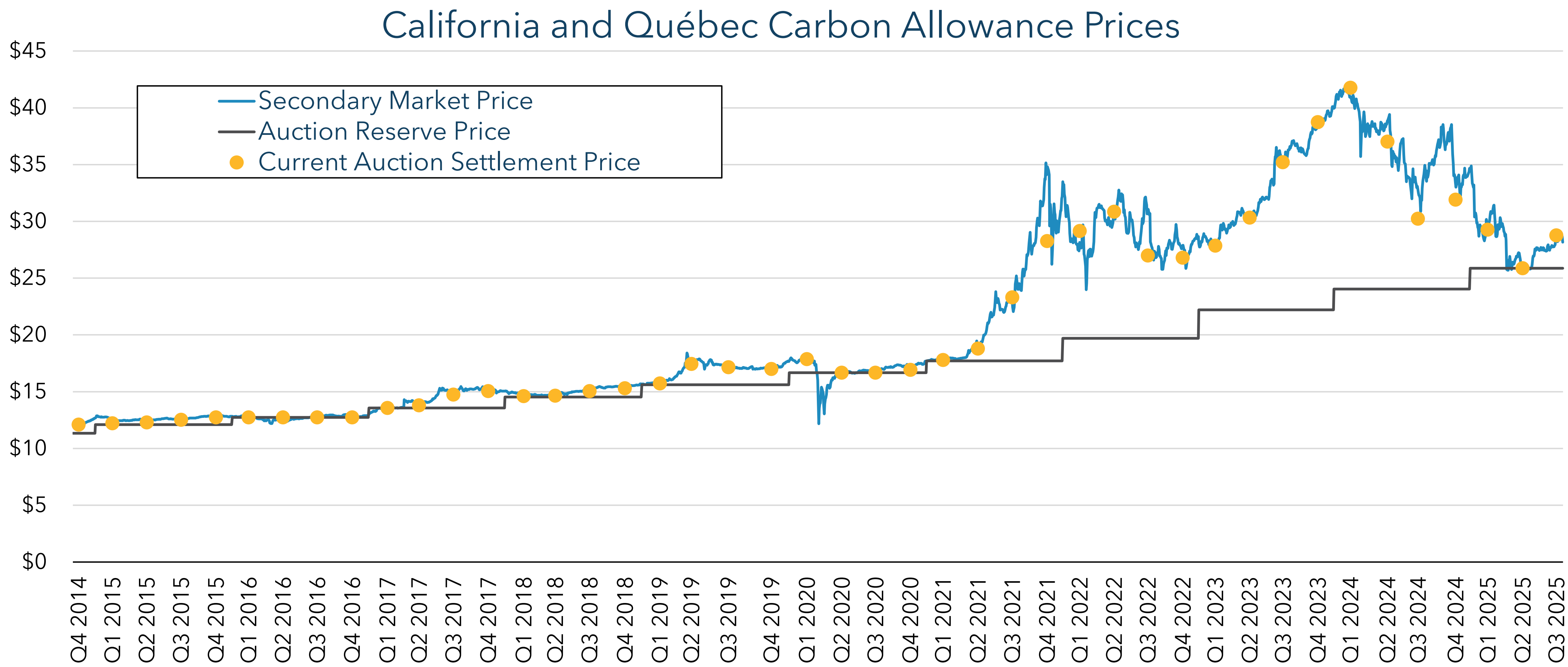
Cap-and-Invest Allowance Budgets



Auction Basics

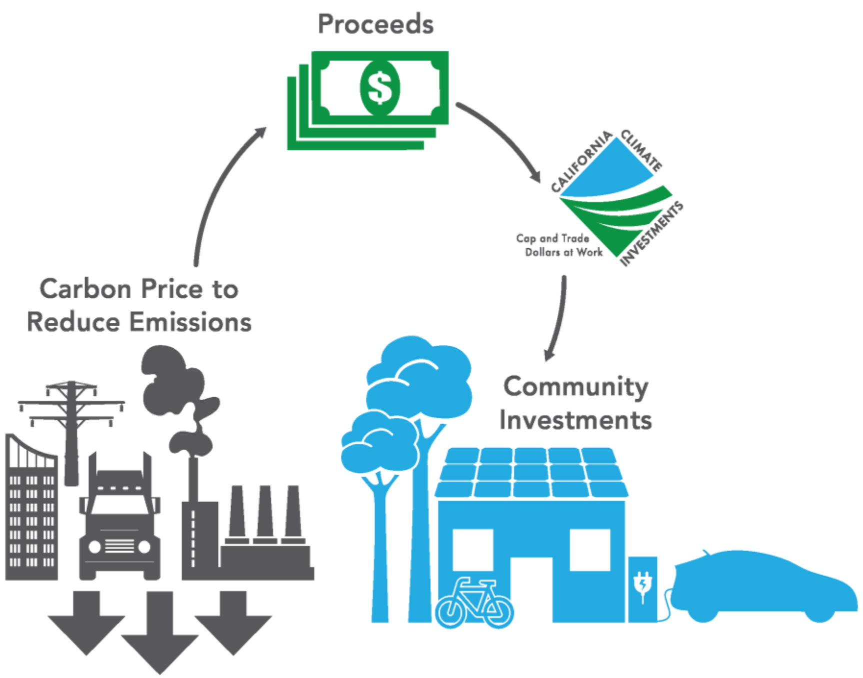
- Auctioning is transparent and promotes liquidity and price discovery
- State-owned allowances and allowances consigned by utilities are offered
  - Offset credits are not offered at the auction
- Auctions are held on a quarterly basis
- Auctions are conducted in a single round, sealed bid format
- Annual auction floor price increases each year by 5% plus inflation
  - Bids below the auction floor price are not accepted
- Auction purchase limit ensures all entities have access to allowances:
  - Covered Entities: 25% of allowances available at auction
  - Voluntary entities: 4% of allowances available at auction

Auction and Secondary Market Prices

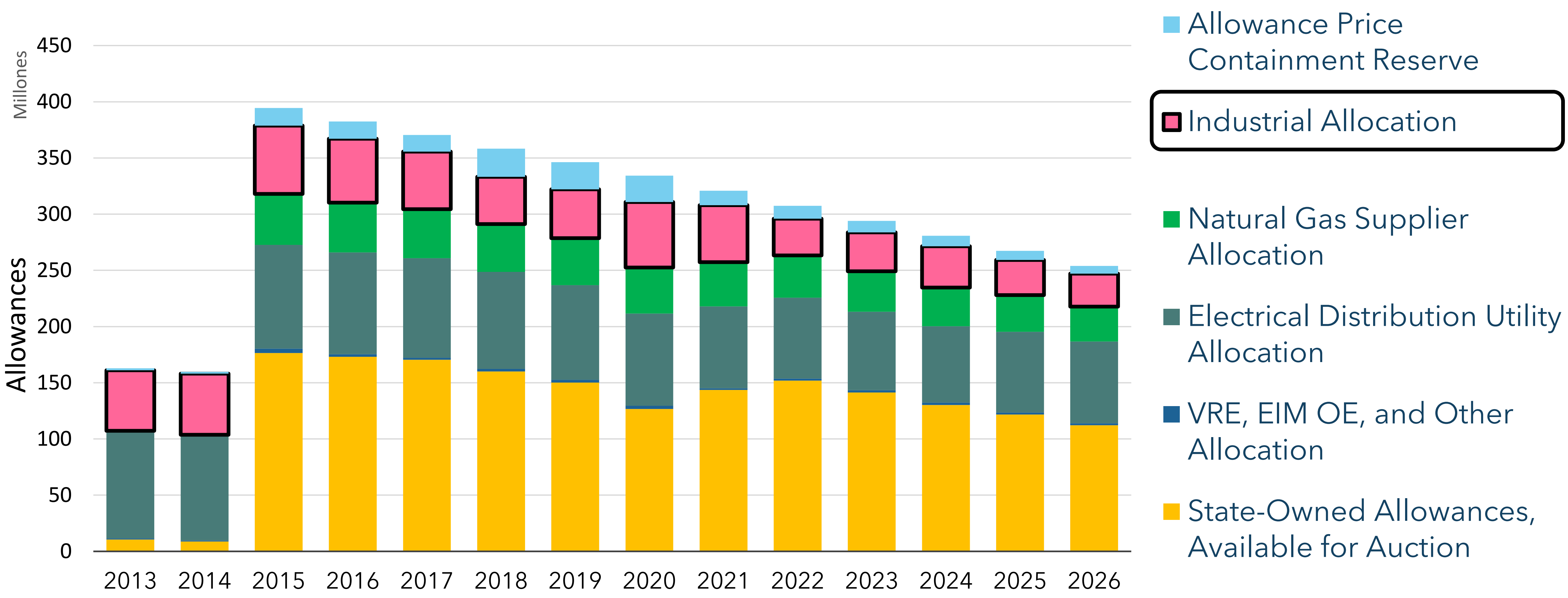


California Climate Investments

- Auction proceeds reinvested to benefit Californians:
  - $34.5B in proceeds from auctions
  - 116.1 $MMTCO_2e$ estimated GHG reductions
  - Over 560,000 zero-emissions and plug-in hybrid vehicle rebates issued
  - 1.6 million acres of land preserved or restored

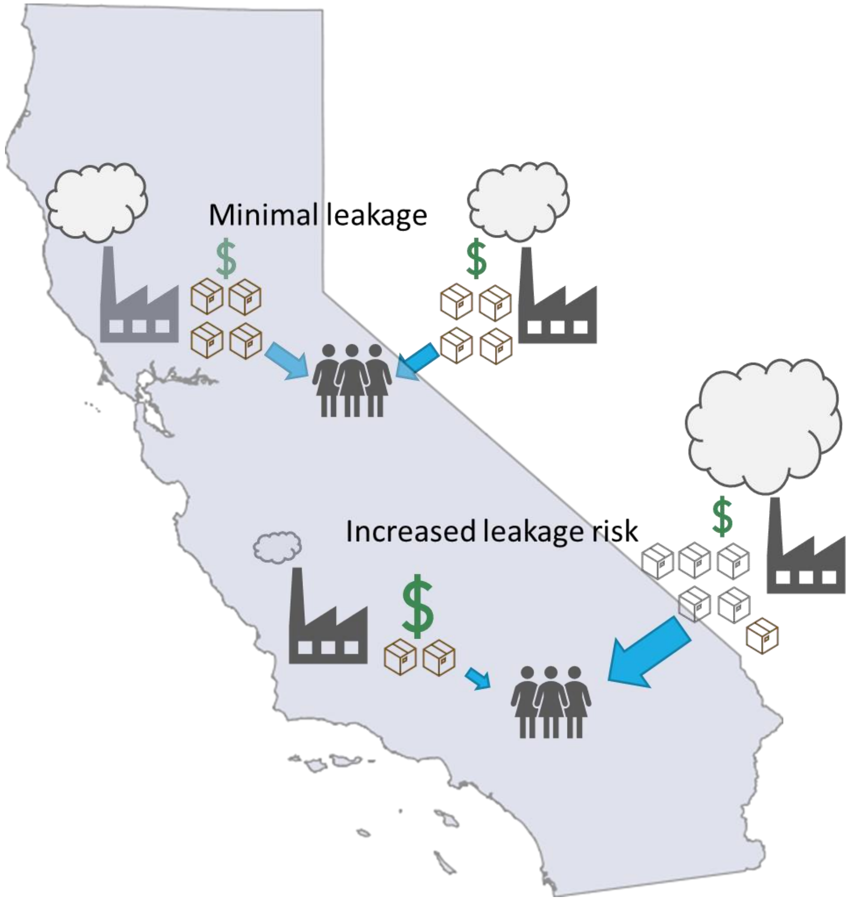


Cap-and-Invest Allowance Budgets

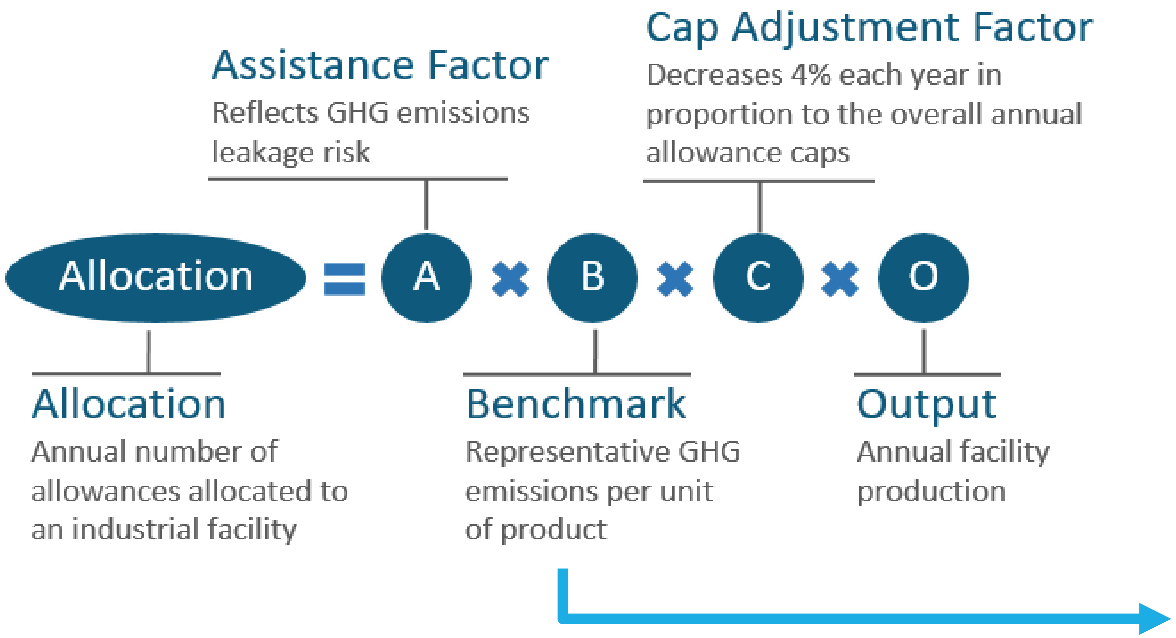


Industrial Allocation Overview

- Industrial allocation provided to protect against emissions leakage
  - Emissions leakage is a reduction in GHG emissions within a jurisdiction that is offset by an increase in GHG emissions outside the jurisdiction
  - Industries at risk include those with high compliance costs and strong competition from out of the jurisdiction
- Product-based allocation method based on the amount of actual production at the facility in the relevant year
  - Preserves incentives to maintain efficient production within California

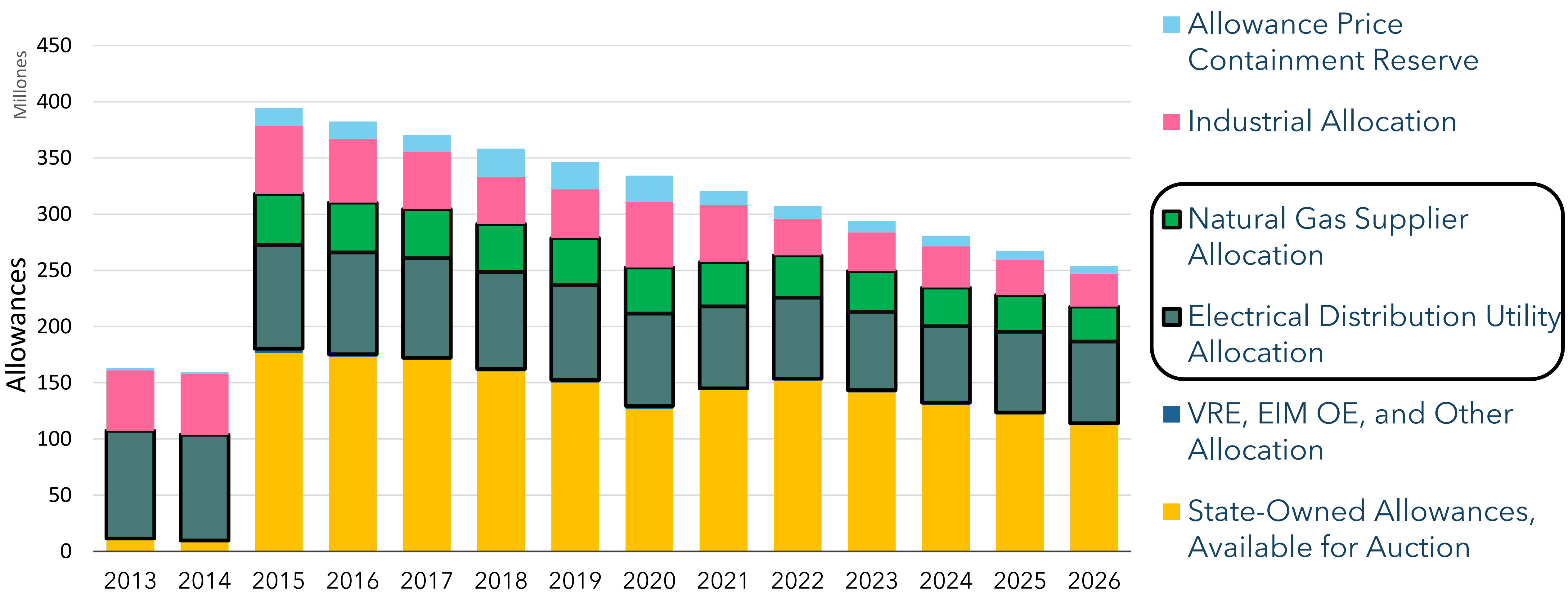


Product-Based Allocation and Benchmarks



- Represent the sector-wide emissions efficiency per unit of production
- Set to reward low-emitting facilities within each sector
- Set at either 90% of average efficiency or the "best-in-class" facility

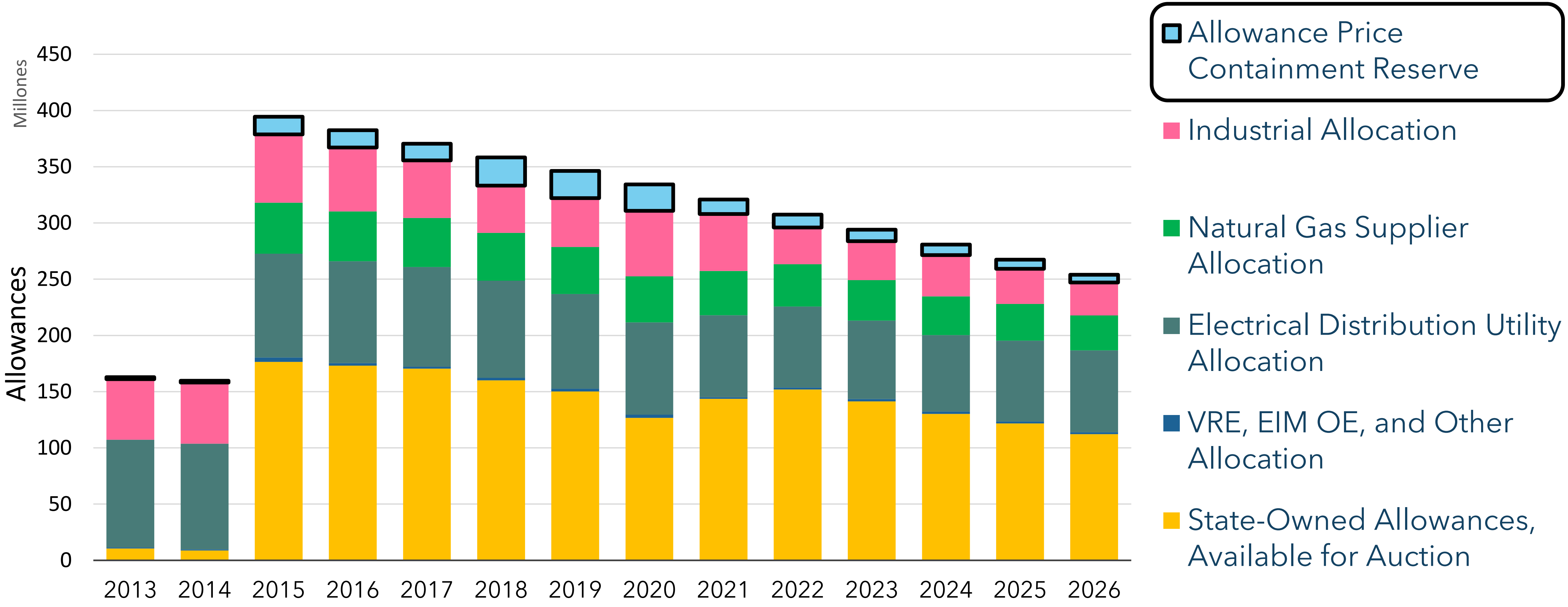
Cap-and-Invest Allowance Budgets



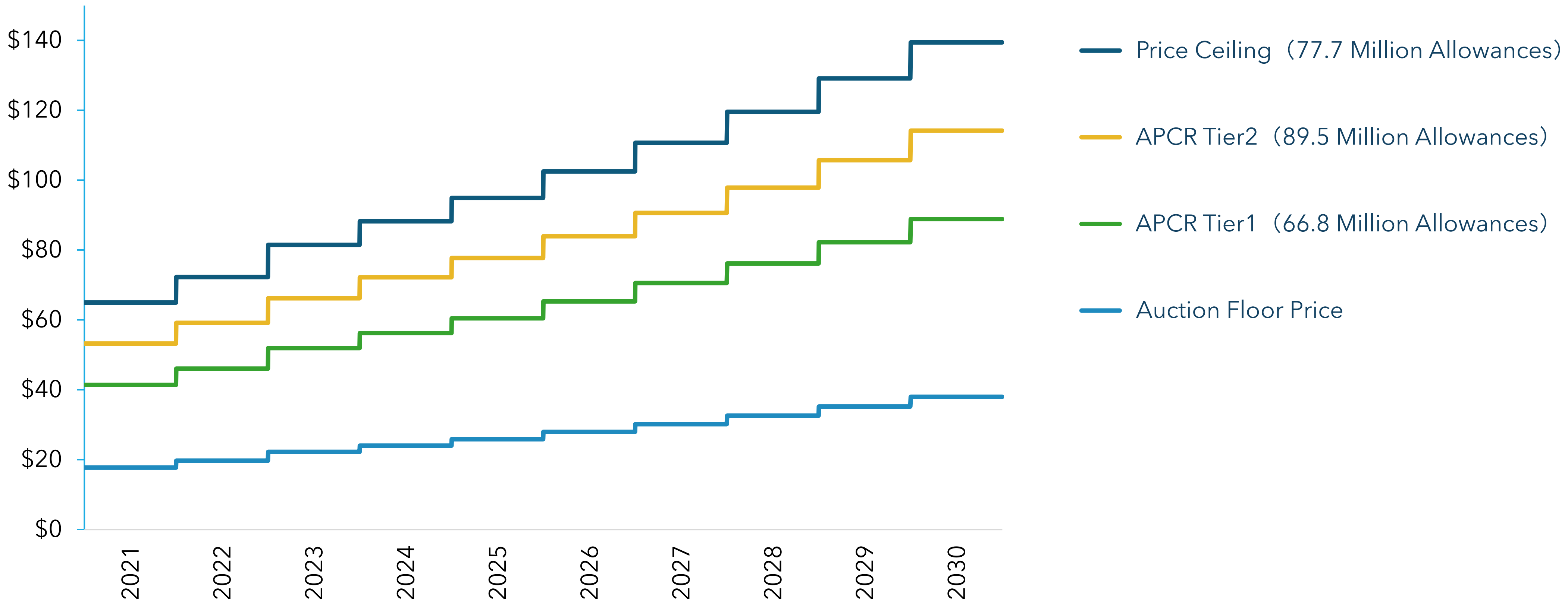
Allocation to Electric Utilities and Natural Gas Utilities

- Electrical distribution utilities (EDUs) annual allocation is based on estimated Program cost burden
  - Established several years in advance (currently through 2030)
- Natural gas suppliers (NGSs) annual allocation is based on historic covered emissions and the cap adjustment factor
- Most allowances allocated to EDUs and NGSs are consigned to auction
  - Consigned allowances are sold at the same quarterly auctions, and under the same rules, as State-owned allowances
  - Majority of value is returned to ratepayers as flat climate credits

Cap-and-Invest Allowance Budgets



Auction Floor, Auction Price Containment Reserve (APCR) and Price Ceiling



Cap-and-Invest Program Summary

- Supports meeting California's GHG reduction targets using a market-based system to achieve cost-effective reductions
- Allowance allocation minimizes leakage and protects consumers
- Auctions are a fair and efficient way to distribute allowances to the market and allow price discovery
- Auction proceeds are reinvested in California to achieve additional GHG reductions with priority on meaningfully benefiting low-income and disadvantaged communities
- Cost-containment mechanisms (reserve tiers, price ceiling, and offset credits) safeguard against short-term price volatility
- There is robust compliance assistance and market surveillance, and coordinated publication of market data