
CARB Climate Regulations Primer: A Practical Guide for Private Companies

Executive Summary

California's climate regulations represent the most comprehensive state-level climate policy framework in the United States. With the California Air Resources Board driving implementation, these regulations affect companies across multiple sectors through disclosure requirements, emissions trading programs, and fuel standards.

This primer provides a roadmap for private companies to understand which regulations apply to them, when compliance is required, and how California's approach fits within the broader landscape of climate regulation.

1. Understanding CARB's Regulatory Framework

The California Air Resources Board serves as the state's primary climate regulator, implementing a suite of programs designed to reduce greenhouse gas emissions and drive the transition to a low-carbon economy. These programs include:

- **Climate Disclosure Laws (SB 253 & SB 261):** Mandatory reporting of GHG emissions and climate-related financial risks
- **Cap-and-Trade Program:** Economy-wide carbon pricing system covering approximately 80% of state emissions
- **Low Carbon Fuel Standard (LCFS):** Performance-based regulation to reduce carbon intensity of transportation fuels

Each program operates independently but together forms an integrated approach to climate mitigation.

2. Who Do CARB Regulations Apply To?

Climate Disclosure Laws (SB 253 & SB 261)

Senate Bill 253 - Climate Corporate Data Accountability Act

Applies to entities meeting ALL of these criteria:

- Total annual revenues exceeding \$1 billion
- Doing business in California
- Formed under U.S. state or federal law (applies to both public and private companies)

Senate Bill 261 - Climate-Related Financial Risk Act

Applies to entities meeting ALL of these criteria:

- Total annual revenues exceeding \$500 million
- Doing business in California
- Formed under U.S. state or federal law (applies to both public and private companies)

Defining "Doing Business in California"

CARB has proposed using California Revenue and Tax Code Section 23101 as the framework. An entity does business in California if it actively engages in transactions for financial gain AND meets at least one of these thresholds:

1. Is organized or commercially domiciled in California
2. Has sales in California exceeding \$735,019
3. Owns personal or real property in California exceeding \$73,502 in value or 25% of total assets
4. Pays compensation in California exceeding \$73,502 or over 25% of total compensation

Key Exemptions:

- Non-profit organizations
- Companies whose only California presence is teleworking employees
- Government entities

- Entities engaged solely in wholesale electricity transactions in interstate commerce

CARB Estimates:

- Approximately 2,596 entities subject to SB 253
- Approximately 4,160 entities subject to SB 261

Cap-and-Trade Program

Applies to facilities and entities with GHG emissions at or above 25,000 metric tons CO₂e annually, including:

First Compliance Period (2013-2015):

- Electricity generation facilities (in-state and imports)
- Large industrial facilities

Second Compliance Period (2015-2030):

- All entities from first period, plus:
- Transportation fuel suppliers
- Natural gas suppliers

Approximately 350 facilities participate in the program, which covers roughly 80% of California's GHG emissions.

Low Carbon Fuel Standard

Applies to providers of transportation fuels in California who must demonstrate their fuel mix meets declining carbon intensity benchmarks. This includes:

- Refiners
- Importers of gasoline and diesel
- Producers of alternative fuels
- Fuel distributors

3. Timeline & Compliance Milestones

Climate Disclosure Laws: Critical Dates

2025:

- **January 1, 2025:** Companies should begin collecting and retaining fiscal year 2025 data for both GHG emissions and climate-related financial risks
- **Q1 2026:** CARB expected to publish final implementing regulations (delayed from original July 2025 and December 2025 deadlines)

2026:

- **January 1, 2026:** First SB 261 climate-related financial risk reports due
 - Biennial disclosure of climate-related financial risks following TCFD framework
 - Reports must be published on company public-facing websites
 - Initial reports may cover fiscal years 2023/2024 or 2024/2025 data
 - CARB public docket opens December 1, 2025 through July 1, 2026 for links to reports
- **June 30, 2026:** First SB 253 Scope 1 and 2 GHG emissions reports proposed deadline
 - Covers fiscal year 2025 emissions
 - Limited assurance required
 - Use of CARB's draft reporting template is voluntary for 2026 reporting

2027:

- **2027:** First SB 253 Scope 3 GHG emissions reports due
 - Covers fiscal year 2026 emissions
 - Initially without assurance requirement

2028 and Beyond:

- **2028:** Enhanced reporting requirements for certain biomass feedstock sustainability certifications under LCFS
- **2030:** Reasonable assurance required for Scope 1 and 2 emissions (upgraded from limited assurance)
 - Limited assurance required for Scope 3 emissions begins

Annual Fees (Starting 2026):

- SB 253: Estimated \$3,106 per reporting entity annually
- SB 261: Estimated \$1,403 per reporting entity annually
- Fees will be adjusted annually for inflation

Good Faith Enforcement: CARB's December 2024 Enforcement Notice indicates no penalties will be imposed for incomplete reporting in the first cycle (2026), provided entities demonstrate good faith efforts to comply and retain all relevant data.

Cap-and-Trade Program: Ongoing Compliance

Annual Cycle:

- **Quarterly:** Auctions held throughout the year (next auction: November 19, 2025)
- **Q3 (typically August):** Reserve Sale preceding November compliance deadline
- **November 1:** Annual compliance obligation instrument surrender deadline
- **November 30:** True-up deadline for entities missing November 1 deadline (subject to 4:1 penalty ratio)

Compliance Periods:

- First Period: 2013-2015 (completed)
- Second Period: 2015-2027
- Third Period: 2028-2030
- Program extended through 2045 by AB 1207 (signed September 19, 2025)

Multi-Year Flexibility:

- Banking allowed (subject to holding limits)
- Three-year compliance periods smooth year-to-year variations
- Offset usage limits: 4% for 2021-2025 emissions, increasing to 6% for 2026-2030

2025 Price Points:

- Auction reserve price: \$25.87
- Reserve tier prices: Set annually, increasing 5% plus inflation
- Price ceiling: \$94.92 (2025)

Low Carbon Fuel Standard: Key Milestones

2025:

- **July 1, 2025:** LCFS amendments took effect
 - Immediate 9% carbon intensity benchmark reduction from 2018 levels

- Results in 22.75% CI reduction baseline for 2025
- True-up credits and CI exceedance deficits apply to all 2025 reporting

Quarterly Reporting Cycle:

- **Within 30 days after quarter end:** Upload fuel transaction data to LRT-CBTS
- **Within 45 days after quarter end:** Submit final quarterly fuel transactions reports
- **Q2 Example Deadlines:**
 - July 30: Upload Q2 data
 - August 14: Submit final Q2 report

Annual Reporting:

- **Fall 2026:** First verification of 2025 Annual Fuel Pathway Reports (AFPR)
 - True-up credits issued after verification
 - CI exceedance deficits calculated

Long-Term Targets:

- **2030:** 30% carbon intensity reduction from 2010 baseline (increased from 20%)
- **2045:** 90% carbon intensity reduction target
- **Automatic Acceleration Mechanism (AAM):** May trigger additional CI reductions if specific regulatory conditions are met (earliest: May 15, 2027)

4. Intersection with Federal and Other State Programs

Federal Climate Disclosure: Current Status

SEC Climate Disclosure Rules (Adopted March 2024, Currently Inactive):

On March 27, 2025, the SEC voted to end its defense of federal climate disclosure rules. While litigation continues in the Eighth Circuit Court of Appeals, enforcement has been indefinitely stayed. The rules would have required:

- Material climate risk disclosures
- Scope 1 and 2 emissions reporting for large accelerated filers and accelerated filers (if material)

- Financial statement disclosures related to severe weather events and carbon offsets

Key Differences from California Laws:

- SEC rules were materiality-based; California laws are not
- SEC rules applied only to public companies; California laws apply to both public and private companies
- SEC rules did not initially require Scope 3 reporting; California requires Scope 3

Current Federal Landscape:

With the SEC's withdrawal from defending its climate rules, the federal regulatory framework for climate disclosure has effectively collapsed. However, this creates potential regulatory overlap and complexity:

- Companies may face California requirements without federal backstop
- Federal incentive programs (IRA, IIJA) still drive climate-related financial decisions
- Federal agencies continue environmental reporting requirements under existing statutes

State-Level Climate Programs

States Considering Similar Disclosure Laws:

- **New York:** Proposed legislation similar to California's SB 253 and SB 261
- **Illinois:** Draft climate disclosure requirements under consideration
- **New Jersey:** Preliminary discussions of disclosure mandates
- **Washington:** Exploring climate reporting framework

State Carbon Markets and Links:

- **California-Quebec Linkage:** Active since 2014, joint quarterly auctions
- **Washington Cap-and-Invest:** Launched January 2023, potential linkage discussions with California
- **Regional Greenhouse Gas Initiative (RGGI):** Northeast and Mid-Atlantic states (separate from California)

Low Carbon Fuel Standards in Other States

Oregon Clean Fuels Program:

- Similar structure to California LCFS
- Carbon intensity reduction targets through 2035
- Credit trading system compatible with California's approach

Washington Clean Fuel Standard:

- Launched January 2023
- Targets 20% carbon intensity reduction by 2038
- Potential credit market interactions with California

International Climate Disclosure: Global Context

European Union:

- **Corporate Sustainability Reporting Directive (CSRD):** Mandatory ESG reporting for large companies operating in EU (phased implementation 2024-2028)
- **Corporate Sustainability Due Diligence Directive (CS3D):** Supply chain due diligence requirements
- Requirements more comprehensive than California's laws

ISSB Standards:

- International Sustainability Standards Board climate standards (IFRS S1 and S2)
- Adopted or being considered by 35+ nations
- CARB indicated preference for ISSB alignment for SB 261 reporting

Practical Implication:

Large multinational companies may already be preparing for EU or other international climate disclosures. Companies with established reporting processes for international requirements may find California compliance more straightforward, though differences in methodology and scope require careful attention.

5. Practical Implications for Private Companies

Assessment Questions

Before diving into compliance planning, private companies should assess their exposure:

Am I Subject to Any CARB Programs?

1. Do I have total annual revenues exceeding \$500 million? (Consider SB 261)
2. Do I have total annual revenues exceeding \$1 billion? (Consider SB 253)
3. Do I operate facilities in California with emissions above 25,000 MT CO₂e? (Consider Cap-and-Trade)
4. Do I provide transportation fuels in California? (Consider LCFS)
5. Do I meet the "doing business in California" thresholds?

Compliance Preparation Timeline

Immediate Actions (Q4 2025 - Q1 2026):

1. **Determine Applicability:** Calculate your revenue threshold, assess California business activity, and identify which programs apply to your operations
2. **Establish Data Collection Systems:** Begin gathering fiscal year 2025 data for GHG emissions and climate-related financial risks
3. **Assign Internal Ownership:** Designate teams responsible for compliance (typically finance, sustainability, legal, and operations)
4. **Engage with CARB:** Submit public comments on draft regulations and monitor regulatory developments
5. **Review Existing Reporting:** Assess what climate data you already collect for other purposes (investors, customers, voluntary frameworks)

Short-Term (Q2-Q4 2026):

1. **Complete Initial Assessments:** Conduct Scope 1, 2, and 3 GHG inventories following GHG Protocol
2. **Perform Climate Risk Analysis:** Evaluate physical and transition risks using TCFD framework or ISSB standards
3. **Establish Verification Relationships:** Identify and engage third-party assurance providers for GHG reporting
4. **Submit First Reports:** File initial disclosures according to applicable deadlines
5. **Pay Annual Fees:** Budget for and submit estimated fees to CARB

Long-Term (2027 and Beyond):

1. **Integrate Into Business Operations:** Embed climate reporting into regular financial and operational reporting cycles

2. **Continuous Improvement:** Refine data quality, expand measurement capabilities, and improve verification processes
3. **Monitor Regulatory Changes:** Track updates to CARB regulations and related programs
4. **Align with Other Requirements:** Coordinate California reporting with any EU, international, or other state obligations

Cost Considerations

One-Time Setup Costs:

- Third-party consultants for GHG inventory: \$50,000 - \$200,000
- Climate risk assessment and TCFD analysis: \$75,000 - \$150,000
- Data management system implementation: \$25,000 - \$100,000
- Legal review and compliance assessment: \$30,000 - \$75,000

Total estimated initial setup: \$300,000 - \$750,000 (business groups' estimates for SB 261 compliance)

Annual Recurring Costs:

- GHG inventory updates: \$30,000 - \$75,000
- Third-party assurance (limited): \$20,000 - \$50,000
- Third-party assurance (reasonable, from 2030): \$40,000 - \$100,000
- Climate risk disclosure updates: \$25,000 - \$50,000
- CARB annual fees: \$4,509 combined (SB 253 + SB 261), adjusted for inflation
- Internal staff time and systems maintenance: Variable

Total estimated annual costs: \$150,000 - \$500,000 (business groups' estimates for SB 261)

Cap-and-Trade Costs:

- Allowance purchases: Variable based on emissions, current market prices around \$26-27 per MT CO₂e
- Banking and trading fees: Transaction-dependent
- Compliance consulting: \$50,000 - \$150,000 annually for complex operations

LCFS Costs:

- Depends on fuel mix and carbon intensity

- Credit prices fluctuated \$40-50 per credit in mid-2025
- Estimated impact: \$0.05-0.10 per gallon of gasoline

Strategic Advantages of Early Compliance

Competitive Positioning:

- Demonstrate climate leadership to investors and customers
- Differentiate in markets where climate action creates value
- Attract impact-focused investors and access green financing

Operational Efficiency:

- Identify emissions reduction opportunities through detailed inventory work
- Optimize energy usage and reduce costs
- Improve supply chain visibility and resilience

Risk Management:

- Better understand exposure to physical and transition risks
- Improve adaptation planning and business continuity
- Reduce uncertainty in strategic planning

Stakeholder Relations:

- Meet investor expectations for climate transparency
- Respond to customer sustainability requirements
- Build trust with employees and communities

Common Pitfalls to Avoid

Data Quality Issues:

- Inconsistent measurement methodologies across facilities
- Incomplete activity data for Scope 3 emissions
- Poor documentation of assumptions and calculations

Organizational Silos:

- Finance team not coordinating with operations
- Sustainability function disconnected from strategy
- Legal compliance isolated from disclosure narrative

Scope Creep:

- Attempting to build perfect systems before first deadline
- Over-engineering data collection for initial reporting
- Pursuing unnecessary precision at the expense of timeliness

Regulatory Misinterpretation:

- Assuming materiality qualifiers that don't exist in California laws
- Conflating SEC requirements with CARB requirements
- Misunderstanding parent-subsidiary reporting relationships

Resource Underestimation:

- Insufficient budget for third-party support
- Inadequate internal staff time allocation
- Unrealistic timelines for system implementation

6. Relationship Between CARB Programs

Complementary Programs

Cap-and-Trade and LCFS: While both programs address transportation sector emissions, they work through different mechanisms:

- Cap-and-Trade covers fuel suppliers upstream, creating economy-wide price signal
- LCFS creates performance standard focused specifically on carbon intensity of fuels
- Credits from one program cannot be used in the other
- Companies in transportation fuel supply may participate in both programs simultaneously

Disclosure Laws and Market Programs: Climate disclosure requirements provide transparency that supports:

- More informed participation in carbon markets
- Better assessment of regulatory compliance costs
- Improved investor understanding of carbon exposure

Data Synergies

Companies subject to multiple CARB programs can leverage existing compliance infrastructure:

GHG Inventory Skills Transfer:

- Cap-and-Trade reporting experience aids SB 253 compliance
- Mandatory Reporting Regulation (MRR) data can inform disclosure reports
- Verification relationships established for one program may extend to others

Operational Insights:

- LCFS compliance reveals fuel transition opportunities
- Cap-and-Trade cost exposure highlights climate financial risks for SB 261
- Combined data provides comprehensive view of climate strategy

7. Looking Ahead: Future Regulatory Developments

Expected CARB Actions

Near-Term (2025-2026):

- Final regulations for SB 253 and SB 261 (Q1 2026)
- Clarification of "doing business" definition
- Corporate relationship guidance for parent-subsidary reporting
- Cap-and-Trade program amendments for post-2030 targets

Medium-Term (2027-2030):

- Scope 3 reporting methodology refinement
- Enhanced assurance requirements implementation
- Potential LCFS program expansion or adjustment
- Integration with emerging federal climate programs (if any)

Potential Federal Developments

Despite the current administration's rollback of federal climate disclosure rules, several factors may drive renewed federal action:

Market Pressure:

- Investor demand for comparable, reliable climate information continues
- International disclosure requirements affect U.S. multinationals
- Climate-related financial risk remains material to investors

Congressional Action:

- Future administrations may renew climate disclosure efforts
- Legislative proposals may establish statutory requirements
- Federal incentive programs create indirect disclosure drivers

Legal Challenges:

- Ongoing litigation may still result in some form of federal requirements
- Court decisions on California laws may influence federal approach

State-Level Expansion

More states are likely to follow California's lead:

- States with large economies have disproportionate influence
- Multi-state coalitions may develop coordinated requirements
- Regional variation will increase compliance complexity

8. Resources and Support

CARB Official Resources

Primary Contact: California Air Resources Board 1001 I Street Sacramento, CA 95814 Website: ww2.arb.ca.gov

Program-Specific Pages:

- Climate Disclosure: [CARB Climate Disclosure](#)
- Cap-and-Trade: [CARB Cap-and-Trade Program](#)
- LCFS: [CARB Low Carbon Fuel Standard](#)

Public Workshops and Comment Periods: CARB maintains active stakeholder engagement. Check the website regularly for:

- Upcoming public workshops
- Draft regulation releases
- Comment period deadlines
- Board meeting schedules

Voluntary Frameworks and Standards

GHG Protocol:

- Corporate Standard for Scope 1 and 2 emissions

- Corporate Value Chain Standard for Scope 3 emissions
- Website: ghgprotocol.org

Task Force on Climate-related Financial Disclosures (TCFD):

- Framework for climate risk disclosure (basis for SB 261)
- Website: fsb-tcfd.org

International Sustainability Standards Board (ISSB):

- IFRS S1 (General Sustainability Disclosures)
- IFRS S2 (Climate-related Disclosures)
- Website: ifrs.org/groups/international-sustainability-standards-board

Professional Service Providers

Types of Support Available:

- GHG inventory and verification firms
- Climate risk consulting firms
- Legal counsel specializing in environmental compliance
- Sustainability software platforms
- Carbon market advisory services

Conclusion

California's climate regulations represent a complex but manageable compliance landscape for private companies. The key to success lies in early assessment, systematic preparation, and integration of climate considerations into core business processes.

For companies already operating in California or serving California markets, these regulations are not optional. The good news: CARB has signaled a measured approach to first-year enforcement, providing breathing room for companies making good faith efforts to comply.

The broader trend is clear. Climate disclosure and carbon pricing are becoming standard features of the business environment, not just in California but globally. Companies that treat CARB compliance as an opportunity to build robust climate management capabilities will be better positioned for whatever comes next—whether from other states, renewed federal action, or international requirements.

This primer was prepared by Motive ESG to provide practical guidance on California climate regulations. While comprehensive, it should not be considered legal advice. Companies should consult with qualified legal and technical advisors to assess their specific compliance obligations.

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