



California Fuels and Convenience Alliance

2520 Venture Oaks Way, Suite 100

Sacramento, CA 95833

916.646.5999

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California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**RE: CFCA Comments – Proposed Amendments to the Cap-and-Invest Regulation (15-day Amendments)**

The California Fuels and Convenience Alliance (CFCA) represents approximately 300 members, including nearly 90 percent of all independent petroleum marketers in the state and more than half of California's 12,000 convenience retailers. Our members—predominantly small, family- and minority-owned businesses—play a vital role in the state's fuel supply chain, serving local governments, emergency services, school districts, transit providers, independent fuel retailers, and the agricultural sector.

We appreciate the opportunity to comment on the California Air Resources Board's (CARB) initial proposed amendments to the Cap-and-Invest Regulation. While the current proposal includes improved elements, it also raises several concerns related to compliance costs, market stability, and the long-term viability of in-state fuel production.

**EXCESSIVE REDUCTION IN ALLOWANCE SUPPLY**

CFCA reiterates its previously submitted concerns regarding the magnitude of the proposed allowance supply reductions. The removal of approximately 118 million allowances from the 2027–2030 budgets, combined with a projected cumulative reduction of nearly one billion allowances through 2045 relative to the current regulation, represents a substantial tightening of the program beyond what is necessary to achieve continued environmental progress.

Given that modeling suggests a high probability of reaching the price ceiling by 2045 (approximately \$260 per tonne, assuming a 5% annual increase, excluding inflation), there is a significant risk of upward pressure on fuel prices as a result of increased compliance costs. This degree of supply contraction will increase compliance costs, which will inevitably flow downstream through the fuel supply chain to the small businesses and consumers our members serve.

## **MANUFACTURING DECARBONIZATION INCENTIVE: NEED FOR CLARITY, SCALE, AND DURABILITY**

While the establishment of the Manufacturing Decarbonization Incentive Allocation introduces a potentially important pathway for facility-level emissions reductions, key elements of the program remain unclear and warrant further clarification.

First, it is unclear whether retired allowances, particularly those removed from the budget, will automatically flow into the Manufacturing Decarbonization Incentive fund, and if so, how those allowances will be structured (for example, by vintage year). While this approach appears to be applied in the near term (approximately 118 million allowances retired between 2027–2030 are directed into the incentive fund), clarification is needed on whether this mechanism will continue in future compliance periods. Understanding this is critical to assessing both the scale and timing of available funding.

Second, there is limited information regarding how the fund will receive ongoing allocations beyond the initial 118.3 million allowances. If the program is intended to support long-term decarbonization investments, it must have a predictable and durable funding stream rather than a one-time allocation. Without this, facilities will face significant uncertainty when evaluating whether to undertake multi-year, capital-intensive projects.

Third, the currently proposed funding level is not commensurate with the scale of investment required across California's industrial sector. Refinery modernization and other emissions-reducing upgrades often require substantial capital expenditures, particularly for aging facilities operating at high utilization rates. Without a mechanism to both replenish and expand the incentive pool over time, the program risks being oversubscribed and insufficient to drive meaningful emissions reductions at scale.

California is already experiencing reduced refining capacity due to recent facility closures. At the same time, remaining refineries are aging and operating at high utilization rates, contributing to an increase in unplanned maintenance outages. Many of these facilities require significant capital investment to modernize infrastructure, improve efficiency, and reduce emissions. These upgrades would deliver dual benefits: lowering emissions intensity while improving operational reliability and reducing supply disruptions.

However, these investments can only be justified if operators have confidence in both the availability of incentive support and the broader regulatory environment. The Cap-and-Invest program has a clear opportunity to align environmental objectives with operational realities by explicitly supporting facility modernization projects and ensuring that the decarbonization fund is sufficiently robust, scalable, and predictable over time.

## **REGULATORY CERTAINTY AND LEAKAGE RISK**

We also note that the removal of cap adjustment factors (CAFs) beyond 2030, while an improvement over earlier proposals, continues to create uncertainty for long-term investment planning. Refinery upgrades

and modernization projects require multi-year planning horizons and significant capital commitments. A four-year window of regulatory clarity is insufficient given these realities.

This uncertainty is particularly concerning in the context of ongoing disparities between in-state and out-of-state refining operations, which continue to drive leakage risk. Without clear, long-term signals, there is a heightened risk that investment, and ultimately production, will shift outside of California, undermining both economic and environmental objectives. Given current market conditions, California can no longer afford to lose additional in-state refining capacity. The current geopolitical landscape underscores that disruptions in regions such as Asia, where California relies on imports of finished fuel, can have direct impacts on the state's fuel market.

## CONCLUSION

Taken together, the proposed reduction in allowance supply, both the near-term removal of approximately 118 million allowances and the nearly one billion allowance reduction through 2045, represents a level of program tightening that is likely to significantly increase compliance costs, with downstream impacts on fuel prices, small businesses, and consumers.

At the same time, while the Manufacturing Decarbonization Incentive Allocation presents a potentially valuable tool, its effectiveness is undermined by key uncertainties regarding the treatment of retired allowances, the absence of a clearly defined and continuous funding stream beyond the initial allocation, and a funding level that appears insufficient relative to the scale of investment required across California's industrial sector. Without greater clarity, durability, and scale, the program risks being unable to support the types of long-term, capital-intensive projects needed to achieve meaningful emissions reductions.

Finally, the lack of long-term regulatory certainty, particularly the limited visibility beyond 2030 and ongoing leakage risk, creates additional barriers to investment in in-state refining capacity and infrastructure modernization. These dynamics, taken together, risk undermining both the environmental and economic objectives of the program.

CFCA respectfully urges CARB to: (1) reconsider the magnitude and timing of allowance supply reductions; (2) provide clear guidance on the structure, funding sources, and long-term sustainability of the Manufacturing Decarbonization Incentive; and (3) ensure greater regulatory certainty to support in-state investment and maintain a reliable, affordable, and lower-carbon fuel supply.

*If you have any questions, please contact CFCA's Senior Policy Analyst, Gebriel Saleh, at [gebriel@cfca.energy](mailto:gebriel@cfca.energy).*

Sincerely,

*Gebriel Saleh*

Gebriel Saleh  
Senior Policy Analyst

