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***California Independent Petroleum Association Comments
on the Cap-and-Invest Initial Statement of Reason and Proposed Amendments***

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Lauren Sanchez- Chair
Board Members
California Air Resources Board

Via electronic submittal to: [regulatory docket](#)

The California Independent Petroleum Association (CIPA) appreciates the opportunity to comment on the Cap-and-Invest Regulatory Package (Regulation or Package), which includes the Initial Statement of Reason and the proposed regulatory amendments. This package comes at a critical time for the energy sector as California's climate goals are ramping up, at the same time the State is experiencing both an energy affordability crisis and demonstratable sector leakage. California's energy infrastructure is literally being dismantled in real-time.

CIPA represents nearly 300 crude oil and natural gas producers, royalty owners, and service and supply companies who all operate in California under the toughest regulations on the planet.

The Cap-and-Invest Program (Program) as a whole has consistently provided an incentive to reduce GHG emissions from ongoing operations through a steadily increasing price on carbon emissions. This amendment package raises the cost of the program on a per barrel basis in the next few years 2x -4x, depending on individual operator production characteristics, which will have swift and measurable impact to CIPA Members, in-state investment and use of GHG-reducing technology. Using conservative values for carbon price, the Program costs will exceed \$4.30/barrel in 2034. This is a significant percentage of the products worldwide market value. *CIPA recommends CARB revise the proposal so Program cost increases are minimized.*

Our members have historically responded to the State's carbon reduction goals and the steady carbon price policy driver to reduce GHG emissions. Over the past decade, CIPA members have embraced emission reduction technology and operational improvements, including installing higher efficiency equipment, adding renewable power infrastructure directly on site, implementing cutting edge of thermal energy storage, planning for Carbon Capture and Storage, and reducing methane emission rates. However, if the sector limited capital is diverted to program compliance costs rather than continued in-state production, innovation, GHG reduction initiatives, these increased costs will directly lead to emissions, job, and tax leakage due to fewer actual operational emissions (ceasing operations).

Transportation fuel feedstocks, such as crude oil, are a global commodity. There is a world market and global infrastructure operating today which is capable of producing and delivering

the marginal barrel to California's remaining refiners for any amount of crude not produced in-state. The potential leakage of the sector has never been higher. CARB's last workshop highlighted this leakage risk just a few months ago.¹ Crude imports are climbing. Imports of both crude and refined product have soared in recent years, with import of finished product only accelerating with the recent additional in-state refinery closures. The proposed amendments will add significant costs to in-state producers that are not required of international producers who import crude. These additional proposed Program costs are significant, and are coming to bear in a non-linear way that will produce a new cost jump dynamic. This cost dynamic is already having an impact on in-state producer economic decisions, both in the near-term and over the long-term. If the cost of local production outpaces the world price of oil, in-state production declines and is backfilled with imports, a lose-lose proposition for the State's economy and the world environment

The economics of producing locally matter. Along with a host of other costs, Cap-and-Invest costs are material to in-state producers decision to continued operation. *The leakage impact for this sector is NOT determined by a differential of importation costs as suggested by CARB, but by demand of the product verses in-state production.* And in-state production is impacted by the cost of this Program.

CIPA has consistently commented that the "last barrel of oil used in California, should be produced in-state with all the local, regional and statewide environmental, health and safety and labor standards ensured to be used". This has never been truer. The world market sit ready to replace in-state production, and therefore CARB should rethink the proposed amendments because as drafted, they will lead to reduced in-state production and a backfill of imported crude. Such a result is the direct opposite of recent legislative efforts to protect in-state production volumes.²

Industrial Allocations-Revised Benchmark

Staff has proposed a major shift in industrial allocation methodology for the oil/gas sector, though reading through the ISOR, it comes across as an administrative, technical amendment and not the substantive change it actually is. *This proposed change is significant and costly, and should NOT be accepted into the final adopted regulation.*

This idea of switching the oil/gas sector to align with the generic rule of "one-product one-benchmark" was first brought up this round of amendments in an informal workshop in 2023.³ CIPA has commented before to raise concerns with staff.⁴ Now that CARB has finally produced a proposal, and its costs can be calculated, CIPA is officially opposed to the change.

The ISOR rationale for proposing the new methodology is based on the premise that for current reporting, it is done in such a way that it 'made it difficult' due to the 'complexity of the sector.'⁵ This is a dramatic and costly policy change, and therefore shouldn't be done for something that could be administratively worked through. CARB has not approached CIPA to work through

¹ https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/meetings/nc_CapInvestWorkshop_October2925.pdf

² SB 237, Statutes of 2025

³ https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf

⁴ CIPA Comments from July 2023 <https://ww2.arb.ca.gov/form/public-comments/submissions/5376>

⁵ <https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/regulation/nc-Staff%20Report%20-%20Initial%20Statement%20of%20Reasons%20%28ISOR%29.pdf> (Pages 65 and 66)

these perceived reporting difficulties as a first step. Simplicity for staff is not a justifiable policy reason, especially when the change is so impactful.

The staff proposal, starting with vintage 2031, is to eliminate the separate, but certainly not equal, benchmarks for the two distinct extraction methods and replace them with a single benchmark. There is a reason since the start of the Program that there have been two benchmarks—the original program documents recognized this rationale:

“Although staff prefers to apply a “one product, one benchmark” principle, an exception was made for oil extraction because non-thermal alternative techniques are not usually substitutable in the wells where thermal EOR is applied.”⁶

Crude production with steam is a completely different industrial process than without steam, and deserves a separate benchmark. The infrastructure required for steam injection for enhanced oil recovery dictates a unique benchmark. This fundamental fact recognized by CARB back in 2010 has not changed.

CARB staff calculated, and proposed, a new benchmark that *“should provide a similar overall level of emissions leakage protection to the oil and gas extraction sector”* as the two-benchmark system used today.⁷ There are several issues with simply asserting this as a fact—Appendix E in the ISOR package provides no additional justification or data

The practical impact is more fundamental—the cost of the Program is felt by individual companies, and not by the ‘sector’. Therefore, assuming a sector-wide average benchmark produces similar impacts as process distinct individual benchmarks is incorrect. CIPA has reviewed the impact on several members, and determined the net impact is negative, even with the increased allocation for non-thermal production.

Those CIPA members with steam EOR will see their allowance allocation drastically reduced overnight coincident with dramatic cap adjustment factor reductions. Taken together the Industrial Assistance Allocations for the sector will be reduced by 73% between now and 2034, while the program floor price will increase 73%. This creates an unprecedented price shock to in-state producers on the per barrel price of the Program costs to in-state producers.

Industrial Allocations-Cap Decline Factor and Assistance Factor

As already noted, the leakage risk for in-state crude isn’t calculated on the difference between what an importer can produce and deliver it for, but rather can a California producer compete with in-state costs in a world market where price is globally set. CIPA can’t predict individual member decisions, but can say that a 2x -4x of production costs from this single program in a few short years from this single Program alone will certainly have a material impact on capital investments needed in California to prevent declining in-state production, thus leading to accelerated sector leakage.

Given that one of the main tenants of the Cap-and-Invest Program is to minimize emissions leakage, CIPA appreciates CARB following through on the statutory intent of both AB 398 and AB 1207 in retaining a 100% Assistance Factor for industrial allocation through 2035. CIPA also supports the categorization of Crude Oil Extraction as a ‘high leakage risk’ activity.

⁶ <https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/capandtrade10/capv4appj.pdf>

⁷ https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_app%20e.pdf

However, those acknowledgements are completely wiped away by the other allocation variables. A significant cost driver for the industry, in addition to the incorrect combining of benchmarks, will be the dramatic step-down of the Cap Decline Factor in Table 9-2 between 2031 and 2032. The ISOR does not explain the rationale for such a step function in general, and there is no staff analysis with respect to having ***BOTH*** the benchmark change and the Cap Decline Factor occurring almost simultaneously, and how it will impact in-state producers.⁸

CIPA recommends CARB amend the proposal to remove one-time non-linear allocation step function in 2032.

Conclusion

The demand for petroleum and natural gas will persist in California for many years to come. CIPA members stand at the ready to produce this energy locally, but California must prioritize in-state supply while maintaining realistic incentives to reduce its carbon intensity. The staff proposal with its coincident benchmark change and cap decline factor step adjustment do not provide a reasonable operating environment. Instead, they create a disincentive for deployment of capital, thus directly leading to sector leakage.

California crude extraction is subject to the strictest environmental standards in the world. We and our members continue to urge CARB to structure Cap-and-Invest amendments to support responsible crude extraction in California to prevent further refinery closures and minimize pipeline infrastructure risk. California environmental and worker leadership cannot include looking the other way through direct or indirect promotion of foreign crude supplies.

We appreciate the continued stakeholder dialogue, and we look forward to continued discussions.

Sincerely,



Rock Zierman
Chief Executive Officer
California Independent Petroleum Association

⁸ https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_app%20c.pdf