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Submitted via the Workshop Comment Submittal Form and by email to [ctworkshop@arb.ca.gov](mailto:ctworkshop@arb.ca.gov)

**Re: Chevron Comments on Proposed Cap-and-Invest and Mandatory Reporting Regulations**

Chevron submits these comments in response to the California Air Resources Board’s (CARB) proposed Cap-and-Invest (C&I) and Mandatory Reporting Regulations (MRR). Chevron has been operating in California for more than 140 years, working to provide affordable, reliable, and ever-cleaner energy to millions of consumers and businesses, including the US military. Chevron’s Richmond and El Segundo refineries have a combined capacity of over 500,000 barrels per day and account for approximately 34% of California’s refining capacity.<sup>1</sup> Chevron’s San Joaquin Valley crude production operations produce 71,000 barrels of oil-equivalent per day, which accounts for approximately 25% of the total crude production in California. We are committed to engaging with CARB and other stakeholders in a constructive dialogue focused on protecting in-state refiners and crude producers from the very real risk of leakage due to the expected increase in compliance costs associated with C&I and increased imports from jurisdictions without a price on carbon, while ensuring that any new regulations comply with applicable laws and protect consumers and California’s energy economy. As we all know, the leakage that has already occurred, making California dependent on imported oil and even refined gas products, has resulted in higher prices and supply constraints that harm California’s families and employers.

California’s oil and gas industry remains a critical contributor to the state’s economy, supporting approximately 536,770 jobs statewide through direct operations and extensive supply chain activity, and generating over \$53 billion in annual labor income. The industry plays a significant role in funding essential public services, contributing approximately \$64 billion each year in state, local, and federal tax revenues that support education, infrastructure, and healthcare across California. In addition to its employment and fiscal contributions, the industry generates more than \$166 billion in value-added economic activity, underscoring its importance to California’s economic resilience and energy security, even as the state pursues its long-term climate and environmental goals.<sup>2</sup> The industry also supports US military readiness by ensuring the extensive networks of military bases across the state have the fuels needed to protect and defend US territorial interests and to support forward power projection in defense of global allied interests.

Chevron has significant concerns with the proposed C&I regulation. California Health & Safety Code § 38562 requires CARB not only to “[c]onsider the effect of these regulations on affordability, cost effectiveness, minimization of leakage in California,” but also directly mandates that CARB shall “Minimize

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<sup>1</sup> California Energy Commission - California's Oil Refineries – accessed on February 18, 2026.

<sup>2</sup> LAEDC 2025 Report Oil & Gas in California - Oil & Gas In California - Oil & Gas In California | Los Angeles County Economic Development Corporation – Accessed February 22, 2026.



leakage”.<sup>3</sup> The proposed regulation fails to ensure C&I minimizes leakage within the petroleum industry and fails to ensure C&I is cost effective for consumers. The draft regulation currently proposed by CARB poses a direct existential threat to not only the oil and gas industry, but to the broader manufacturing industry in the state and beyond given the vital role that many California companies play in American supply chains. It will also continue to impose unsustainably high fuel costs on California residents and employers.

Industries differ in both the likelihood of leakage and the severity of impacts from leakage, and the petroleum industry is both a high-risk and high-consequence industry that is integral to California. Legislative materials for AB X2-1 stated that “Higher prices of gasoline can have crippling effects for residents on fixed or limited incomes... According to analysis by the Division of Petroleum Market Oversight (DPMO), the price spike of fall 2023 cost Californians up to \$2.2 billion... [M]ore volatility – not less – is likely...”<sup>4</sup>

In addition to its critical economic impact, California’s in-state refining system plays an important role in supporting US energy security and national defense, particularly on the West Coast. California refineries supply a broad range of transportation fuels, including aviation fuels that are critical to commercial and governmental operations, and they operate near major ports, military installations, and strategic aviation hubs serving the Pacific region. Continued erosion of California’s refining capacity risks increased reliance on imported fuels that are slower to arrive, more exposed to global supply disruptions, and less reliable during emergencies or periods of heightened geopolitical risk. Refinery closures in California reduce fuel supply resilience on the West Coast, increasing risks to military readiness and national security. Maintaining a stable policy framework that supports continued operation of California refineries is therefore not only an economic and consumer affordability issue, but also a matter of broader energy security and national defense.<sup>5</sup>

California has a responsibility to understand the cumulative impact that C&I and the numerous other state policies have on the refining industry and consumers in California. CARB also has a responsibility to minimize leakage, and the resulting consequences on residents and jobs, which CARB has manifestly failed to uphold.<sup>6</sup> CARB acknowledges that, compared to other emissions trading systems, “California’s approach to industrial allocation was more stringent” historically, and yet the proposed regulation would impose steeply increasing compliance costs through 2045 with grossly inadequate leakage protections through 2035 and without clear leakage protections post-2035. The Low Carbon Fuel Standard (LCFS), CARB At-Berth, Minimum Inventory (AB X2-1), and Maximum Gross Gasoline Refining Margin and Penalty (SB X1-2) collectively impose significant costs and financial uncertainty on in-state refiners, which increases

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<sup>3</sup> California Legislative Information - AB-1207 Climate change: market-based compliance mechanism: extension (2025-2026) [https://leginfo.ca.gov/faces/billNavClient.xhtml?bill\\_id=202520260AB1207](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB1207) – Accessed on February 18, 2026.

<sup>4</sup> Assembly Floor Analysis, Concurrence In Senate Amendments AB 1 X2 (Hart, et al.) October 11, 2024 [https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill\\_id=202320242AB1#](https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202320242AB1#)

<sup>5</sup> CALIFORNIA ENERGY & FUEL POLICIES: A CLEAR AND PRESENT THREAT TO NATIONAL SECURITY AND FORCE READINESS? - CA-Impact-on-Force-Readiness.pdf – Accessed on February 22, 2026.

<sup>6</sup> As the 2022 Scoping Plan expressly acknowledges, the policy choices CARB has made in the Scoping Plan cause a massive economic burden on lower and middle income families. As proposed, C&I would take an already unaffordable and inequitable suite of climate policies and inflict even more harm on residents and jobs.



leakage risk for refiners and increases cost impacts on consumers. The proposed regulation also seriously implicates a host of state and federal legal protections.<sup>7</sup>

At a minimum, Chevron urges CARB to revise the proposed amendments to address the following key recommendations:

- Strengthen program design to minimize economic leakage while preserving allowance supply, market stability, and affordability for covered entities, consistent with the statutory objectives of C&I. This includes classifying the relevant petroleum industry sectors as high-risk for leakage.
- Establish higher stable, long-term Cap Adjustment Factors for the oil and gas production and refining sectors to support continued in-state fuel production and enable sustained investment necessary to meet California’s ongoing transportation fuel demand.
- Implement a Carbon Border Adjustment Mechanism (CBAM) on imported refined petroleum products to address emissions and economic leakage.
- Maintain existing crude extraction allocation methodologies and benchmarks, including separate benchmarks for thermal and non-thermal crude extraction.
- Streamline monitoring, reporting, and Mandatory Reporting Regulation (MRR) and allowance related reporting requirements by aligning with federal GHG reporting frameworks, eliminating duplicative LCFS reporting, and providing appropriate flexibility for fuels, trades, and hydrogen related emissions reporting to reduce unnecessary administrative burden.
- Clarify and standardize offset verification requirements.
- Modify the proposed rule for consistency with other California and federal laws and policies.

**Strengthen program design to minimize emissions and economic leakage while preserving allowance supply, market stability, and affordability**

Decades of state policies designed to restrict, rather than encourage the production of affordable fuels have severely restricted the ability of California refineries to compete with refiners in other jurisdictions without a carbon price. The California Energy Commission (CEC) stated in its 2024 Transportation Fuels Assessment that *“Price spike risk is especially concerning, as demand reduction is expected to be on a relatively smooth trajectory, while supply declines from refinery closures or conversions will result in steep, sudden declines in gasoline production capacity.”*<sup>8</sup> California is set to lose approximately 17%–20% of its oil refining capacity by early 2026 due to the closure of two major plants: Phillips 66’s Wilmington facility (late 2025) and Valero’s Benicia refinery (by April 2026). The closing of these two refineries will impact approximately 1,300 employees and contract workers.<sup>9</sup> These closures will reduce California’s energy security and increase the state’s reliance on foreign fuel imports.<sup>10</sup> 2025 gasoline imports into the West

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<sup>7</sup> Chevron fully incorporates the comments in the Western States Petroleum Association’s letter concerning the program and proposed amendments.

<sup>8</sup> California Energy Commission Transportation - Fuels Assessment: Policy Options for a Reliable Supply of Affordable and Safe Transportation Fuels in California | California Energy Commission - August 15, 2024 – Accessed February 28, 2026.

<sup>9</sup> Lodi 411 April 16, 2025 - The Impact of Phillips 66 and Valero Refinery Closures in California — Lodi 411 – Accessed on February 22, 2026

<sup>10</sup> U.S. Energy Information Administration - Refinery closures present risk for higher gasoline prices on the West Coast - U.S. Energy Information Administration (EIA) – Accessed on February 18, 2026.



Coast (PADD 5) as of October 2025 averaged 118,580 b/d, or a total of about 35.5 million bbl.<sup>11</sup> The proposed amendments do nothing to help prevent additional refinery closures and will likely accelerate the closure of additional facilities as costs associated with C&I and other policies are expected to increase significantly. Refiners will not make large capital investments or continue operating existing facilities if the long-term financial stability of those facilities remains in question.

Critically, the concern is that the California carbon price will exceed the transportation costs to bring fuels into the state, which will likely further increase the state's reliance on out-of-state production of CARBOB and other finished fuel products. Significant reliance on out-of-state production and refining will ultimately lead to the exporting of carbon emissions to jurisdictions that do not have a price on carbon or advanced greenhouse gas mitigation and control technology in contravention of the statutory mandate of HSC § 38562.

Industrial allowance allocation has been an essential part of the C&I program since its inception. Free industrial allowance allocations provide a strong incentive for regulated entities to sustain in-state production while reducing financial burdens associated with compliance. Unfortunately, CARB's current proposal significantly reduces industrial allowance allocations, which removes the incentive for refiners, crude producers, and other manufacturers to continue operating in the state.

As CARB recognized in the October 2025 workshop, and in its Initial Statement of Reasons, industrial allowance allocation is the key mechanism to reduce emissions leakage, and compared to other emissions trading systems, "California's approach to industrial allocation was more stringent..."<sup>12</sup> HSC § 38562 contains a direct mandate that CARB shall "Minimize leakage". To achieve this, CARB must maintain and enhance industrial allocation to ensure C&I minimizes leakage.<sup>13</sup> The proposed regulation classifies crude petroleum and natural gas extraction (NAICS Code 211111) as high-risk for leakage, but petroleum refining (NAICS Code 324110) and liquid hydrocarbon fuel production (NAICS Code 325199) as medium-risk. As part of improving industrial assistance and leakage minimization, CARB must classify petroleum refining and liquid hydrocarbon fuel production as high-risk. The fact that California has lost approximately 17%-20%<sup>14</sup> of its in-state refining capacity in just the past couple of years necessitates a different approach on leakage.

### **Establish stable, long-term cap adjustment factors for the petroleum sector**

Petroleum refineries and crude production require stable and predictable allowance allocation methodologies to sustain operations and support the long-term capital investments necessary to meet C&I goals and reliably supply transportation fuels. These facilities require large capital investments and long development timelines that are incompatible with frequent or uncertain changes to allocations.

Accordingly, Chevron urges CARB to finalize Cap Adjustment Factors (CAFs) beyond 2035 to give needed regulatory certainty and raise CAFs for petroleum refining (NAICS Code 324110), liquid hydrocarbon fuel production (NAICS Code 325199), and crude petroleum and natural gas extraction (NAICS Code 211111). Specifically, AB 1207 removed the requirement that the CAF be set proportionally to the overall allowance

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<sup>11</sup> OPIS - As Reliance on Imported Gasoline Rises, California Adapts to a 'New World' November 4, 2025 -Accessed on February 23, 2026. <https://www.opis.com/resources/energy-market-news-from-opis/as-reliance-on-imported-gasoline-rises-california-adapts-to-a-new-world/>

<sup>12</sup> CARB Staff Report: Initial Statement of Reasons, January 20, 2026 .

<sup>13</sup> California Legislative Information – HSC Division 25.5. California Global Warming Solutions Act Of 2006 Part 4. Greenhouse Gas Emissions Reductions § 38562

<sup>14</sup> source Phillips 66 progresses California refinery shuttering plan, Chevron El Segundo fire adds to state's refining uncertainty | Oil & Gas Journal



budgets.<sup>15</sup> At least until CARB effects a CBAM to protect these industries from out-of-state competition that does not have to comply with emissions standards, CARB should maintain a flat 0.85 CAF for petroleum refineries (NAICS 324110) and crude petroleum and natural gas extraction (NAICS Code 211111), as well as a 1.00 CAF for biorefineries (NAICS 325199). Establishing fixed baseline CAFs would provide long term regulatory certainty, and support continued instate fuel production, while helping to maintain affordable and reliable fuel supplies for Californians. Establishing a fixed CAF of 0.85 and pairing it with a CBAM would provide the needed leakage protection and economic certainty under C&I that refinery operators need.

California refineries already face higher costs and declining competitiveness relative to global peers due to the cumulative impact of state regulatory requirements, including C&I. These conditions have increased emissions and economic leakage risks, contributed to recent refinery closures, and increased California’s reliance on imported fuels that are often produced under less stringent environmental standards and transported over long distances.

The CAFs in the proposed regulation will rapidly reduce the number of allowances allocated to petroleum refining (NAICS Code 324110), liquid hydrocarbon fuel production (NAICS Code 325199), and crude petroleum and natural gas extraction (NAICS Code 211111) sectors. Allowance allocations for industrial activities, including refineries, that fall under the Standard Activities column of Table 1 below will be reduced by approximately 59% between 2025 and 2035 (see *Table 1*). This reduction in allocations, coupled with the possible rapid increase in allowance prices, will result in a significant increase in compliance costs for in-state refineries. The lack of finalized CAFs beyond 2035 is unacceptable and increases the long-term uncertainty for industries that must comply with the program. Long-term operation and upgrading of these facilities are incompatible with uncertainty around allowance allocations. Without long term certainty, more refineries will likely close.

*Table 1- Cap Adjustment Factor (CAF) proposed in Appendix A and Percentage Year-Over-Year Change*

Budget Year	Cap Adjustment Factor (CAF) <sup>16</sup>	% Year-over-Year Change
2025	0.681	-
2026	0.647	4.99%
2027	0.613	5.26%
2028	0.579	5.55%
2029	0.545	5.87%
2030	0.511	6.24%
2031	0.494	3.33%
2032	0.348	29.55%
2033	0.324	6.90%
2034	0.301	7.10%
2035	0.279	7.31%
<b>2025-2035 Change</b>		<b>59.03%</b>

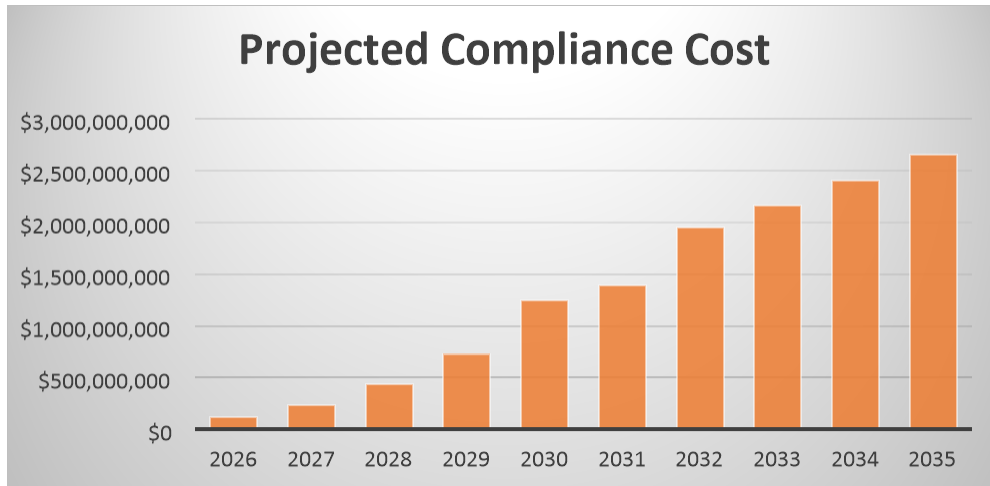
<sup>15</sup> Staff Report: Initial Statement of Reasons Date of Release: January 20, 2026 - Accessed on February 25, 2026.

<sup>16</sup> Proposed Regulation Order Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms - [https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap\\_invest/nc\\_app%20a-1.pdf](https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_app%20a-1.pdf) for the CAF numbers only.



California refineries are expecting to see a rapid acceleration of costs associated with C&I. The values in Figure 1 represent the estimated annual industry compliance cost based on the proposed CAF, listed in Table 1, multiplied by the potential allowance price for each year. The possible allowance prices are located in Table 2. The upward trend over time reflects increasing allowance prices, driven by increasing allowance demand and a declining allowance budget as the cap tightens. As seen in figure 1 below, the cost of compliance for the refining sector could increase to more than \$2.5 billion per year by 2035.

Figure 1- Projected Cost of Compliance for California Liquid Fuels Refining & Hydrogen Production



**Notes on Figure 1:**

- The figure shows estimated annual compliance costs for California liquid fuel refining and hydrogen production under Cap-and-Invest, based on historical emissions<sup>17</sup> and accounting for the closures of Phillips 66’s Wilmington and Valero’s Benicia refineries.<sup>18</sup> Free allowances reflect prior sector allocations within the overall allowance budget.
- Allowance prices are projected to reach the ceiling price by 2030 and remain at the ceiling price through 2035, based on UC Davis modeling and the November 16, 2023, Joint Cap-and-Trade Program Workshop. Prices for 2026-2029 grow at a rate that aligns with 2030 price ceiling and increase annually by 5% plus 2% inflation through 2035. This is reflected in Table 2.
- Offset prices assume a historical 31.6% discount relative to allowance prices.
- Key assumptions include constant refinery production and no shift to the liquid hydrocarbon fuel benchmark prior to 2030. These assumptions isolate the effects of allowance price escalation and allocation shortfalls on compliance costs.

In the 2018 Cap-and-Trade Updated Standardized Regulatory Impact Assessment (SRIA), CARB estimated that “for every \$10.00 of allowance price, the price of gasoline could increase by about \$0.09 per gallon.”<sup>19</sup> Table 2 below shows the potential cost impacts on consumers based on the allowance prices that were used in Figure 1 and the pass-through cost estimate from the 2018 Cap-and-Trade SRIA.

<sup>17</sup> CARB - Figure 14: [https://ww2.arb.ca.gov/sites/default/files/2024-09/nc-2000-2022\\_ghg\\_inventory\\_trends\\_figures.xlsx](https://ww2.arb.ca.gov/sites/default/files/2024-09/nc-2000-2022_ghg_inventory_trends_figures.xlsx)

<sup>18</sup> To subtract emissions from refineries closing in 2025-2026: Data source: [https://www.arb.ca.gov/carbapps/pollution-map/?\\_ga=2.141472945.267279340.1771866662-582621136.1759947032](https://www.arb.ca.gov/carbapps/pollution-map/?_ga=2.141472945.267279340.1771866662-582621136.1759947032)

<sup>19</sup> STAFF REPORT: INITIAL STATEMENT OF REASONS Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation - Release Date: September 4, 2018 - <https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2018/capandtrade18/ct18sria.pdf> - pg 55 - Accessed on February 23, 2026.



Table 2- Potential Impact of Increasing Allowance Price on Gasoline Costs

Year	Allowance Price	Cost Impact Per Gallon of Gasoline
2026	\$37.89	\$0.34
2027	\$51.03	\$0.46
2028	\$68.72	\$0.62
2029	\$92.54	\$0.83
2030	\$134.38	\$1.21
2031	\$143.79	\$1.29
2032	\$153.85	\$1.38
2033	\$164.62	\$1.48
2034	\$176.15	\$1.59
2035	\$188.48	\$1.70

Long-term stabilization of higher CAFs for the petroleum sector and implementation of a CBAM would help mitigate these risks by moderating compliance costs, reducing the likelihood of additional refinery closures, and ensuring emissions reductions occur within California rather than being shifted out of state. This approach is consistent with the Legislature’s directives under AB 32, SB X1-2, and AB X2-1 to maintain reliable, affordable, and safe fuel supplies, while preserving the goals of the C&I program.

**Implement a Carbon Border Adjustment Mechanism**

While C&I places a costly carbon price on in-state producers, imported fuels are not subject to equivalent costs, increasing emissions and economic leakage and undermining the program’s environmental goals.

A well-designed CBAM is necessary to pair with the existing carbon price to help ensure that in-state and out-of-state suppliers face comparable carbon costs when serving the California market. CARB reached a similar conclusion in the findings of its industrial leakage study that it was required to perform under HSC § 38562.<sup>20</sup> In the October 2025 Workshop, CARB concluded that “Border carbon adjustments can mitigate leakage and reduce non-California EITE emissions.”<sup>21</sup> And yet the proposed regulation does not include a CBAM nor other measures to satisfactorily mitigate leakage. CARB has studied this issue and concluded that it can address leakage via a CBAM, and it should do so. By addressing competitive distortions associated with imports, a CBAM would reinforce emissions reductions within California while helping to preserve in-state refining and associated energy security.

Chevron believes any CBAM should be market-based and grounded in transparent, lifecycle-based carbon intensity methodologies. CARB should implement a CBAM for imported refined petroleum products within C&I similar to how CARB regulates electricity imports. The CBAM would place reporting and compliance obligations on the fuel importer and extend MRR reporting and missing data requirements that are currently used for in-state petroleum refineries to these importers. Covered importers would incur compliance obligations within C&I for each metric ton of process emissions, stationary combustion

<sup>20</sup> HSC Division 25.5. California Global Warming Solutions Act Of 2006 Part 4. Greenhouse Gas Emissions Reductions § 38562(I)

<sup>21</sup> CARB - Cap-and-Invest Program Workshop OCTOBER 29, 2025 [https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/meetings/nc\\_CapInvestWorkshop\\_October2925.pdf](https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/meetings/nc_CapInvestWorkshop_October2925.pdf)



emissions, and vented emissions. A CBAM should complement, rather than replace, existing leakage-mitigation tools such as industrial allowance allocation, which remain essential to sustaining in-state production during the energy transition.

As California becomes increasingly reliant on imported fuels, additional safeguards are needed to ensure emissions reductions are not simply shifted out of state. A thoughtfully designed CBAM can help achieve California's climate goals while maintaining affordability, competitiveness, and reliable fuel supplies.

### **Maintain existing crude extraction allocation methodologies and benchmarks**

Chevron supports maintaining separate benchmarks for thermal and non-thermal crude oil extraction. These production methods are fundamentally different, with materially different energy requirements, operating characteristics, and emissions profiles. A single, unified benchmark would mask these differences and weaken the link between allowance allocation and actual emissions performance.

Maintaining separate benchmarks is critical to preserving allocation integrity and minimizing emissions and economic leakage. Further reducing allowance allocations to thermal producers would accelerate declines in in-state crude production and increase reliance on imported crude produced in jurisdictions without a comparable carbon price or greenhouse gas abatement technologies. CARB should maintain separate benchmarks to ensure C&I remains equitable, cost-effective, and aligned with its statutory objectives to prevent leakage.

Crude producers operate in a globally traded market and have limited ability to pass rising C&I compliance costs on to refiners without losing market share to imported crude that is not subject to comparable carbon costs. As C&I costs increase, refiners can more readily substitute lower-cost imports rather than absorb higher-priced in-state crude. This dynamic heightens leakage risk and undermines the competitiveness and long-term viability of California crude production without delivering proportional emissions reductions.

### **Streamline monitoring, reporting, and verification in the Mandatory Reporting Regulation (MRR)**

CARB should eliminate MRR requirements that duplicate LCFS-specific data already reported under separate regulatory programs. We request removal of § 95121(d)(10), which would require reporting biomass-derived fuel volumes for each unique combination of LCFS pathway code, fuel type, and point of regulation.<sup>22</sup> Existing MRR reporting already defines points of regulation and ensures no double counting, and LCFS pathway data is separately reported in quarterly and annual LCFS submissions, with fuel pathway codes fully reconciled with counterparties or, depending on the transaction type, subject to third-party verification. Requiring this level of detail in MRR duplicates LCFS reporting, increases administrative burden, and does not improve the accuracy of GHG emissions reporting.

For biomass-derived blendstocks, CARB should consistently provide separate emission factors and allow entities the option to use those factors, rather than requiring the use of the same factor as fossil blendstocks. While biodiesel and renewable diesel are treated differently from distillates, bionaphtha is currently assigned the same emissions factor as fossil blendstocks. Consistently providing separate emission factors for biomass-derived blendstocks, and allowing entities the option to use them, ensures

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<sup>22</sup> Appendix A-1 Proposed Regulation Order Proposed Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions - Date of release: January 20, 2026 - [https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/mrr/app\\_a-1.pdf](https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/mrr/app_a-1.pdf)



that GHG accounting accurately reflects the carbon content of bio-based fuels while enabling regulated entities to select the most appropriate factor for reporting.

CARB should allow fuel suppliers to choose to report emissions from liquid petroleum gas (LPG) using a default emission factor. CARB should reduce the reporting complexity for emissions from LPG fuel to remove the requirement to report the emissions from the individual components of fossil or biomass-derived liquified petroleum gas. CARB is allowing importers of LPG in § 95122(b)(9) the ability to use a default LPG factor, stating the modification is needed to allow suppliers of imported LPG in all cases to report imported LPG volumes as “LPG” rather than LPG components. CARB should add similar language to fuel suppliers in § 95121 for the same reasons: to simplify emissions reporting. The existing requirement is often burdensome for suppliers to implement and provides little additional precision in emissions reporting.<sup>23</sup>

Finally, CARB should align with EPA methodology for reporting GHG emissions for hydrogen production from low carbon content feedstocks. EPA included this revised methodology in the 2024 Final Rule which can help encourage the use of novel feedstocks for hydrogen production.<sup>24</sup> CARB should align with EPA and allow hydrogen producers to use product specifications annually for gaseous feedstocks with carbon content ≤ 0.00002 kg carbon per kg of gaseous fuel or feedstock or liquid feedstocks with carbon content ≤ 0.00006 kg carbon per gallon of liquid fuel or feedstock. This would allow reporters the use of modifications of methods for sampling/analysis for carbon content if relevant compounds cannot be detected, if a method is not technically feasible, or if use of a method is unsafe. These fuels and feedstocks have very limited GHG emissions potential and are an insignificant contribution to the GHG emissions from hydrogen production.

**Clarify and standardize offset verification requirements**

Section 95977.1, regarding “Requirements for Offset Verification Services,” needs additional clarification on when it applies, and if it applies to only out-of-state activities for projects designated as providing Direct Environmental Benefits to California.<sup>25</sup> Section 95977.1(b)(3)(D)(2)(i).

We suggest the existing language in this section be replaced with the language from § 95989(e), regarding “Direct Environmental Benefits in the State.”<sup>26</sup> That language is: *“Verification Requirement. Projects that have direct environmental benefits to the state status based on planned activities must have the planned activities verified at each full verification. The Offset Project Operator or Authorized Project Designee must provide relevant documentation of planned and completed activities to the verification body to continue direct environmental benefits status by CARB. CARB will provide notice of determination of the project’s direct environmental benefits to the state status with the notice of issuance of ARB Offset Credits in*

<sup>23</sup> Appendix A-1 Proposed Regulation Order Proposed Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions - Date of release: January 20, 2026 - [https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/mrr/app\\_a-1.pdf](https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/mrr/app_a-1.pdf)

<sup>24</sup> Revisions and Confidentiality Determinations for Data Elements Under the Greenhouse Gas Reporting Rule – April 3, 2024 - <https://www.epa.gov/system/files/documents/2024-04/ghgrp-final-preamble-and-rule-april-2024.pdf>

<sup>25</sup> Proposed Regulation Order Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms - Date of release: January 20, 2026 - [https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap\\_invest/nc\\_app%20a-1.pdf](https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_app%20a-1.pdf)

<sup>26</sup> Proposed Regulation Order Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms - Date of release: January 20, 2026 - [https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap\\_invest/nc\\_app%20a-1.pdf](https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_app%20a-1.pdf)



*95981.1(c). Projects that no longer provide direct environmental benefits to the state of California will no longer receive the designation starting with the vintage associated with the approved issuance.”*

## **Modify the Proposed Rule for consistency with other California and federal laws and policies**

### Low Carbon Fuel Standard (LCFS)

The LCFS is a regulatory program administered by CARB that aims to reduce GHG emissions from transportation fuels. Rather than mandating specific fuels, the LCFS sets a declining carbon intensity (CI) benchmark for gasoline, diesel, and their substitutes, measured on a lifecycle basis (from production through use). Fuels with a CI score below the benchmark generate credits, while those with higher a CI incur deficits. Credits can be banked or traded, which creates a market-based incentive to deliver lower-carbon fuels such as renewable diesel, ethanol, biodiesel, electricity, and hydrogen.

The CEC estimates that LCFS adds \$0.14 per gallon for gasoline.<sup>27</sup> Refiners and importers of gasoline and diesel typically generate deficits and must either invest in lower-carbon fuel blending or purchase LCFS credits from credit generators (such as renewable fuel producers or electric vehicle charging providers). As a result, the LCFS tends to increase the per-gallon cost of conventional gasoline and diesel relative to states without similar policies, though the exact impact varies over time with credit prices, fuel demand, and availability of lower-carbon alternatives.

It is worth noting that LCFS CI scores include the combustion emissions for fuels delivered in California, which also represent a significant portion of fuel suppliers’ C&I obligations. This means that these fuels are burdened with additional costs from both programs for the same emissions.

### CARB At-Berth

In addition to LCFS and C&I compliance costs, CARB is enforcing the Ocean-Going Vessels At-Berth Regulation on tanker vessels calling at Southern California ports. The rule requires tankers to use shore power or CARB-approved control technologies that have not been demonstrated on tankers at scale and raise significant safety, operational, and cost concerns. Tankers present unique hazards and applying unproven technologies risks disrupting safe vessel and terminal operations.

The global tanker fleet that calls on California largely is not equipped to use shore power, and port-side electrical infrastructure is insufficient to support tanker operations. Alternative control technologies remain in early testing and are not commercially deployable at scale. Absent a feasible compliance pathway, companies may be forced to limit tanker shipments, reducing the supply of crude oil and refined products needed to meet California’s energy demand. This risk is heightened given that California already imports approximately 75 percent<sup>28</sup> of the crude oil it consumes due to restrictions on in-state production. Meanwhile, regulated entities are paying millions of dollars into remediation funds to comply, further increasing the cumulative regulatory burden on fuel supply chains serving California.

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<sup>27</sup> California Energy Commission - Estimated Gasoline Price Breakdown and Margins - <https://www.energy.ca.gov/estimated-gasoline-price-breakdown-and-margins> - Accessed on February 23, 2026.

<sup>28</sup> California Energy Commission - Annual Oil Supply Sources To California Refineries - <https://www.energy.ca.gov/data-reports/energy-almanac/californias-petroleum-market/annual-oil-supply-sources-california> - Accessed on February 23, 2025.



### Minimum Inventory (AB X2-1)

AB X2-1 significantly expanded the California Energy Commission's oversight of in-state refineries by authorizing minimum inventory and resupply obligations intended to reduce price volatility.<sup>29</sup> In practice, these requirements introduce new operational constraints and regulatory uncertainty for refiners operating in an already challenging business environment marked by declining capacity, high compliance costs, and sustained periods of negative net margins. Since 2020, multiple California refineries have exited petroleum refining or announced closures, underscoring that continued operation depends on economic viability. AB X2-1's inventory and resupply mandates risk further discouraging investment, reducing refinery utilization, and accelerating the loss of in-state refining capacity by imposing inflexible requirements that do not reflect the complexity of refinery operations or market dynamics.

For consumers, the consequences of AB X2-1 are closely tied to its impacts on refining operations. Reduced flexibility and higher compliance costs for refineries are likely to tighten fuel supply, increasing the risk of higher gasoline prices and greater price volatility, particularly during outages or peak demand periods. Increased reliance on imported fuels is not a reliable substitute, as imports are more expensive, slower to respond to supply disruptions, and expose California consumers to greater global market and logistical risks. As a result, AB X2-1 risks raising transportation fuel costs and disproportionately burdening lower-income households, while failing to deliver durable consumer benefits unless its costs clearly outweigh any avoided price volatility, as required by statute.

### Maximum Gross Gasoline Refining Margin and Penalty (SB X1-2)

Adopting the maximum gross gasoline refining margin and associated penalty authorized by SB X1-2<sup>30</sup> would undermine the economic viability of California refineries. A gross margin metric fails to account for the full costs of safely and reliably operating a refinery, including labor, maintenance, regulatory compliance, and capital investment. By mischaracterizing refinery economics, the policy would increase financial uncertainty and discourage investment in an already constrained refining system, raising the risk of reduced utilization, deferred maintenance, and supply disruptions in a geographically isolated market with limited alternatives.

For consumers, weakened refinery operations would translate into tighter fuel supply, greater price volatility, and higher gasoline prices, particularly during periods of peak demand or unplanned outages. Reduced in-state production would increase reliance on costly and slow-to-arrive imports that are ill-suited to respond to supply shocks and carry higher lifecycle emissions. These impacts would fall most heavily on lower-income households that spend a disproportionate share of income on transportation fuels, increasing costs without addressing the underlying drivers of California's gasoline prices.

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<sup>29</sup> AB 1, Hart. Energy: transportation fuels: inventories: turnaround and maintenance. - Date Published: 10/14/2024 [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202320242AB1](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320242AB1)

<sup>30</sup> SB-2 Energy: transportation fuels: supply and pricing: maximum gross gasoline refining margin. - Date Published: 03/28/2023 - [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202320241SB2](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320241SB2)



## Compliance with state and federal laws and policies

California’s Health and Safety Code and the California Administrative Procedure Act<sup>31</sup> require that CARB’s proposed emissions limits reflect “technologically feasible and cost-effective” solutions.<sup>32</sup> They also require that CARB “seek[] to minimize costs and maximize the total benefits to California,”<sup>33</sup> “[c]onsider” “other benefits to the economy,”<sup>34</sup> “do not disproportionately impact low-income communities,” and “minimize leakage.”<sup>35</sup> Yet the expected compliance cost is greater than \$3 billion, risks the 536,000 jobs connected to California’s oil and gas industry, compromises consumers’ energy security, and threatens emissions leakage.<sup>36</sup>

Failing to assess the cost and feasibility of the changes as required in the Administrative Procedure Act deprives refiners of important procedural due process safeguards.<sup>37</sup> Compliance with these laws would impose only minimal fiscal and administrative burdens on CARB in contrast to the massive regulatory burden the proposed regulation imposes on refiners and consumers.<sup>38</sup>

Separately, the proposed regulation impermissibly imposes a tax via regulation, as opposed to via statute, in violation of Propositions 13 and 26.<sup>39</sup> Relatedly, the proposed regulation is more than a mere fee<sup>40</sup> and thus the proposed regulations—not simply the authorizing law—requires a favorable two-thirds majority legislative vote.<sup>41</sup>

CARB’s proposed regulation appears counter to the goals and requirements of California Environmental Quality Act (CEQA). CEQA requires CARB to consider “economic and technical,” factors as well as long-term and short-term costs,<sup>42</sup> provide an accurate, stable, and finite project description,<sup>43</sup> and analyze and disclose “[d]irect and indirect significant effects of the project on the environment.”<sup>44</sup> These obligations are not sufficiently met, as the draft Environmental Impact Assessment (EIA), among other deficiencies, lacks an adequate analysis of the actual environmental impacts of leakage that will foreseeably result from the proposed regulation and fails to consider appropriate alternatives.

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<sup>31</sup> See Cal. Gov’t Code § 11342.2 (“no regulation adopted is valid or effective unless consistent and not in conflict with the [enabling] statute and reasonably necessary to effectuate the purposes of the statute”); *id.* § 11350 (“[a]ny interested person may obtain a judicial declaration as to the validity of any regulation”); Cal. Code of Civ. P. § 1085 (providing that a party may petition for and a court may issue a “writ of mandate” to any “board”).

<sup>32</sup> HSC § 38562(a).

<sup>33</sup> *Id.* § 38562(b)(1)(A).

<sup>34</sup> *Id.* § 38562(b)(6).

<sup>35</sup> *Id.* § 38562(b)(9).

<sup>36</sup> *Id.* § 38562(d)(1).

<sup>37</sup> U.S. Const. amend. XIV; Cal. Const. art. I, § 7.

<sup>38</sup> *Patel v. Penman*, 103 F.3d 868, 874 (9th Cir. 1996) (explaining substantive due process violation occurs if challenged regulation is “clearly arbitrary and unreasonable, having no substantial relation” to its purpose).

<sup>39</sup> *California Chamber of Com. v. State Air Res. Bd.*, 10 Cal. App. 5th 604, 625 (2017) (“[T]axes must be levied by the legislative, not executive, branch. . . . Nor can the legislature delegate the power to tax to an administrative board, although a board can value property and collect taxes.”).

<sup>40</sup> *Sinclair Paint Co. v. State Bd. of Equalization*, 937 P.2d 1350 (Cal. 1997).

<sup>41</sup> *Reid v. City of San Diego*, 24 Cal. App. 5th 343, 351 (2018) (noting Proposition 26 “required the electorate to approve laws increasing taxes, and shifted to the government the burden of demonstrating that any charge, levy, or assessment is not a tax”).

<sup>42</sup> Cal.Pub.Res.Code § 21001(g)

<sup>43</sup> See Cal. Code Regs., tit. 14, § 15124.

<sup>44</sup> See Cal. Code Regs., tit. 14, § 15126.2(a).



Extensive costs and risks of closure for businesses further raise concerns under the California and federal takings<sup>45</sup> and due process clauses.<sup>46</sup> Among other things, the proposed regulation interferes with companies' "investment-backed expectations" by accelerating the reduction of the allowance supply.<sup>47</sup> And this deprivation is arbitrary: The C&I program seeks to reduce emissions, but the proposed changes do not rationally approach that problem.<sup>48</sup>

Meanwhile, in-state refineries bear this burden while out-of-state refineries do not, implicating both state and federal equal protection clause protections.<sup>49</sup> This disparate treatment has little rational purpose in light of the resulting leakage. These negative effects could be diminished, as CARB itself has recognized, by imposing the above recommendation of a well-designed CBAM.<sup>50</sup>

### Poverty and Affordability

Chevron is proud of its highly diverse workforce, and the upward mobility created by good jobs with compensation and benefits programs that support families, homeownership, and college tuition for children. Our workforce in turn supports tax revenues for our host cities and school districts, our suppliers and vendors, and countless small business, community service, charity, and assistance programs. C&I, as proposed, makes California's poverty and affordability challenges worse by driving fuel costs even higher, making the future availability of fuel supplies even less secure, and enriching other countries at the expense of California's own oil production and refining industry. Lower- and middle-income families will bear the brunt of the economic harm caused by C&I, as CARB has already expressly admitted in its Scoping Plan, which would be both a legal and moral mistake. C&I cannot double-down in inflicting even more harms on those least able to absorb higher costs.

### **Conclusion**

CARB has a responsibility to understand the impact that C&I and numerous other state policies have on the refining industry and consumers in California. The LCFS, CARB At-Berth, Minimum Inventory (AB X2 1), and Maximum Gross Gasoline Refining Margin and Penalty (SB X1-2) collectively impose significant costs and financial uncertainty on in-state refiners, increase leakage risk, and increase cost impacts on consumers.

Refiners contribute billions of dollars per year to the California Economy. When refineries close, California communities lose good paying jobs and tax revenue.

California's energy future depends on policies that avoid undermining in-state refining and crude production, increasing consumer costs, or accelerating emission and economic leakage. As highlighted throughout this letter, the proposed amendments to the Cap-and-Invest Program do not adequately

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<sup>45</sup> U.S. Const. amend. V, 14; Cal. Const. art. 1, § 19; *see also Murr v. Wisconsin*, 582 U.S. 383, 392 (2017); *San Remo Hotel L.P. v. City and Cnty. of San Francisco*, 27 Cal. 4th 643, 664 (2002) (California takings clause tracks federal one).

<sup>46</sup> U.S. Const. amend. XIV; Cal. Const. art. 1, § 7. The California and federal due process clauses are identical in scope. *Kumar v. Koester*, 703 F. Supp. 3d 1140, 1148 (C.D. Cal. 2023), *aff'd on other grounds*, 131 F.4th 746 (9th Cir. 2025).

<sup>47</sup> *Id.* at 393, 397.

<sup>48</sup> *Erotic Serv. Provider Legal Educ. & Rsch. Project v. Gascon*, 880 F.3d 450, 457 (9th Cir. 2018), *amended on other grounds*, 881 F.3d 792 (9th Cir. 2018) (stating rule that there must be a "rational relationship between" the regulation and its purpose to comply with constitutional due process requirements).

<sup>49</sup> *See* U.S. Const. amend. XIV; Cal. Const. art. 1, § 7; *see also RUI One Corp. v. City of Berkeley*, 371 F.3d 1137, 1154 (9th Cir. 2004) ("The equal protection analysis under the California Constitution is 'substantially similar' to analysis under the federal Equal Protection Clause.").

<sup>50</sup> *See* CARB - Cap-and-Invest Program Workshop OCTOBER 29, 2025 [https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/meetings/nc\\_CapInvestWorkshop\\_October2925.pdf](https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/meetings/nc_CapInvestWorkshop_October2925.pdf).



safeguard against these risks. With refinery closures already reducing California’s fuel security and raising dependence on foreign imports,<sup>51</sup> it is essential that CARB strengthen industrial allocation provisions, consider implementation of a CBAM, recognize the cumulative burden of overlapping state policies, and ensure regulatory stability that encourages continued investment in in-state facilities.

Chevron remains committed to constructive engagement. Achieving California’s economic and environmental goals requires a balanced, data-driven policy approach that maintains affordability, protects jobs, minimizes leakage, and preserves the state’s ability to reliably supply lower carbon fuels. California’s petroleum refining industry operates under the world’s strictest standards; with environmental protections no other operations can match. The California energy industry’s economic, industrial, environmental and national security benefits have been the foundation of a healthy, prosperous state. Adversarial policies at local, regional, and state levels have eroded that foundation. The draft regulations threaten to destroy it. Chevron urges policymakers and regulators to reconsider and revise the proposed regulations before they cause lasting and irreversible harm to California’s economy and energy security and broader vital American interests.

If you have any questions regarding our comments, please contact Andy Walz at [andywalz@chevron.com](mailto:andywalz@chevron.com) or Henry Perea at [Henry.Perea@Chevron.com](mailto:Henry.Perea@Chevron.com).

Sincerely,

A handwritten signature in black ink, appearing to read "A. B. Walz", with a long horizontal stroke extending to the right.

Andy Walz  
President, Downstream, Midstream and Chemicals  
Chevron

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<sup>51</sup> OPIS - As Reliance on Imported Gasoline Rises, California Adapts to a ‘New World’ – Accessed February 23, 2026.