

March 9, 2026

California Air Resources Board
1001 I Street
Sacramento, CA 95814

Submitted electronically

Re: Proposed Amendments to the Cap-and-Invest Program

Dear Chair and Board Members:

California Resources Corporation (CRC) appreciates the opportunity to comment on the California Air Resources Board's (CARB's) proposed amendments to the Cap-and-Invest (C&I) Program. CRC is an independent energy and carbon management company committed to providing affordable, reliable energy to Californians while advancing the state's climate objectives. We strongly support California's goal of achieving net-zero greenhouse gas emissions by 2045 and are actively investing in technologies necessary to meet that target.

CRC respectfully requests that CARB:

1. Adopt 40 C.F.R. Part 98, Subpart RR as the approved carbon capture utilization and storage (CCUS) quantification methodology in this rulemaking;
2. Adopt CCUS permanence requirements as part of this rulemaking;
3. Include an interim compliance crediting mechanism for CO₂ stored in federally permitted Class VI sequestration projects;
4. Moderate the proposed reduction in the Cap Adjustment Factor;
5. Expand the Manufacturing Decarbonization Incentive to include all emission-intensive, trade-exposed industries (EITEs) and explicitly include CCUS; and
6. Clarify that utility consignment proceeds may support CCUS deployment and related infrastructure.

These changes are necessary to ensure the program remains cost-effective, minimizes emissions leakage, preserves affordability, and enables the deployment of CCUS at the scale assumed in CARB's 2022 Scoping Plan.

I. Background

CRC operates oil and gas fields throughout California and supplies in-state refineries that produce fuels Californians rely upon. CRC also operates electric generation facilities supporting its operations

and providing excess electricity to the grid. Through our Carbon TerraVault business, CRC is developing CCUS and carbon dioxide removal (CDR) projects designed to permanently store CO₂ underground. CRC recently broke ground on California's first CCUS project at Elk Hills in Kern County and anticipates initial injection in Spring 2026.

CRC has adopted a Responsible Net Zero Goal to reduce absolute Scope 1 and Scope 2 emissions by at least 80 percent and neutralize remaining emissions by 2045. Achieving that goal and California's broader climate targets requires a viable in-state refining sector, affordable energy for consumers, and rapid deployment of CCUS infrastructure.

CRC operates within California's integrated petroleum value chain, which supplies fuels and energy products essential to the state's economy. The economic viability of upstream production is directly linked to the stability of in-state refining and midstream infrastructure. Regulatory changes that materially increase compliance costs for refiners risk accelerating capacity reductions, increasing dependence on imported crude and refined products, and elevating lifecycle greenhouse gas emissions through emissions leakage. A diminished in-state refining sector would also undermine demand for California-produced crude and emerging CCUS services, weakening investment in both energy production and carbon management. We urge CARB to give due consideration to the concerns of California refiners regarding the economic implications of these proposed regulations. CARB should carefully evaluate the cumulative economic and leakage impacts of the proposed amendments to ensure they do not compromise affordability, reliability, or in-state decarbonization efforts.

CARB is statutorily obligated to design regulations that achieve emission reductions in a manner that is cost-effective, minimizes leakage, and preserves affordability.¹ The proposed amendments must be evaluated against those requirements.

II. Carbon Capture and Sequestration (Section 95852.3)

A. Regulatory Certainty Is Essential for Investment

CRC strongly supports inclusion of a CCUS compliance pathway and agrees with CARB's stated conclusion that, "...there is no path to carbon neutrality without carbon removal and sequestration."² However, the proposed regulation does not provide sufficient certainty regarding the methodology, permanence standards, or timing under which stored CO₂ will reduce compliance obligations.

Large-scale CCUS projects require substantial upfront capital investment, often in the hundreds of millions of dollars. Construction of these projects can take years and that work does not start until companies make final investment decisions. Final investment decisions depend on predictable compliance credit. Thus, absent regulatory certainty, investment will be delayed or redirected to other jurisdictions jeopardizing California's ability to meet Scoping Plan assumptions.³

CRC recognizes that CARB's proposed rule includes a crediting mechanism for CCUS projects. However, the proposed rule also delays full implementation of that provision until CARB adopts a "...Board-approved...quantification methodology..." referenced in Section 95852.3 of this proposed rule, but presently not included in this proposed rule. CARB should adopt those requirements for a quantification methodology and permanence standard in the current rulemaking. Delay in defining

¹ HSC §§ 38562(b)(1)(A), 38562(b)(7), 38562.2(c)(1), 38562.2(d)(2) (2022).

² California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (p. 84).

³ California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (p. 93,222).

the requirements for stored CO₂ to be excluded from compliance obligations will result in a corresponding delay in the development and deployment of CCUS capacity.

B. Adopt Subpart RR in This Rulemaking

CARB has proposed adopting 40 C.F.R. Part 98, Subpart RR into the Mandatory Reporting Regulation (MRR), building on its prior adoption of Subpart PP. Together, Subparts PP and RR provide comprehensive accounting of Scope 1 greenhouse gas emissions associated with CCUS projects.

CARB should designate Subpart RR as the approved quantification methodology for purposes of the Cap-and-Invest Program in this rulemaking. Adoption of Subpart RR for C&I purposes would:

- Provide immediate regulatory clarity,
- Harmonize state and federal requirements,
- Avoid duplicative rulemakings, and
- Maintain environmental integrity consistent with Health and Safety Code § 39741.1.⁴

Failure to designate a defined methodology in this rulemaking will materially delay CCUS deployment.

C. Adopt CCUS Permanence Requirements in this Rulemaking

CARB appears to anticipate adopting additional requirements to ensure permanence and compliance of CCUS projects. CRC does not object to the development of regulations implementing these statutory requirements. However, those requirements should be adopted in the current rulemaking to provide regulatory certainty.

Adoption of Subpart RR within the MRR, together with clear permanence and compliance provisions, would provide the necessary elements for CARB to designate a Board-approved quantification methodology allowing CCUS projects to reduce C&I compliance obligations.

CCUS projects require enormous capital investment. Companies are unlikely to proceed without assurance that stored CO₂ will reduce compliance obligations in a predictable and timely manner. If CARB is not prepared to finalize an approved methodology in this rulemaking, it should proceed with all deliberate speed to complete that rulemaking as soon as possible. There is no time to waste if the CCUS deployment levels assumed in the 2022 Scoping Plan are to be achieved.

D. Prevent Penalizing Early Adopters

The proposed structure creates a perverse incentive: entities that wait to deploy CCUS will benefit, while those that invested early under state encouragement are disadvantaged.

CRC has installed pre-combustion CO₂ capture at Elk Hills and expects to begin injection into a federally approved Class VI sequestration project in Spring 2026. Under the current proposal, CRC would be required to surrender allowances for CO₂ that is permanently stored until CARB completes a future rulemaking adopting a quantification methodology.

This outcome contradicts statutory direction to encourage early action and undermines investment confidence.⁵

⁴ HSC § 39741.1 (2022).

⁵ HSC § 38562(b)(1)(A) (2022).

If CARB declines to finalize a methodology now, it should include an interim provision allowing exclusion from compliance obligations for CO₂ stored in federally permitted Class VI projects that meet Subpart RR requirements. Without such an interim mechanism to provide credit for “early action” in deploying CCUS, projects nearing completion will face unnecessary financial penalties.

E. CCUS Is Essential Across Sectors

The 2022 Scoping Plan makes clear that there is no path to carbon neutrality without carbon removal and sequestration. The Plan assumes substantial CCUS deployment across refining, industrial manufacturing, and fossil-based electric generation.⁶

CCUS is also critical for upstream oil production, where emissions are tied to legacy field infrastructure and steam generation systems. Post-combustion capture retrofits, pre-combustion capture at gas processing facilities, and emerging CDR technologies all require predictable compliance credit to support investment.

If permanently stored CO₂ does not receive timely compliance recognition, California cannot achieve the deployment levels assumed in its own climate planning.

III. Cap Adjustment Factor (Section 95891; Table 9-1)

The proposed 30 percent reduction in the Cap Adjustment Factor between 2031 and 2032 represents an unprecedented policy shock. Historically, annual reductions averaged about 4 percent per year. The proposal accelerates reductions to roughly 7 percent annually thereafter.

This dramatic shift raises significant concerns.

Emission-intensive, trade-exposed industries are already facing refinery closures, volatile crude markets, potential federal policy shifts, and increased global competition. CARB’s own Staff Report acknowledges heightened economic pressures and leakage risks.⁷

A sudden and substantial reduction in free allowance allocation will:

- Increase compliance costs across the petroleum supply chain,
- Reduce capital available for decarbonization and CCUS investment,
- Increase the risk of in-state production curtailment, and
- Potentially increase imports of higher-lifecycle-emission crude and refined products.

Such outcomes would undermine statutory directives to minimize leakage and preserve affordability.⁸

CRC respectfully requests that CARB moderate the decline in the Cap Adjustment Factor and return to a more gradual reduction trajectory consistent with historical practice (approximately 4-5 percent annually).

⁶ California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (pp. 2-1, 96, 201).

⁷ CARB (2026) Initial Statement of Reasons (pp. 175–176).

⁸ HSC §§ 38562(b)(7), 38562.2(d)(2) (2022).

CRC does not object to CARB’s proposal to adopt a single crude benchmark in the draft regulation. Provided the benchmark continues to function in a manner consistent with statutory objectives to minimize emissions leakage and protect affordability, CRC supports this approach.

IV. Manufacturing Decarbonization Incentive (Section 95891(g))

CRC supports creation of the Manufacturing Decarbonization Incentive as a tool to reduce leakage and promote investment. However, the incentive should:

1. Be available to all emission-intensive, trade-exposed industries; and
2. Explicitly include CCUS as an eligible decarbonization activity.

As proposed, the revised rule provides Decarbonization Incentive eligibility for a host of technologies that result in “...reduced or avoided onsite combustion of fossil fuels...”. The Decarbonization Initiative should focus on decarbonization, not simply the reduction of use of a given fuel sources. CCUS, deployed to fossil fuels generation, achieves the goal of decarbonization and should be included with the existing 6 means of qualifying for the Incentive. If CCUS is excluded, the program effectively omits one of the Scoping Plan’s primary decarbonization pathways.⁹

Oil extraction, refining, and certain forms of electric generation are identified in the Scoping Plan as sectors requiring CCUS for deep decarbonization. Yet, these are specifically excluded from the Decarbonization Incentive. Retrofitting existing steam and cogeneration facilities with carbon capture is capital-intensive and unlikely to proceed without additional support.

Expanding the Decarbonization Incentive to include CCUS in those sectors would:

- Accelerate deployment of essential infrastructure,
- Reduce compliance costs over time,
- Mitigate leakage risk, and
- Align regulatory design with CARB’s long-term climate modeling.

V. Utility Use of Consignment Proceeds (Section 95892(d))

CRC supports the requirement that consignment proceeds benefit California ratepayers and agrees that greenhouse gas reduction activities qualify.

However, the list of eligible activities should explicitly include CCUS and related infrastructure.

CARB should clarify that utilities may use consignment proceeds to:

- Enter into long-term agreements for CO₂ transport and storage,
- Support development of Class VI sequestration projects,
- Invest in carbon capture at dispatchable generation facilities, or

⁹ California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (p. 87, 93).

- Fund related infrastructure necessary for industrial decarbonization.

CCUS enables decarbonization of dispatchable power generation and hard-to-abate industrial sources, thereby supporting both reliability and climate objectives.¹⁰

VI. Conclusion

CRC appreciates CARB's efforts to update and strengthen the Cap-and-Invest Program. With targeted revisions, the program can better align with statutory requirements, protect affordability, minimize leakage, and unlock the scale of CCUS deployment assumed in California's climate planning.

Providing clear and immediate compliance recognition for permanently stored CO₂, moderating abrupt allowance allocation reductions, and expanding incentives for industrial decarbonization will strengthen both the environmental integrity and economic durability of the program.

CRC looks forward to continued engagement with CARB as this rulemaking proceeds.

Sincerely,



Jason Marshall
Vice President – Regulatory Affairs
California Resources Corporation

¹⁰ HSC § 38561(b)(1)(A) (2022).