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May 4, 2026

Industrial Strategies Division
California Air Resources Board
1001 I Street
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Submitted via the Comment Submittal Form and by email to ctworkshop@arb.ca.gov

Re: Chevron Comments on Proposed 15-Day Cap-and-Invest and Mandatory Reporting Regulation Amendments

Chevron submits these comments in response to the California Air Resources Board's (CARB) proposed 15-day Cap-and-Invest (C&I) and Mandatory Reporting Regulation (MRR) amendments. 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. We are committed to engaging with CARB and other stakeholders in a constructive ongoing dialogue focused on protecting in-state refiners and crude producers from the very real risk of leakage due to the expected long-term increase in compliance costs associated with C&I and increased imports from jurisdictions without a price on carbon.

Chevron continues to have concerns with the proposed C&I regulation. The proposed regulation fails to ensure C&I minimizes leakage within the petroleum industry. While the updated draft regulation increases allowance allocations for most industries through 2030, it has created significant uncertainty post-2030 by removing all post-2030 Cap Adjustment Factors (CAF). Petroleum refineries and crude producers require stable and predictable allowance allocation methodologies to sustain operations and support the long-term capital investments necessary to reliably supply transportation fuels. The removal of CAFs beyond 2030 makes long-term planning difficult and will only increase the likelihood of leakage occurring.

Chevron incorporates by reference as if fully stated herein all arguments made in our comment letter to Industrial Strategies Div. CARB dated March 9, 2026 to the extent applicable and urges CARB to address the following key recommendations:

- Establish and maintain higher, stable, long-term CAFs beyond 2030 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.
- Ensure competitive parity between in-state and out-of-state refiners to address emissions and economic leakage.
- Maintain existing crude extraction allocation methodologies and benchmarks, including separate benchmarks for thermal and non-thermal crude extraction.
- Expand the Manufacturing Decarbonization Incentive ("MDI") to cover projects that improve air quality.

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



Chevron objects to the removal of all post-2030 CAFs from the proposed 15-day amendments. Petroleum refineries and crude production require stable and predictable allowance allocation methodologies to sustain operations and support long-term capital investments. These facilities require large capital investments and long development timelines that are incompatible with frequent, short-term, or uncertain changes to allocations. CARB's 15-day proposal imposes an overall program cap post-2030 but does not provide any clarity on to what extent, or even whether, industrial allocation will be available in that timeframe. If present trends continue, this lack of clarity will predictably lead to increased leakage in contravention of the Legislature's direction.

California law directs that CARB shall "Minimize leakage"¹ in adopting cap-and-invest regulations, a mandatory obligation that, if left unaddressed for the post-2030 compliance period, renders the regulation inconsistent with the authorizing statute within the meaning of Government Code section 11342.2. CARB's proposal to omit post-2030 CAFs fails to recognize that leakage in the refining and crude production sectors is happening now and continues to escalate. This omission would accelerate leakage rather than minimize it due to the long-term planning (i.e., post-2030) that petroleum refineries must conduct today.

CARB's representation that it will set post-2030 CAFs in a future rulemaking does not satisfy CARB's present statutory obligation to minimize leakage. Informal assurances of future corrective action do not cure a regulation's failure to comply with a mandatory legislative command at the time of adoption.

Further, by removing post-2030 CAFs, CARB has rendered its Environmental Impact Analysis incapable of adequately analyzing the actual environmental impacts of emissions leakage that will foreseeably result from the regulation because a key mechanism designed to mitigate that leakage remains undefined. CARB's informal representation that it will address leakage risk in a future rulemaking does not cure this deficiency; under CEQA, deferring the analysis and mitigation of a known, foreseeable environmental impact to an open-ended future proceeding while putting the regulation into effect constitutes an impermissible deferral of mandatory environmental review.

Accordingly, Chevron urges CARB to, at a minimum, finalize CAFs through at least 2035 to give needed regulatory certainty for petroleum refining (NAICS Code 324110), liquid hydrocarbon fuel production (NAICS Code 325199), and crude petroleum and natural gas extraction (NAICS Code 211111). Chevron also urges CARB to assign petroleum refineries high leakage risk and move crude and natural gas production to the Standard Activities CAF in Table 9-2 Cap Adjustment Factors for Allowance Allocation. Establishing CAFs through at least 2035 would provide longer term regulatory certainty, and support continued in-state fuel production, while helping to maintain affordable and reliable fuel supplies for Californians.

Ensure competitive parity between in-state and out-of-state refiners

The C&I program places meaningful carbon compliance costs on in-state petroleum refiners. When fuels refined out of state are imported into the California market without facing comparable carbon-related costs, the program risks emissions and economic leakage, disadvantages in-state facilities, and undermines California's environmental objectives. CARB should ensure that in-state and out-of-state refiners face equivalent carbon costs when supplying the California market, using a durable set of leakage-mitigation measures before 2030 to provide long-term protection for in-state petroleum refining. CARB should also ensure that all in-state refiners face equivalent carbon costs. Under the current proposal, CARB is

¹ HSC Division 25.5. California Global Warming Solutions Act Of 2006 Part 4. Greenhouse Gas Emissions Reductions § 38562(b)(9).



providing a two-year delay in compliance only for Independent Merchant Refineries. There is no basis in the program for treating Independent Merchant Refineries differently, and it exacerbates competitive differences, rather than promotes parity, between refiners.

Maintaining parity requires a policy design that complements, rather than replaces, existing leakage-mitigation tools (including industrial allowance allocation) and works alongside the carbon price so that suppliers, whether in-state or out-of-state, face comparable carbon costs when serving California. CARB reached a similar conclusion in the findings of its industrial leakage study that it was required to perform under HSC § 38562.² In the October 2025 Workshop, CARB concluded that “Border carbon adjustments can mitigate leakage and reduce non-California EITE emissions.”³ Unfortunately, the proposed regulation does not include measures to put in-state and out-of-state refiners on a level playing field to mitigate leakage long term.

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 masks these differences and weakens the link between allowance allocation and actual emissions performance. Chevron also urges CARB to move crude and natural gas production to the Standard Activities CAF in Table 9-2 Cap Adjustment Factors for Allowance Allocation. While Chevron appreciates CARB’s proposal to delay implementation of the unified benchmark for crude production until 2033, maintaining separate benchmarks long-term 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.

In 2025, California passed SB 237 as a bridge policy to help stabilize in-state crude production by allowing up to 2,000 new drilling permits and streamlining permitting in Kern County. The rapid decline in allowance allocations to crude producers and moving to a unified crude benchmark will destabilize these efforts and work counter to the legislature’s mandate.

Crude producers operate in a globally traded market and have limited ability to pass rising C&I compliance costs 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.

Expand Manufacturing Decarbonization Incentive Allocation

Chevron supports CARB’s proposed amendments to make petroleum refiners eligible for the Manufacturing Decarbonization Incentive Allocation. Chevron encourages CARB to expand eligible projects to include equipment which eliminates, reduces or controls the issuance of air pollutants; turnarounds, as defined in Cal. Admin. Code tit. 19, § 5050.3(vvv); and a catch all for any upgrades,

² HSC Division 25.5. California Global Warming Solutions Act Of 2006 Part 4. Greenhouse Gas Emissions Reductions § 38562(J)

³ 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 Chevron urges CARB to publish its full AB 398 leakage study. To give Chevron and all Californians—who, per the agency’s findings, will absorb these compliance burdens via elevated prices for fuel and other consumer products—the opportunity to properly consider the program’s potential impact on the State’s affordability concerns and the program’s leakage risk.



additions, or modifications to facilities that reduce GHG emissions, including through the reduction of electricity or natural gas usage by the installation of an energy efficiency measure or the adoption of an energy efficiency practice.

CARB's authority to include the reduction of air pollutants within the MDI stems from its express directives to consider "overall societal benefits, including reductions in other air pollutants", and to design regulations, "including distribution of emissions allowances where appropriate," in a manner that "maximize[s] the total benefits to California." HSC §§ 38562(b)(1)(A), 38562(b)(6). These provisions, read together with the Legislature's mandate to analyze and prevent increases in air pollutants (HSC § 38570(b)), establish a statutory foundation for CARB to consider air pollutant impacts when operating the C&I program generally, and the issuing of allowances through the MDI specifically.

Given the long planning horizons for refinery investments and the short-term allocation framework contemplated in the proposed amendments, CARB should allow eligible expenditures completed in 2026 to qualify for incentive allocations.

Conclusion

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. With refinery closures already reducing California's fuel security and raising dependence on foreign imports,⁴ it is essential that CARB strengthen long-term industrial allocation provisions, ensure competitive parity between in-state and out-of-state refiners, and ensure regulatory stability that encourages continued investment in in-state facilities.

Chevron remains committed to constructive ongoing 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 jurisdictions can match. The California energy industry's economic, industrial, environmental and national security benefits have been the foundation of a healthy, prosperous state, and we would like this to continue.

If you have any questions regarding our comments, please contact Henry Perea at HenryPerea@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
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Chevron

⁴ OPIS - As Reliance on Imported Gasoline Rises, California Adapts to a 'New World' – Accessed February 23, 2026.