



California Fuels and Convenience Alliance

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March 2, 2026

California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: CFCA Comments – Proposed Amendments to the Cap-and-Invest Regulation

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 the state’s 12,000 convenience retailers. Our members—predominantly small, family- and minority-owned businesses—play a vital role in California’s fuel supply chain, serving local governments, emergency services, school districts, transit companies, independent fuel retailers, and the agriculture industry.

We appreciate the opportunity to comment on the California Air Resources Board’s (CARB) Initial proposed amendments to the Cap-and-Invest Regulation. That said, there exists significant concerns with several components of the proposed amendments, as laid out below.

EXCESSIVE REDUCTION IN ALLOWANCE SUPPLY AND FREE ALLOWANCE ALLOCATION

The removal of approximately 118 million allowances from the 2027–2030 allowance budgets, combined with the projected one-billion-allowance cumulative reduction in supply from 2027–2045 compared to the current regulation, represents a substantial tightening of the program beyond what is necessary to support continued environmental progress. These reductions will assuredly increase compliance costs, which will inevitably flow downstream to the fuel supply chain and the small businesses we represent. This magnitude of supply contraction alone warrants serious concern.

Compounding this issue are the proposed changes to the free allowance allocation methodology, including the transition away from the complexity-weighted barrel (CWB) benchmark. Under the amended approach, refiners would be required to procure a greater share of their compliance obligations through the allowance market than originally anticipated, rather than receiving allowances calibrated to refinery complexity and operational characteristics.

The CWB framework has historically recognized differences in refinery configurations and feedstock processing requirements, providing a more accurate reflection of emissions intensity and compliance needs across facilities. Moving away from this methodology reduces alignment between allocated

allowances and actual operational emissions, particularly for more complex refineries, and increases the volume of allowances that must be purchased in the market.

This increased exposure to the allowance market would occur precisely as overall allowance supply is being significantly constrained through the removal of planned allowances and a steeper long-term cap decline. As a result, refiners would be forced to compete for a shrinking pool of allowances in an increasingly tight market, heightening price pressure, increasing volatility, and elevating compliance risk. The timing of these changes leaves limited opportunity for refiners to adjust operations or deploy alternative compliance strategies, given the capital-intensive nature of refining and the long lead times associated with facility modifications.

Together, the elimination of the CWB benchmark and the concurrent tightening of allowance supply transform free allowance allocation from a transitional cost-containment mechanism into a source of additional market exposure, magnifying the cost impacts of the proposed amendments and compounding financial pressures on regulated entities.

DOWNSTREAM IMPACTS ON SMALL BUSINESSES AND CONSUMERS

However, the resulting increase in compliance costs will not be absorbed solely by regulated entities. Instead, these costs will be passed through the downstream fuel supply chain, impacting fuel marketers, distributors, retailers, and ultimately end consumers. Many of these businesses operate on thin margins and lack the ability to absorb additional regulatory costs .

As a result, higher compliance costs translate directly into increased fuel prices - . and the effects can be staggering. Given that daily finished gasoline consumption is ~13 million gallons, the possibility of a 10-15 cent increase as a result of rising allowance costs could translate to as much as ~\$1.95 million in consumer costs, every single day. In a time when affordability has been key, this proposal goes directly against the intention of both the legislature when deciding to extend the program, and Californians seeking relief anywhere they can. This is on top of the reduced operational flexibility for our small businesses, and broader economic impacts across sectors that rely on fuel as a critical input.

AFFORDABILITY AND EQUITY CONCERNS

These concerns are further heightened by the current economic context. Again, it's important to reiterate that Californians are already facing elevated living costs, and additional fuel cost pressures will disproportionately affect low- and middle-income households, small businesses, and communities with limited transportation alternatives.

These impacts are occurring alongside structural changes in California's refining sector, including the announced closure of the Valero Benicia refinery. The loss of in-state refining capacity further tightens fuel supply, increasing the system's sensitivity to regulatory cost increases and market volatility. In this environment, additional compliance cost pressures risk exacerbating price impacts and supply constraints, particularly during periods of peak demand or unplanned operational disruption.

Fuel price increases ripple well beyond the transportation sector, affecting goods movement, food prices, and essential services across the broader economy. Taken together, reduced refining capacity and rising

compliance costs compound affordability and equity concerns, intensifying the impacts on consumers and small businesses least able to absorb additional cost increases.

INCONSISTENCY WITH THE ORIGINAL INTENT OF THE PROGRAM

This outcome runs counter to the original intent of the Cap-and-Trade program, now Cap-and-Invest. From its inception, the program was designed to achieve greenhouse gas reductions in the most cost-effective manner possible, particularly for hard-to-decarbonize sectors such as industrial manufacturing and fuel production.

Recognizing the limited near-term technological alternatives available to these sectors, the program incorporated mechanisms such as free allowance allocation, compliance flexibility, and price containment to ensure emissions reductions could be achieved without imposing unnecessary economic disruption. These design features were fundamental—not incidental—to the program’s success.

The proposed amendments represent a departure from this foundational design. By simultaneously accelerating allowance supply reductions beyond previously established trajectories and diminishing free allocation support, the proposal shifts the program away from a least-cost compliance framework and toward one that relies heavily on cost pressure as a primary policy lever.

This approach risks undermining the economic stability of regulated industries without delivering proportional environmental benefits, particularly where viable decarbonization pathways remain constrained by technology availability, infrastructure limitations, or market readiness.

CONCLUSION

Taken together, the proposed reductions in allowance supply and revisions to the free allowance allocation methodology introduce compounding cost pressures that exceed what is necessary to advance the program’s environmental objectives. These changes risk undermining the original intent of Cap-and-Invest by prioritizing accelerated cost escalation over cost-effective, durable emissions reductions.

We respectfully urge the board to reconsider these elements of the proposal and to ensure that the Cap-and-Invest program continues to balance environmental ambition with economic sustainability, equity, and regulatory certainty.

If you have any questions, please contact CFCA’s Sr. Director of Government Affairs, Alessandra Magnasco, at alessandra@cfca.energy.

Sincerely,

A handwritten signature in black ink, appearing to read "Alessandra Magnasco". The signature is fluid and cursive, with a large initial "A" and a long, sweeping underline.

Alessandra Magnasco
Sr. Director of Government Affairs