Western States Petroleum Association (Jodie Muller)

Please see attached.

WSPA
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Clerk of the Board
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Submitted via CARB Comment Submittal Form
and by email to CARB staff

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

The Western States Petroleum Association (WSPA) appreciates the opportunity to comment on the California Air Resources Board's (CARB) Proposed 15-Day Amendments to the Cap-and-Invest Regulation.[1] WSPA is a non-profit trade association that represents companies that safely explore for, produce, refine, transport, and market petroleum, petroleum products, natural gas, and other energy supplies in California, Washington, Oregon, Nevada, and Arizona. Although WSPA appreciates CARB's efforts to provide short-term relief through 2030 in its proposed amendments, additional measures are necessary to address long-term policy uncertainties and to better incentivize investments in California's critical transportation fuel infrastructure in order to stabilize in-state operations and improve air quality.

WSPA urges CARB to address the following critical issues:

- Ensure that allowance budgets provide long-term market certainty and affordability;
- Address the ongoing and continuously increasing leakage risk facing California's refineries by:
  - Providing post-2030 certainty that in-state refining will receive necessary leakage risk protections; and
  - Designating in-state petroleum refineries as *high*-leakage-risk through 2045, consistent with the governor's direction to stabilize the petroleum sector and to address short- *and long-term* planning;[2]
- If allowance budgets lack sufficient allowances to assign a 0.85 cap decline rate for petroleum refining and 1.0 for biorefining through 2035 or 2045, direct CARB staff to recommend new or modified policy mechanisms to minimize leakage risk in the 2027 Scoping Plan Update;
- Ensure that proposed manufacturing decarbonization incentive allocations adequately account for early actions to reduce emissions,[3] including recent and new projects that also improve local air quality;
- Ensure that carbon capture, utilization, and storage (CCUS) and carbon dioxide removal (CDR) projects are eligible to reduce covered emissions and are reflected in Mandatory Reporting Regulation (MRR) net emissions reporting;
- Permit refiners to choose between use of either the complexity weighted barrel (CWB) methodology or the liquid hydrocarbon fuel (LHF) methodology; and
- Ensure that CARB's proposed solutions to address compliance costs are workable and do not definitionally preclude participation by any party within an industry.

WSPA supports CARB's objective to adopt a 2030 reduction target for the Cap-and-Invest program that maintains an affordable, steady, and stable carbon market pursuant to Senate Bill (SB) 32 (2016). Market-based approaches can facilitate significant progress toward California's emissions reduction goals while

[1] CARB. Proposed 15-Day Amendments: Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms. Available at: https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_a-1_ci_15d.pdf. Accessed: April 2026.
[2] *See* Governor Gavin Newsom letter to California Energy Commission Vice Chair Siva Gunda, dated April 21, 2025 (*emphasis added*); available at: https://www.gov.ca.gov/wp-content/uploads/2025/05/Newsom-Gupta-Letter-4.21.pdf.
[3] AB 32, AB 398, and AB 1207 explicitly states CARB is to design the regulations for regulated parties to receive appropriate credit for early voluntary reductions.

ensuring cost-effective and technologically feasible reductions. However, as explained in WSPA's prior comment letters, CARB's proposed updates must also comply with the requirements of Assembly Bill (AB) 32 (2006), SB 32, AB 398 (2017), SB X1-2 (2023), AB X2-1 (2024), AB 1207 (2025), and SB 840 (2025); integrate carbon-negative technologies; and limit cost impacts consistent with other legislative directives aimed at mitigating consumer burdens related to transportation fuel products. The following statutes impose specific requirements on CARB's authority to adopt and implement the Cap-and-Invest program:

- **AB 32**: The California Global Warming Solutions Act of 2006 established ambitious greenhouse gas (GHG) emission reduction goals intended to position California as a global leader in developing new technologies. In carrying out these goals, AB 32 directs CARB to adopt regulations achieving the maximum technologically feasible GHG emissions reductions while requiring CARB to minimize leakage potential and ensure that GHG emissions reductions are technologically feasible *and* cost-effective.[4]
- **SB 32 and AB 398**: The California Global Warming Solutions Act of 2016 (SB 32) builds on AB 32 while reiterating that reduction measures must be technologically feasible and cost-effective.[5] AB 398 established specific Cap-and-Invest requirements through 2030 intended to limit the program's cost impacts, including a price ceiling, price containment points, and enhanced industry assistance factors.[6] In particular, when setting a price ceiling, CARB must consider adverse impacts on businesses, 2020 tier prices of the allowance price containment reserve (APCR), leakage potential, the auction reserve price, and the cost per metric ton of GHG emissions reductions, among other factors.
- **AB 1207**: In extending CARB's authorization for the Cap-and-Invest program through 2045, AB 1207 emphasized maintaining a "cost-effective, market-based approach to reduce emissions of greenhouse gases" that should "minimize ratepayer impacts."[7] In furtherance of these goals, AB 1207 directed CARB to "consider additional actions to ensure consumers are protected," including but not limited to "adjustment to the allowance price containment reserve or the price ceiling" and to evaluate "additional compliance offset protocols… including carbon dioxide removal."[8] AB 1207 further directed CARB to prepare an updated leakage risk assessment by December 31, 2025.[9] As WSPA stated in a 2018 comment letter, the current Cap-and-Invest cost containment price tiers are not set at levels that will adequately protect against adverse program impacts to businesses in a timely and responsive manner. The millions of allowances that have been moved into the Allowance Price Containment Reserve are effectively lost to the carbon market because the price ceiling and speed bumps are set too high to mitigate excessive compliance costs effectively. Accordingly, in amending the Cap-and-Invest program, CARB is statutorily obligated to account for these legislative priorities and consider impacts on affordability, cost-effectiveness, and leakage potential. To date, CARB has not prepared its updated leakage assessment, which is past due, to quantify and assess potential consumer impacts and leakage risks under the proposed scenarios. This assessment, in addition to CARB's analysis of other consumer impacts, is essential for updating the Cap-and-Invest program in accordance with legislative direction.
- **SB X1-2**: CARB is further obliged to address potential conflicts between proposed Cap-and-Invest amendments and other legislative policies seeking to minimize consumer burdens associated with transportation fuels. SB X1-2 directed State agencies to evaluate measures to ensure that petroleum and alternative transportation fuels are adequate, affordable, reliable, and equitable. In enacting SB X1-2, the California Legislature recognized the importance of addressing ongoing supply constraints for transportation fuels, as energy affordability remains a pressing priority for many Californians. However, according to the California Energy Commission (CEC), the existing Cap-and-Invest

[4] AB 32. Available at: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=200520060AB32. Accessed: April 2026.
[5] *Ibid.*
[6] California Legislative Information. Assembly Bill No. 398. Available at: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180AB398. Accessed April 2026. *See* Attachment A.
[7] California Legislative Information. Assembly Bill No. 1207. Available at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202520260AB1207#95CHP. Accessed: April 2026.
[8] *Ibid.*
[9] *Ibid.*

program and the Low Carbon Fuel Standard (LCFS) together add approximately 43 cents per gallon to the cost of gasoline in California.[10] CARB's Proposed Amendments are likely to increase these already significant burdens, potentially in conflict with the statutory direction set forth in SB X1-2. WSPA is especially concerned that the Proposed Amendments could exacerbate existing negative impacts by further compromising the supply reliability of critical transportation fuels, leading to increased energy costs and additional burdens on Californians. CARB must consider the impacts on gasoline costs when updating the Cap-and-Invest program and seek to minimize those costs, consistent with SB X1-2's mandate.

In addition to these legislative requirements, WSPA agrees with CARB that significant federal policy changes would likely affect technology deployment and associated costs considered during development of the 2022 Scoping Plan Update.[11] Accordingly, programmatic modifications should avoid over-reliance on technologies or policies unlikely to achieve meaningful GHG emissions reductions by 2035.

Increasingly stringent State policies have reduced in-state refining capacity to the point where California can no longer meet its own demand. Announced refinery closures will only exacerbate this situation.[12] After two California refining facilities complete their permanent shutdowns, the projected loss in 2027 will be approximately 18% of California's crude oil capacity, representing a fuel volume reduction of 284,000 barrels per day.[13] To avoid additional refinery sector impacts and help stabilize California's transportation fuel supply, WSPA strongly encourages CARB to: (1) avoid unnecessary cost increases that lack clear consumer benefits; (2) establish practical timelines; and (3) align investment risks with levels acceptable to investors for energy infrastructure improvements. CARB should also incorporate considerations for ongoing and realistic consumer-driven investment needs, given that a longer, more complex timeline is expected.[14]

In response to these Proposed 15-Day Amendments and the accompanying MRR amendments, WSPA respectfully offers the following comments.

1. **CARB should extend proposed program amendments post-2030 to provide long-term operational certainty and market stability for covered industrial entities, while addressing long-term affordability concerns.**

CARB's decision to limit this 15-day package to the 2027-2030 period merely avoids addressing the more difficult post-2030 issues and leaves covered entities without a meaningful long-term signal. CARB's failure to provide a defined post-2030 industrial leakage protection framework impacts long-term operational planning and investment decisions, and instead forces covered entities to operate under persistent uncertainty while simultaneously imposing near-term reductions that tighten allowance supplies, undermine affordability, and erode investor confidence. This short-term framework *discourages* long-term compliance strategies and impacts the long-term efficacy of the program.

WSPA has consistently emphasized that it is imperative for the Cap-and-Invest program to provide clear long-term market signals and reflect the technological and economic feasibility of achieving emissions reductions.[15] Allowance budgets should reflect this reality – creating allowance scarcity driven by an

[10] CEC. 2026. California Oil Refinery Cost Disclosure Act Monthly Report: Aggregated Data Reported. December 2025. Available at: https://www.energy.ca.gov/data-reports/energy-almanac/californias-petroleum-market/california-oil-refinery-cost-disclosure. Accessed: February 2026.
[11] *See* Initial Statement of Reasons (ISOR) at 11 (explaining that the 2022 Scoping Plan Update "charted a cost-effective and technological feasible path to achieving carbon neutrality by 2045").
[12] Phillips 66 announced it will permanently cease conventional crude oil processing at its Wilmington, California refinery by the end of 2025, and Valero has announced plans to idle or cease refining operations at its Benicia, California refinery by April 2026.
[13] *See* CEC Energy Almanac, California's Oil Refineries; updated April 15, 2026, available at: https://www.energy.ca.gov/data-reports/energy-almanac/californias-petroleum-market/californias-oil-refineries.
[14] CARB recently sought to adopt an Emergency Vehicle Emissions Regulation, in response to Federal disapprovals of three preemption waivers previously granted by the United States Environmental Protection Agency to enforce its Advanced Clean Cars II and Advanced Clean Trucks, amongst other regulations. CARB argued that these waiver disapproval resolutions "introduced an unprecedented degree of uncertainty into the California market for new motor vehicles." See CARB 5-Day Public Notice and Comment Period, Emergency Amendment and Adoption of Vehicle Emissions Regulations, at 2. Available at: https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2025/emergencyvehemissions/notice.pdf.
[15] *See, e.g.,* WSPA Comments on 7-27-2023 Cap-and-Trade Workshop, WSPA Comments on 7-24-2024 CARB Cap-and-Trade Workshop.

assumed linear decline in emissions through 2045 does not instill confidence and discourages early investment in reduction measures. CARB's assumption that statewide emissions will decline linearly to achieve the 2045 target fails to account for these market realities; instead, amendments to the allowance budget should include a transparent long-term cap trajectory and account for realistic deployment timelines for decarbonization technologies, particularly for hard-to-abate sectors and projects that have most recently preserved efficient operations. Without longer-term pricing signals, current allowance reduction requirements risk increasing costs and operational uncertainty without ensuring corresponding emissions reductions, thereby undermining both the affordability and integrity of GHG emissions reductions and contravening the legislative priorities in AB 1207.

As noted in WSPA's comment letter on the 45-Day Amendments,[16] CARB's technical assessment of feasibility in support of the Proposed Amendments remains insufficient and continues to rely on unrealistic assumptions from the 2022 Scoping Plan Update that depended on complementary measures that have not materialized. For instance, CARB assumed that electric vehicle mandates would significantly reduce liquid fuel demand long-term; however, delays in implementing these mandates mean that additional liquid fuel production will be needed to meet continuing demand, which must be adequately accounted for in assessing long-term program goals. While the 15-Day Amendments now acknowledge certain limitations related to the implementation of these complementary measures, they stop short of addressing the obvious consequences: promoting near-term allowance reductions in the absence of a post-2030 framework serves only to compound market pressure and increase compliance costs. Without a realistic accounting of deployment timelines for decarbonization technologies, particularly in hard-to-abate industrial sectors, these proposed near-term reductions risk driving up costs for Californians without ensuring corresponding emissions reductions.

WSPA previously noted that permanently removing 118 million allowances between 2027 and 2030 would introduce a significant step change in future allowance budgets and could materially destabilize the market. WSPA therefore recommended[17] that, if the 118 million allowances must be removed, CARB should instead reallocate these allowances to mechanisms that preserve market flexibility rather than permanently remove the allowances from the program. While CARB's proposal to reallocate these allowances to the Manufacturing Decarbonization Incentive allocation is at least directionally consistent with WSPA's recommendation, as discussed further below, it does not resolve the larger problem.

Without a clear, feasible, and affordable *long-term* program design, investment confidence will remain constrained, likely resulting in delays – or worse, the cancellation of capital projects at petroleum refineries – thereby increasing the likelihood that California and its neighboring states will rely on imported transportation fuels that are costly, less reliable, and increasingly higher-emission compared to in-state production.

2. CARB should adequately evaluate leakage risks and long-term investment risk uncertainties.

AB 32,[18] AB 398,[19] and AB 1207[20] *require* CARB to minimize industrial emissions leakage in California when regulating GHG emissions through its Cap-and-Invest program. In support of this requirement, CARB was required to provide a leakage risk report to the State Legislature – including any "recommendations to the Legislature on necessary statutory changes to the program to reduce leakage" – by December 31, 2025.[21] Despite knowing about this obligation since 2017, CARB has failed to prepare its report, which is now 124 calendar days overdue.

[16] *See* "WSPA Comments on Proposed Cap-and-Invest Program and Mandatory Reporting Regulation Amendments," dated March 9, 2026; available at: https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid377/did200184/pid_213315/assets/merged/410mi2pj0ka_document.pdf?v=19348.
[17] *See, e.g.,* WSPA Comments on 10-5-2023 Cap-and-Trade Workshop, WSPA Comments on 4-23-2024 CARB Cap-and-Trade Workshop, and WSPA Comments on 11-12-2025 Cap-and-Invest Workshop.
[18] *See* HSC § 38562(b)(9).
[19] *See* HSC § 38562(c)(2)(J).
[20] *See* HSC § 38562(b)(7).
[21] *See* HSC § 38562(c)(2)(J).

In addition, CARB has failed to solicit public feedback on updated leakage risks in developing its report. CARB has again delayed release of the leakage risk report well into the final stage of its Cap-and-Invest rulemaking. Instead, CARB only offered select "key findings" at an October 2025 pre-rulemaking workshop.[22] Public engagement could offer meaningful input on underlying assumptions significantly impacting CARB's leakage analysis – for instance, CARB's industrial leakage assessment reportedly assumed "ongoing economic growth, energy efficiency improvements, and constant economic behavior;" however, those assumptions, based on pre-2025 data, would seemingly fail to account for significant economic developments, including the closure of multiple California refineries,[23] a sluggish California economy with new federal import tariffs creating additional cost pressures, [24] and geopolitical uncertainties that are driving widespread energy cost increases for consumers.[25] In addition, without a full report, stakeholders do not have an adequate basis to review CARB's analysis of potential leakage risks. CARB's failure to solicit meaningful public feedback on updated leakage risks impedes CARB's ability to meaningfully address industrial leakage in its proposed Cap-and-Invest amendments and evaluate whether existing policy mechanisms should be modified or new mechanisms should be introduced to address and minimize those leakage risks, in accordance with CARB's legislative mandate. In the absence of CARB's leakage report, WSPA and its members provided updated leakage information to CARB in comments on the Proposed 45-Day Amendments, including substantial information collected by HSB Solomon Associates LLC that clearly demonstrates that both significant environmental and economic leakage is occurring today and will continue to occur without action by CARB.

WSPA remains concerned that the Proposed 15-Day Amendments would be inconsistent with ongoing efforts to stabilize California's remaining refineries. As Governor Newsom explained in his April 2025 letter to the CEC, refineries are facing "unprecedented uncertainty," which leads to significant impacts and affordability concerns for Californians. [26] In addition, WSPA provided detailed emissions and economic leakage data in our comprehensive comments on the Proposed 45-Day Amendments[27] to demonstrate "leakage" risks and the need for reforms to provide longer-term programmatic certainty as requested. Despite these significant challenges impacting refineries, the Proposed 15-Day Amendments instead create *even more* uncertainty.

WSPA has provided detailed information from HSB Solomon Associates LLC regarding emissions- and economic-based leakage sensitivities to demonstrate how the Cap-and-Invest program, in isolation, impacts California refining's competitive position vis-à-vis imported transportation fuels. This information demonstrated that California refineries operate at a lower carbon emissions intensity than domestic and foreign peers and that the Proposed 45-Day Amendments[28] could drive California's remaining refineries further into a competitive disadvantage while increasing both economic and environmental leakage without providing additional relief to address imported fuel disparities. Further measures are necessary to ensure continued investments in California's petroleum supply to meet current and projected consumer demand.

To address these significant emissions and economic leakage risks, CARB should incorporate the changes detailed below.

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[22] *See* CARB Cap-and-Invest Program Workshop, October 29, 2025; slides available at: https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/meetings/nc_CapInvestWorkshop_October2925.pdf.

[23] Phillips 66 announced it will permanently cease conventional crude oil processing at its Wilmington, California refinery by the end of 2025, and Valero has announced plans to idle or cease refining operations at its Benicia, California refinery by April 2026.

[24] *See* Legislative Analyst's Office "The 2026-27 Budget California's Fiscal Outlook," dated November 19, 2025, available at: https://lao.ca.gov/Publications/Report/5091.

[25] *See* U.S. Bureau of Labor Statistics Consumer Price Index Summary, dated April 10, 2026; available at: https://www.bls.gov/news.release/cpi.nr0.htm.

[26] Governor Gavin Newsom letter to California Energy Commission Vice Chair Siva Gunda, dated April 21, 2025 (*emphasis added*); available at: https://www.gov.ca.gov/wp-content/uploads/2025/05/Newsom-Gupta-Letter-4.21.pdf.

[27] *See* "WSPA Comments on Proposed Cap-and-Invest Program and Mandatory Reporting Regulation Amendments," dated March 9, 2026; available at: https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid377/did200184/pid_213315/assets/merged/410mi2pj0ka_document.pdf?v=19348.

[28] CARB. Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation. Available at: https://ww2.arb.ca.gov/rulemaking/2026/cap-and-invest2026. Accessed: April 2026.

A. *CARB should designate in-state petroleum refineries as high-risk for leakage.*

The CEC has closely tracked the status of in-state refining capacity.[29] Following the announced – and permanent – closures of two California refineries in 2024 and 2025, the CEC noted that "in the near term, an abrupt loss of refining capacity and the increased need for imported fuel to compensate is likely to create new risks for stable fuel prices and supply. Keeping in-state and imported fuel competitive will be an important balancing act moving forward, because if the cost of refining fuel in state exceeds the cost of importing fuel, it could further accelerate additional petroleum refinery exits."[30] WSPA continues to urge CARB to explicitly designate California's petroleum refineries as high-leakage-risk facilities – not "medium" risk – to meet CARB's obligations under AB 32 and AB 1207, to protect environmental integrity, and to ensure that GHG emissions reductions occur within California rather than production being shifted out of state. While Table 8-1 assigns an industry assistance factor of 100% to all risk levels through 2030 only, an explicit designation of petroleum refineries as "high" risk would provide a foundation for identifying alternative approaches to mitigate leakage through the allocation of allowances. Permanent shutdowns of California refineries reduce in-state fuel supplies and further increase California's reliance on imported fuels, which are typically produced under less stringent environmental regulations and transported over long distances, resulting in higher lifecycle GHG emissions and increased costs for California consumers.

B. *CARB should adopt longer-term leakage protection measures to provide certainty and contain costs consistent with legislative mandates.*

AB 1207 specifically directs CARB to "evaluate the cost impact of the market-based compliance mechanism on California consumers when it revises regulations implementing that mechanism" and provides CARB with flexibility to "consider additional actions to ensure consumers are protected."[31] While WSPA acknowledges that CARB has proposed modifications to the Cap Adjustment Factor (CAF) for standard industrial activities between 2027 and 2030, WSPA remains concerned about the lack of certainty beyond 2030.

First, CARB's failure to address post-2030 program requirements creates regulatory uncertainty that undermines long-term, multi-year investment cycles in California's petroleum sector. These long-term investments are essential for achieving emissions reductions for petroleum and biofuel refineries due to substantial capital outlays, lengthy permitting timelines, and extended project development horizons that are incompatible with frequent or uncertain changes to allocation methodologies. Long-term program protections help align investment risks with what investors are willing to accept for energy infrastructure improvements. Providing investor confidence is critical to stabilizing California's petroleum supply and protecting California's industrial competitiveness, consistent with the Governor's directive to the CEC that in-state "refiners continue to see the value in serving that California market."

Second, a declining cap undermines cost-containment tools for allowance availability, risking further increases in compliance costs for California's refineries without delivering commensurate environmental benefits – particularly if GHG emissions are displaced rather than reduced. Cost-containment mechanisms remain a critical component of maintaining affordable in-state fuels production, as does avoiding unnecessary cost increases that lack clear consumer benefits. Imposing overly burdensome compliance requirements on this industry sector may result in businesses choosing to leave California rather than comply, thereby exacerbating leakage impacts.

Third, absent corrective action, limitations on industrial assistance through declining CAFs will likely only serve to further accelerate refinery closures and exacerbate emissions and economic leakage, potentially

[29] *See* California Energy Commission's "California Oil Refinery History;" available at: https://www.energy.ca.gov/data-reports/energy-almanac/californias-petroleum-market/californias-oil-refineries/california-oil.
[30] *See* CEC Vice Chair Siva Gunda's response to Governor Gavin Newsom letter to California Energy Commission Vice Chair Siva Gunda, dated June 27, 2025; available at: https://www.energy.ca.gov/sites/default/files/2025-07/CEC%27s_Respone_to_Governor_Newsom%27s_Letter_June-27-2025_ada.pdf.
[31] *See* HSC §§ 38562(c)(2)(A)(iii), (i).

leading to the elimination of additional in-state refining capacity.[32] CARB must therefore take immediate steps to prevent further erosion of the economic viability of California's petroleum and biofuel refineries. Such an approach would be consistent with the Legislature's directive under SB X1-2 and AB X2-1 to ensure that California maintains reliable, affordable, and safe fuel supplies for its residents.

C. *CARB should develop policies that level the playing field for California refineries.*

Since the inception of the Cap-and-Invest program, CARB has utilized direct allocation of no-cost allowances to covered industrial sectors as its primary mechanism for mitigating emissions leakage. Nevertheless, as the available allowance supply diminishes in accordance with California's 2045 carbon neutrality target, CARB's current leakage protection mechanism has proven increasingly inadequate in addressing the growing competitive disadvantage confronting California's transportation fuels producers, particularly as the price floor and allowance price containment reserves continue to increase annually without adequate consideration of economic challenges or technology feasibility.

WSPA emphasizes the importance of maintaining robust in-state refining capacity while ensuring access to both domestic and international supplies to meet ongoing consumer demand, particularly in light of current geopolitical challenges. In light of these issues, WSPA urges CARB to establish a 0.85 CAF for petroleum refining and a 1.0 CAF for biorefining through 2045 to provide long-term program stability while reducing program-related costs for California industries and consumers. Providing regulatory certainty is essential for establishing a stable framework that supports long-term investment, operational planning, and a competitive transportation fuels market in which refiners, importers, and distributors operate on a level playing field. WSPA urges CARB to consider policy approaches that address the external challenges facing California's petroleum refining sector – particularly as Cap-and-Invest program-related production costs continue to increase – in order to mitigate future production and emissions leakage resulting from competitiveness pressures from out-of-state refineries. In its current form, the Cap-and-Invest program fails to address the substantial and widening disparities affecting California's remaining refineries, which continue to bear stationary source compliance obligations while an increasing volume of imported fuel does not. WSPA recommends that CARB conduct a comprehensive evaluation of the emissions, cost, and workforce implications, as well as the underlying legal authorities, and collaborate with industry stakeholders to develop durable solutions within this or an alternative regulatory framework. WSPA looks forward to engaging in discussions regarding policy approaches that are both economically viable and provide long-term environmental and regulatory certainty.

D. *CARB should credit early emissions reductions and expand Manufacturing Decarbonization Incentive eligibility.*

WSPA appreciates CARB's proposed revisions to the Manufacturing Decarbonization Incentive (MDI) allocation; however, further clarification is warranted regarding application procedures and the proper use of associated allowances. WSPA recommends the following updates:

Expanding eligibility for broader emissions reductions: CARB should expand MDI allocation eligibility by adding an option for facilities to apply for air quality impact projects that reduce emissions of GHG precursors, rather than focus solely on global GHG emissions. Under AB 32, CARB is required to "[d]esign any market-based compliance mechanism [for carbon trading] to prevent any increase in the emissions of toxic air contaminants or criteria air pollutants." This statutory requirement reflects the Legislature's intent that market-based GHG programs be structured to avoid increases not only in GHGs but also in emissions of GHG precursors. Consistent with this requirement, on October 10, 2011, CARB released a draft Adaptive Management Plan to develop a "process of information gathering, review and analysis, and response that promotes flexible agency decision-making" to ensure that this AB 32 directive would be achieved. This subsequently gave rise to the adoption of AB 617, the Community Air Protection

[32] Under the California APA, Gov. Code § 11346.3(c)(1), CARB is required to address economic impacts such as the "creation of new businesses or the elimination of existing businesses within the state" and the "competitive advantages or disadvantages for businesses currently doing business within the state." While CARB's ISOR concludes that the Proposed Amendments are not expected to "eliminate any business," CARB's failure to account for increased leakage risks for refineries may lead to new closures. CARB. Staff Report: Initial Statement of Reasons. Available at: https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2026/cap_invest/nc_isor.pdf. Accessed April 2026.

Program, which reinforced the need to ensure that GHG reduction strategies do not result in increased emissions of GHG precursors. Focusing the MDI allocation solely on global GHG emissions would preclude recognition of projects that advance broader emissions-reduction objectives under AB 32, including refinery projects such as turnarounds and other operational improvements that reduce emissions of GHG precursors while supporting compliance objectives.

Local air quality improvement projects achieve real, in-state emissions reductions in support of California's decarbonization strategies, community emission reduction programs under AB 617, and the provision of lower-carbon fuels. Allowances for these projects could also assist in managing rising compliance costs while supporting in-state operations for California's highly trade-exposed entities, such as refineries and upstream production, and provide leakage protection for regulated entities that invest in California industrial facility projects, consistent with legislative direction. Accordingly, CARB should expand MDI allocation eligibility by adding an option for facilities to apply for air quality impact projects, consistent with AB 32 and CARB's integrated emissions-reduction framework.

Clarifying eligibility for early investments: CARB should ensure that near-term investments to preserve operations while improving air quality are eligible for MDI allowance allocation. While the Proposed 15-Day Amendments properly seek to correct unrealistic application timelines as proposed in the 45-Day Amendments, WSPA is concerned that near-term investments to preserve operations while improving air quality may be unintentionally ineligible. Additional flexibility will be needed to ensure that such early investments can qualify for the CAF modifier. Given the short-term regulatory construct now envisioned for allowance allocations in the Proposed 15-Day Amendments – and the long-term, cyclical nature of refinery infrastructure investments in particular – CARB should ensure that early action-eligible expenditures will also qualify for incentive allocations. Greater investment certainty is needed to ensure that California can maintain an affordable, reliable, and safe supply of transportation fuels well into the future, and any early investments in air quality improvement projects should be accommodated accordingly.

3. CARB should allow refineries to choose between liquid hydrocarbon fuel and CWB benchmarks.

In the prior 45-Day Amendments, CARB proposed replacing the CWB metric with a new "liquid hydrocarbon fuel" framework for reporting years beyond 2030. While the LHF approach offers a more straightforward, production-based allocation methodology, WSPA previously noted that the existing CWB metric remains a robust and valuable measure of refinery operations, as it better reflects differences in complexity, processing efficiency, and emissions intensity.[33]

CARB's Proposed 15-Day Amendments would revise this language to extend the applicability of the product-based efficiency and refinery benchmark and to allow entities to "irreversibly switch" from the CWB benchmark to LHF prior to the vintage 2033 allocation. While WSPA appreciates these changes, CARB's revised proposal still does not provide sufficient flexibility for facilities to choose between the CWB and LHF methodologies or to continue using the CWB metric beyond 2033. WSPA reiterates that requiring all facilities to transition to the LHF benchmark limits the ability of more complex refineries to receive allocations that appropriately reflect their operational characteristics while maintaining consistency with historical reporting.

Providing entities with a clear option to choose between CWB and LHF benchmarks would better support operational flexibility, incentivize efficiency improvements, and enhance regulatory certainty for long-term planning and capital investment decisions, regardless of a facility's preferred methodology.

[33] *See* "WSPA Comments on Proposed Cap-and-Invest Program and Mandatory Reporting Regulation Amendments," dated March 9, 2026; available at: https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid377/did200184/pid_213315/assets/merged/410mi2pj0ka_document.pdf?v=19348.

4. CARB should recognize CCUS and CDR projects in the Cap-and-Invest and MRR regulations.

By CARB's own assessment, both CCUS and CDR technologies are critical to achieving California's 2045 carbon neutrality target. CARB's planning documents, including the 2022 Scoping Plan Update,[34] acknowledge that large-scale deployment of CCUS and CDR is necessary to achieve long-term climate goals. While large-scale deployment remains aspirational based on current long-term investment signals, these technologies have demonstrated the capacity to significantly reduce emissions by directly preventing CO_2 from entering the atmosphere or to permanently removing CO_2 that has already been emitted.

AB 1207 specifically directs CARB to "[c]onsider developing additional compliance offset protocols to address sectors that are not covered by the market-based compliance mechanism but are identified in the scoping plan . . . , including carbon dioxide removal."[35] CARB's Proposed Amendments largely defer the development of CCUS pathways pending CARB's adoption of its Carbon Capture, Removal, Utilization, and Storage Program, instead establishing new Section 95852.3 as a placeholder to address the treatment of utilized or sequestered carbon dioxide within the Program.[36]

The Proposed 15-Day Amendments attempt to provide support for CCUS and CDR development by allowing entities to use MDI allowances to support capital, electricity, and development costs associated with CCUS projects. However, they stop short of recognizing the resulting emissions reductions as eligible for compliance under the Cap-and-Invest program. This creates a structural inconsistency that is difficult to justify: the program subsidizes the deployment of CCUS yet declines to credit the very emissions reductions those investments are intended to deliver. Covered entities are therefore expected to bear the cost and execution risk of deploying these projects without receiving corresponding compliance value. The result is a weakened investment signal and a policy framework that undermines its own stated objectives of enabling cost-effective emissions reductions.

Although WSPA supports the inclusion of CCUS and CDR within the MDI, the broader regulatory structure remains fundamentally incomplete. There is still no clear or direct compliance recognition under either the Cap-and-Invest Program or the MRR for emissions reductions achieved through these pathways. As a result, the program effectively signals that these investments are desirable in theory while withholding the regulatory recognition that would render them financeable in practice. For capital-intensive, long-lead-time infrastructure such as CCUS and CDR, this lack of compliance value is not a minor omission but rather a binding constraint on deployment.

To ensure that the Cap-and-Invest program remains effective and supports the State's long-term GHG reduction targets, CARB should explicitly recognize qualified CCUS and CDR projects as constituting covered GHG emissions reductions eligible for meeting compliance obligations. Covered entities that capture and permanently store or verifiably remove CO_2 should be allowed to reflect those reductions in their covered emissions, rather than being required to surrender allowances as though the captured GHG emissions had been released into the atmosphere. Absent such clarity, the program risks discouraging investment in precisely the technologies that CARB has identified as essential to achieving carbon neutrality.

Similarly, the MRR cannot remain unchanged in connection with any future treatment of CCUS and CDR under Cap-and-Invest. It must be updated to expressly permit reporting of net GHG emissions that reflect verified reductions from CCUS and CDR projects. Without this alignment between the MRR and Cap-and-Invest regulations, entities are unable to consistently report emissions outcomes that CARB itself has identified as critical to achieving carbon neutrality, and the program continues to lack the basic accounting coherence necessary for transparent and verifiable implementation. WSPA previously provided CARB with such language and can do so again as needed to ensure proper program alignment and accurate carbon accounting.

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[34] CARB. 2022 Scoping Plan for Achieving Carbon Neutrality. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf. Accessed April 2026.
[35] *See* HSC § 38562(c)(2)(H).
[36] *See* ISOR at 82.

5. CARB should ensure cost-containment solutions are workable for all industry participants.

CARB should broaden its proposed definition of "Independent Merchant Refinery" (IMR) to include products beyond gasoline and to include broader corporate structures. The current definition of an IMR is designed to apply to facilities that produce more than one million barrels of motor gasoline blendstock annually and are owned by non-integrated standalone companies. However, this definition would not apply to various corporate structures, given that a standalone company, by definition, has no subsidiaries or parent entities. Further, many refineries produce additional products other than gasoline that also incur Cap-and-Invest compliance obligations. Given these limitations, in the interest of fairness, the applicability criteria should be broadened to include other products and to remove the "standalone" requirement.

The IMR designation is currently referenced in only one proposed provision: permitting a two-year deferral of the triennial compliance surrender for the 2024-2026 compliance period, thereby extending the deadline from 2027 to 2029. However, this provision fails to account for the fact that the Cap-and-Invest regulation precludes the use of future vintage allowances for current-year compliance obligations. Specifically, other than the use of true-up allowances, no 2027, 2028, or 2029 allowances may be applied toward the triennial compliance surrender for the 2024-2026 compliance period. Consequently, an entity would still be required to purchase 2026 allowances at auction or on the secondary market; therefore, this provision would not reduce current costs but would merely delay the actual surrender of compliance instruments. To render this provision workable for *all* of the refining industry, CARB should temporarily suspend until 2031 the restriction against using future vintage allowances for past or current compliance obligations.

6. CARB should clarify the definition of "importer of fuel" in the proposed MRR amendments.

WSPA requests that CARB clarify the definitional changes to "Importer of fuel." "Fuel" has a broad definition in the MRR and includes solid, liquid, or gaseous combustible material. WSPA requests that CARB confirm that an importer of liquid transportation fuel, such as reformulated blendstock for oxygenate blending (RBOB) (and RBOB blending components) or diesel, is not required to report imported volumes in MRR, as that may create double counting of volumes and emissions given that fuels sold into California are also required to be reported under a supplier's MRR report.

7. CARB should address outstanding comments on the Proposed Amendments.

In addition to the comments above, WSPA remains concerned about offset allowance removal methods, alternating compliance period lengths, lack of exemptions for biogenic process and combustion emissions, the impact of ambiguous language on federal Renewable Identification Numbers (RINs) and voluntary market participation, double penalization of ethanol denaturant under the LCFS, and unnecessary documentation requirements for certain allowance trades. These topics were discussed in detail in WSPA's comment letter dated March 9, 2026,[37] but CARB has failed to address any of them in the 15-Day Amendments. Without resolution of these issues, the amendment risks creating an artificial market shortage of GHG allowances, imposing overly burdensome reporting requirements, and disincentivizing key decarbonization technologies.

WSPA appreciates your consideration of these comments and welcomes the opportunity to discuss these concerns in greater detail. WSPA looks forward to working with CARB on these important issues.

Sincerely,

Jodie Muller
President & Chief Executive Officer

[37] *See* "WSPA Comments on Proposed Cap-and-Invest Program and Mandatory Reporting Regulation Amendments," dated March 9, 2026; available at: https://scs-public.s3-us-gov-west-1.amazonaws.com/env_production/oid377/did200184/pid_213315/assets/merged/410mi2pj0ka_document.pdf?v=19348.

OFFICE OF THE GOVERNOR

April 21, 2025

Mr. Siva Gunda
Vice Chair
California Energy Commission
715 P Street
Sacramento, CA 95814

Dear Vice Chair Gunda,

Thank you for your leadership in protecting consumers and ensuring that California has a safe, affordable and reliable supply of transportation fuels during our energy transition over the next two decades, including through implementation of Senate Bill X1-2 (Skinner, 2023) and Assembly Bill X2-1 (Hart, 2024).

I write to direct you to redouble the State's efforts to work closely with refiners on short- and long-term planning, including through high-level, immediate engagement, to help ensure that Californians continue to have access to a safe, affordable, and reliable supply of transportation fuels, and that refiners continue to see the value in serving the California market, even as demand for fossil fuels continues its gradual decline over the coming decades.

Further, I am directing you, as my Administration's lead representative on this issue, to reinforce the State's openness to a collaborative relationship and our firm belief that Californians can be protected from price spikes and refiners can profitably operate in California – a market where demand for gasoline will still exist for years to come.

Additionally, I am directing you to engage with the Petroleum Strategy Task Force, a cross-agency effort convened by California Natural Resources Agency Secretary Wade Crowfoot and California Environmental Protection Agency Secretary Yana Garcia. That task force is evaluating the State's progress and risks in managing an energy transition in which supply and in-state demand for

petroleum products are both decreasing over the next 20 years. Building on that engagement and the California Energy Commission's (CEC) Transportation Fuels Assessment, I direct you to recommend, by July 1, any changes in the State's approach that are needed to ensure adequate supply during this transition.

As you know, increasingly in recent years, Californians have experienced rapid fluctuations in retail gasoline prices that too often mean abrupt increases followed by a slow and gradual decline, causing families to incur higher costs unexpectedly for everyday needs. The Legislature responded to this growing problem with SBX1-2, which provided the CEC with critical data transparency tools that facilitate real-time market monitoring.

Using this critical new data provided by SBX1-2, the Division of Petroleum Market Oversight (DPMO), in collaboration with the CEC, was able to identify the root causes of the fall 2022 and fall 2023 retail gasoline price spikes: inadequate supply when refineries went offline for maintenance, low inventories that led to supply shortages during unplanned outages, and a volatile spot market that has an outsized influence on the wholesale price of gasoline. These findings led the Legislature to respond by enacting ABX2-1, which provided the CEC with new tools to mitigate price spikes. The data provided by SBX1-2 has also allowed DPMO to inform the public, in real time, when volatile spot market conditions threaten to raise prices at the pump.

While we've made great progress in addressing spikes and irregularities in the gasoline market, refineries across the country and around the world are facing unprecedented uncertainty. The new federal administration has added more uncertainty and instability to the global economy than ever before – with the oil industry on the front lines of this market turmoil. Refineries have been restructuring, transitioning, consolidating, and closing across the country for years. In January, the 700-hundred-acre LyondellBasell refinery in Houston announced its closure as the company transitions to "broader decarbonization and sustainability objectives." California is not immune to this national trend.

California will continue to lead the way in this transition, but it is imperative that we continue to ensure a safe, affordable and reliable supply of transportation fuels over the next two decades. Thank you for your attention to this critical matter on behalf of the State.

Sincerely,

Gavin Newsom
Governor of California

Volume Sold and Estimated Aggregate Gasoline Refining Margin

	Dec-25
Total Gasoline Volume Sold (gallons)*	939,570,000
Estimated Aggregate Gross Margin	$413,410,800

Note: *Total gasoline volume sold does not include spot pipeline sales and may be considered a conservative estimate as a result.

Volume-Weighted Gasoline Refining Margin

Margin Type	Reported Margin (Dollars per Gallon)
Gross	$0.44
Net	TBD

Gross Gasoline Refining Margin (By Refiner)

Operating Refinery*	Reported Gross Margin (Dollars per Gallon)
Refiner 1	$0.50
Refiner 2	$0.29
Refiner 3	$0.29
Refiner 4	

Net Gasoline Refining Margin (By Refiner)

Operating Refinery*	Reported Net Margin (Dollars per Gallon)
Refiner 1	TBD
Refiner 2	TBD
Refiner 3	TBD
Refiner 4	

Note: *Operators with more than one refinery within California

Aggregated Data Reported - December 2025

Product	Volume (Thousand Gallons)	Price (Dollars per Gallon)	LCFS (Dollars per Gallon)	Cap and Trade (Dollars per Gallon)
Crude Domestic	649,746	$1.52	N/A	N/A
Crude Foreign	1,255,232	$1.53	N/A	N/A
Unbranded Rack	281,534	$1.77	$0.14	$0.24
Branded Rack	43,513	$2.10	$0.14	$0.24
Bulk	320,460	$1.90	N/A	$0.00
Spot Pipeline	137,011	$1.85	N/A	$0.00
Dealer Tankwagon	257,777	$2.34	$0.14	$0.24
Internally Priced Sales	36,286	$1.77	$0.14	$0.24

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Phillips 66 provides notice of its plan to cease operations at Los Angeles-area refinery

October 16, 2024

- Facility expects to cease operations in the fourth quarter of 2025
- Company will work with the state of California to supply fuel markets and meet ongoing consumer demand

HOUSTON--(BUSINESS WIRE)-- Phillips 66 (NYSE: PSX) announced plans to cease operations at its Los Angeles-area refinery in the fourth quarter of 2025 and will work with the state of California to supply fuel markets and meet ongoing consumer demand.

"We understand this decision has an impact on our employees, contractors and the broader community," said Mark Lashier, chairman and CEO of Phillips 66. "We will work to help and support them through this transition." Approximately 600 employees and 300 contractors currently operate the Los Angeles-area refinery.

"With the long-term sustainability of our Los Angeles Refinery uncertain and affected by market dynamics, we are working with leading land development firms to evaluate the future use of our unique and strategically located properties near the Port of Los Angeles," said Lashier. "Phillips 66 remains committed to serving California and will continue to take the necessary steps to meet our commercial and customer demands."

As the California Energy Commission's analysis has indicated, expanding supply capabilities will be critical. Phillips 66 supports these efforts and will work with California to maintain current levels and potentially increase supplies to meet consumer needs. The company will supply gasoline from sources inside and outside its refining network as well as renewable diesel and sustainable aviation fuels from its Rodeo Renewable Energy Complex in the San Francisco Bay area.

Phillips 66 has engaged Catellus Development Corporation and Deca Companies, two leading real estate development firms, to evaluate the future use of the 650-acre sites in Wilmington, California, and Carson, California. The firms bring strong track records of solving complex redevelopment challenges and will collaborate with Phillips 66 in an advisory role to advance potential commercial development options that support the regional economy and other key stakeholder objectives.

"These sites offer an opportunity to create a transformational project that can support the environment, generate economic development, create jobs and improve the region's critical infrastructure," Lashier said.

About Phillips 66

Phillips 66 (NYSE: PSX) is a leading integrated downstream energy provider that manufactures, transports and markets products that drive the global economy. The company's portfolio includes Midstream, Chemicals, Refining, Marketing and Specialties, and Renewable Fuels businesses. Headquartered in Houston, Phillips 66 has employees around the globe who are committed to safely and reliably providing energy and improving lives while pursuing a lower-carbon future. For more information, visit phillips66.com or follow @Phillips66Co on LinkedIn.

CAUTIONARY STATEMENT FOR THE PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This news release contains forward-looking statements within the meaning of the federal securities laws relating to Phillips 66's operations. Words such as "anticipated," "estimated," "expected," "planned," "scheduled," "targeted," "believe," "continue," "intend," "will," "would," "objective," "goal," "project," "efforts," "strategies" and similar expressions that convey the prospective nature of events or outcomes generally indicate forward-looking statements. However, the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements included in this news release are based on management's expectations, estimates and projections as of the date they are made. These statements are not guarantees of future events or performance, and you should not unduly rely on them as they involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. Factors that could cause actual results or events to differ materially from those described in the forward-looking statements include: changes in governmental policies or laws that relate to our operations, including regulations that seek to limit or restrict refining, marketing and midstream operations or regulate profits, pricing, or taxation of our products or feedstocks, or other regulations that restrict feedstock imports or product exports; our ability to timely obtain or maintain permits necessary for projects; fluctuations in NGL, crude oil, refined petroleum, renewable fuels and natural gas prices, and refining, marketing and petrochemical margins; the effects of any widespread public health crisis and its negative impact on commercial activity and demand for refined petroleum or renewable fuels products; changes to worldwide government policies relating to renewable fuels and greenhouse gas emissions that adversely affect programs including the renewable fuel standards program, low carbon fuel standards and tax credits for biofuels; unexpected changes in costs for constructing, modifying or operating our facilities; our ability to successfully complete, or any material delay in the completion of, any asset disposition, acquisition or conversion that we may pursue; unexpected difficulties in manufacturing, refining or transporting our products; the level and success of drilling and production volumes around our midstream assets; risks and uncertainties with respect to the actions of actual or potential competitive suppliers and transporters of refined petroleum products, renewable fuels or specialty products; lack of, or disruptions in, adequate and reliable transportation for our products; potential liability from litigation or for remedial actions, including removal and reclamation obligations under environmental regulations; failure to complete construction of capital projects on time and within budget; our ability to comply with governmental regulations or make capital expenditures to maintain compliance with laws; limited access to capital or significantly higher cost of capital related to illiquidity or uncertainty in the domestic or international financial markets, which may also impact our ability to repurchase shares and declare and pay dividends; potential disruption of our operations due to accidents, weather events, including as a result of climate change, acts of terrorism or cyberattacks; general domestic and international economic and political developments, including armed hostilities (such as the Russia-Ukraine war), expropriation of assets, and other diplomatic developments; international monetary conditions and exchange controls; changes in estimates or projections used to assess fair value of intangible assets, goodwill and property and equipment and/or strategic decisions with respect to our asset portfolio that cause impairment charges; investments required, or reduced demand for products, as a result of environmental rules and regulations; changes in tax, environmental and other laws and regulations (including alternative energy mandates); political and societal concerns about climate change that could result in changes to our business or increase expenditures, including litigation-related expenses; the operation, financing and distribution decisions of equity affiliates we do not control; and other economic, business, competitive and/or regulatory factors affecting Phillips 66's businesses generally as set forth in our filings with the Securities and Exchange Commission. Phillips 66 is under no obligation (and expressly disclaims any such obligation) to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

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Source: Phillips 66

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Valero Announces Notice to the California Energy Commission Regarding its Benicia, California, Refinery

April 16, 2025

SAN ANTONIO–(BUSINESS WIRE)– Valero Energy Corporation (NYSE: VLO, "Valero") announced today that its subsidiary, Valero Refining Company-California, has submitted notice to the California Energy Commission of its current intent to idle, restructure, or cease refining operations at Valero's Benicia Refinery by the end of April 2026. Valero continues to evaluate strategic alternatives for its remaining operations in California. "We understand the impact that this may have on our employees, business partners, and community, and will continue to work with them through this period," said Lane Riggs, Chairman, CEO and President of Valero.

In connection with the evaluation of strategic alternatives for Valero's operations in California, a combined pre-tax impairment charge of $1.1 billion was recorded for the Benicia and Wilmington refineries, and is expected to be treated as a special item and excluded from first quarter 2025 adjusted earnings. Also included in this amount is the recognition of expected asset retirement obligations of $337 million as of March 31, 2025.

About Valero
Valero Energy Corporation, through its subsidiaries (collectively, Valero), is a multinational manufacturer and marketer of petroleum-based and low-carbon liquid transportation fuels and petrochemical products, and sells its products primarily in the United States (U.S.), Canada, the United Kingdom (U.K.), Ireland and Latin America. Valero owns 15 petroleum refineries located in the U.S., Canada and the U.K. with a combined throughput capacity of approximately 3.2 million barrels per day. Valero is a joint venture member in Diamond Green Diesel Holdings LLC, which produces low-carbon fuels including renewable diesel and sustainable aviation fuel (SAF), with a production capacity of approximately 1.2 billion gallons per year in the U.S. Gulf Coast region. See our annual report on Form 10-K for more information on SAF.

Statements contained in this press release that state Valero's or management's expectations or predictions of the future are forward-looking statements intended to be covered by the safe harbor provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. The words "evaluate" "believe," "potential," "expect," "should," "estimates," "intend," "target," "commitment," "plans," "forecast, "guidance" and other similar expressions identify forward-looking statements. Forward-looking statements in this release include statements relating to Valero's actions and operations in California, expected timing and cost of obligations, future market and industry conditions, and future operating and financial performance, among other matters. It is important to note that actual results could differ materially from those projected in such forward-looking statements based on numerous factors, including those outside of Valero's control, such as legislative or political changes or developments, market dynamics, cyberattacks, weather events, and other matters affecting Valero's operations and financial performance or the demand for Valero's products. These factors also include, but are not limited to, the uncertainties that remain with respect to current or contemplated legal, political or regulatory developments that are adverse to or restrict refining and marketing operations, or that impose taxes or penalties on profits, windfalls, or margins above a certain level, tariffs, global geopolitical and other conflicts and tensions, the impact of inflation on margins and costs, economic activity levels, and the adverse effects the foregoing may have on Valero's business plan, strategy, operations and financial performance. Other unpredictable or unknown factors not discussed in this release could also have material adverse effects on forward-looking statements. Additionally, the asset retirement obligations recorded require significant judgment and are subject to changes in the underlying assumptions. For more information concerning these and other factors that could cause actual results to differ from those expressed or forecasted, see Valero's annual report on Form 10-K, quarterly reports on Form 10-Q, and other reports filed with the Securities and Exchange Commission and available on Valero's website at www.valero.com.

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California's Petroleum Market

California's Oil Refineries

California's Oil Refineries

(Data current as of January 26, 2026)

California Oil Refinery Locations and Capacities

Refinery Name	Barrels Per Day	% of California Crude Oil Capacity	CARB Diesel	CARB Gasoline
Marathon Petroleum Corp., Los Angeles Refinery*	365,000	24.61%	Yes	Yes
Chevron U.S.A. Inc., El Segundo Refinery	269,000	18.14%	Yes	Yes
Chevron U.S.A. Inc., Richmond Refinery	245,271	16.54%	Yes	Yes
PBF Energy, Torrance Refinery	160,000	10.79%	Yes	Yes

Refinery Name	Barrels Per Day	% of California Crude Oil Capacity	CARB Diesel	CARB Gasoline
PBF Energy, Martinez Refinery	156,400	10.54%	Yes	Yes
Valero Energy, Benicia Refinery**	145,000	9.78%	Yes	Yes
Valero Energy, Wilmington Refinery	85,000	5.73%	Yes	Yes
Kern Energy, Bakersfield Refinery	26,000	1.75%	Yes	Yes
San Joaquin Refining Company Inc., Bakersfield Refinery	15,000	1.01%	Yes	No
Lunday Thagard, South Gate Refinery	8,500	0.57%	No	No
Valero Wilmington Asphalt Refinery	6,300	0.42%	No	No
Talley Asphalt Inc., Kern Refinery	1,700	0.11%	No	No
Grand Total	1,483,171	100%		

*Marathon Carson and Wilmington began reporting as one entity known as Marathon Los Angeles Refinery as of 2019.

**Valero Energy, Benicia Refinery currently intend to cease refining operations by the end of April 2026.

Note: Data on this table represents total crude oil capacity not gasoline, distillate production, diesel fuel production or production of other products. Capacity numbers do not change or often vary year to year. Production potential varies depending on time of year and status of the refinery. A rule of thumb is that roughly 50 percent of total capacity is gasoline production (about 1.0 million barrels of gasoline - 42 million gallons - is produced per day).

Source: U.S. Energy Information Administration, California Energy Commission Transportation Fuels Data.

Utilization Rate Explanation: The utilization rate represents the rate at which crude oil is being processed. Utilization rates are calculated by dividing volume of crude inputs by crude refining capacity. Please refer to the May 2021 Petroleum Watch on California Refinery Utilization for additional information.

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Sacramento, CA 95814

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DIVISION 25.5. CALIFORNIA GLOBAL WARMING SOLUTIONS ACT OF 2006 [38500 - 38599.11] *(Division 25.5 added by Stats. 2006, Ch. 488, Sec. 1.)*

PART 4. GREENHOUSE GAS EMISSIONS REDUCTIONS [38560 - 38568] *(Part 4 added by Stats. 2006, Ch. 488, Sec. 1.)*

38562. (a) The state board shall adopt greenhouse gas emissions limits and emissions reduction measures by regulation to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions to achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(b) In adopting regulations pursuant to this section and Part 5 (commencing with Section 38570), to the extent feasible, to achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division, the state board shall do all of the following:

(1) (A) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.

(B) (i) Design the regulations, including distribution of emissions allowances where appropriate, in a manner that transitions support from gas corporations to electrical distribution utilities, as defined in Section 95802 of Title 17 of the California Code of Regulations, on or before January 1, 2031, to minimize ratepayer impacts and achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(ii) For purposes of this subparagraph, "gas corporation" has the same meaning as set forth in Section 222 of the Public Utilities Code.

(III) Except as provided in clause (I), this subparagraph shall not be construed to impact the distribution of emissions allowances to emissions-intensive, trade-exposed industrial sectors.

(2) Ensure that activities undertaken to comply with the regulations do not disproportionately impact low-income communities.

(3) Ensure that entities that have voluntarily reduced their greenhouse gas emissions before the implementation of this section receive appropriate credit for early voluntary reductions.

(4) Ensure that activities undertaken pursuant to the regulations complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

(5) Consider cost-effectiveness of these regulations.

(6) Consider overall societal benefits, including reductions in other air pollutants, diversification of energy sources, and other benefits to the economy, environment, and public health.

(7) Consider the effect of these regulations on affordability, cost effectiveness, minimization of leakage in California, and achieving the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(8) Minimize the administrative burden of implementing and complying with these regulations.

(9) Minimize leakage.

(10) Consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases.

(c) (1) Unless otherwise required by context, terms in this subdivision shall have the definitions that apply pursuant to Section 95802 of Title 17 of the California Code of Regulations, as they read on January 1, 2017.

(2) To achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division, the state board shall adopt a regulation that establishes a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases, applicable from January 1, 2012, to December 31, 2045, inclusive, that the state board determines will achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions, in the aggregate, from those sources or categories of sources, and ensures that programwide aggregate emissions from covered sources, at a minimum, decline with the requirements of Sections 38562.2 and 38566. In adopting a regulation applicable from January 1, 2021, to December 31, 2045, inclusive, pursuant to this subdivision, the state board shall do all of the following:

(A) (i) Establish a price ceiling. In establishing the price ceiling, the state board shall consider, using the best available science, all of the following:

(I) The need to avoid adverse impacts on resident households, businesses, and the state's economy.

(II) The 2020 tier prices of the allowance price containment reserve.

(III) The full social cost associated with emitting a metric ton of greenhouse gases.

(IV) The auction reserve price.

(V) The potential for environmental and economic leakage.

(VI) The cost per metric ton of greenhouse gas emissions reductions to achieve the statewide emissions targets established in Sections 38550 and 38566.

(ii) To implement the price ceiling, the state board shall develop a mechanism that consists of both of the following:

(I) Allowances remaining in the allowance price containment reserve as of December 31, 2020, shall be used solely for the purpose of sale at the price ceiling established by this section.

(II) If the allowances from the allowance price containment reserve are exhausted, the state board shall offer covered entities additional metric tons at the price ceiling if needed for compliance. Notwithstanding any other law, all moneys generated pursuant to this clause shall be deposited into the California Climate Mitigation Fund, which is hereby created in the State Treasury. Moneys in that fund shall be available, upon appropriation by the Legislature, for purposes, including, but not limited to, providing direct rebates and investments to reduce household energy costs, including incentives to transition to zero-emission vehicles and energy efficient housing.

(iii) If the state board finds that the price containment reserve or the price ceiling, or both the price containment reserve and price ceiling do not adequately protect California consumers, the state board shall consider additional actions to ensure consumers are protected. Those actions may include, but are not limited to, adjustment to the allowance price containment reserve or the price ceiling, or both the allowance price containment reserve and the price ceiling.

(B) Establish two price containment points at levels below the price ceiling. The state board shall offer to covered entities nontradable allowances for sale at these price containment points. The price containment points shall be established using two-thirds, divided equally, of the allowances in the allowance price containment reserve as of December 31, 2017.

(C) Require that current vintage allowances designated by the state board for auction that remain unsold in the auction holding account for more than 24 months to be transferred to the allowance price containment reserve.

(D) Evaluate and address concerns related to overallocation in the state board's determination of the number of available allowances for years 2021 to 2030, inclusive, as appropriate.

(E) (i) Establish offset credit limits according to the following:

(I) From January 1, 2021, to December 31, 2025, inclusive, a total of 4 percent of a covered entity's compliance obligation may be met by surrendering offset credits of which no more than one-half may be sourced from projects that do not provide direct environmental benefits in state.

(II) From January 1, 2026, to December 31, 2045, inclusive, no greater than a total of 6 percent of a covered entity's compliance obligation may be met by surrendering offset credits of which no more than one-half may be sourced from projects that do not provide direct environmental benefits in the state.

(ii) For purposes of this subparagraph, "direct environmental benefits in the state" are the reduction or avoidance of emissions of any air pollutant in the state or the reduction or avoidance of any pollutant that could have an adverse impact on waters of the state.

(iii) A number of allowances equal to the total number of offset credits used for compliance obligations in the prior year shall be removed from the next year's annual allowance budget and retired.

(F) Develop approaches to increase offset projects in the state considering guidance provided by the Compliance Offsets Protocol Task Force, established pursuant to Section 38591.1.

(G) Set industry assistance factors for allowance allocation commencing in 2021 through 2030 at the levels applicable in the compliance period of 2015 to 2017, inclusive. Commencing January 1, 2031, the state board shall distribute industrial sector allowances in a manner that minimizes emissions leakage risk to cost-effectively achieve the requirements of Sections 38562.2 and 38566 and the purposes of this division.

(H) Consider developing additional compliance offset protocols to address sectors that are not covered by the market-based compliance mechanism but are identified in the scoping plan prepared pursuant to Section 38561, including carbon dioxide removal, or the targets established pursuant to Section 38561.5.

(I) Establish allowance banking rules that discourage speculation, avoid financial windfalls, and consider the impact on complying entities and volatility in the market.

(J) Report to the Legislature, by December 31, 2025, on the progress toward meeting the greenhouse gas emissions reduction targets established pursuant to Sections 38550 and 38566 and the leakage risk posed by the regulation. The state board shall include recommendations to the Legislature on necessary statutory changes to the program to reduce leakage, including the potential for a border carbon adjustment, while maintaining the state's ability to reach its targets.

(K) (i) Report to the Legislature, in consultation with the Independent Emissions Market Advisory Committee, established pursuant to Section 38591.2, if two consecutive auctions exceed the lower of the price containment levels established pursuant to subparagraph (B). The report shall assess the potential for allowance prices to reach the price ceiling for multiple auctions.

(ii) A report submitted to the Legislature pursuant to this section shall be submitted in compliance with Section 9795 of the Government Code.

(L) Report to the relevant fiscal and policy committees of the Legislature, including the Joint Committee on Climate Change Policies, on all of the following:

(i) Updates to the scoping plan prepared pursuant to Section 38561 before adopting the update.

(ii) Updates on the implementation of the scoping plan prepared pursuant to Section 38561.

(iii) Updates on the implementation of the market-based compliance mechanism adopted pursuant to this subdivision.

(d) Any regulation adopted by the state board pursuant to this part or Part 5 (commencing with Section 38570) shall ensure all of the following:

(1) The greenhouse gas emission reductions achieved are real, permanent, quantifiable, verifiable, and enforceable by the state board.

(2) For regulations pursuant to Part 5 (commencing with Section 38570), the reduction is in addition to any greenhouse gas emission reduction otherwise required by law or regulation, and any other greenhouse gas emission reduction that otherwise would occur.

(3) If applicable, the greenhouse gas emission reduction occurs over the same time period and is equivalent in amount to any direct emission reduction required pursuant to this division.

(e) The state board shall rely upon the best available economic and scientific information and its assessment of existing and projected technological capabilities when adopting the regulations required by this section.

(f) The state board shall consult with the Public Utilities Commission in the development of the regulations as they affect electricity and natural gas providers in order to minimize duplicative or inconsistent regulatory requirements.

(g) The state board may revise regulations adopted pursuant to this section and adopt additional regulations to further the provisions of this division.

(h) In the updates to the scoping plan prepared pursuant to Section 38561, the state board shall include the progress toward meeting the greenhouse gas emissions reduction targets established pursuant to Section 38562.2. The state board shall include recommendations to the Legislature on necessary statutory changes to the market-based compliance mechanism to further cost-effectively reduce emissions.

(i) The state board shall evaluate the cost impact of the market-based compliance mechanism on California consumers when it revises regulations implementing that mechanism pursuant to this section.

(j) This section shall remain in effect only until January 1, 2046, and as of that date is repealed.
(Amended (as amended by Stats. 2017, Ch. 135, Sec. 4) by Stats. 2025, Ch. 117, Sec. 3. (AB 1207) Effective September 19, 2025. Repealed as of January 1, 2046, by its own provisions. See later operative version amended by Sec. 4 of Stats. 2025, Ch. 117.)

The 2026-27 Budget:

California's Fiscal Outlook

LAO

GABRIEL PETEK
LEGISLATIVE ANALYST
NOVEMBER 2025

Executive Summary

Not Safe to Bet Artificial Intelligence (AI) Fueled Exuberance Is Sustainable. Both the California and U.S. economies currently face significant headwinds. Borrowing costs, a key factor in business expansions and major consumer purchases, remain high. New tariffs on imports into the U.S. are creating cost pressures for businesses and consumers. Despite this, income tax collections have been strong in recent months, growing at double-digit rates. These strong income tax collections are being driven by enthusiasm around AI, which has pushed the stock market to record highs and boosted compensation among the state's tech workers. With so much exuberance surrounding AI, it now appears time to take seriously the notion that the stock market has become overheated. History suggests that the stock market is prone to overreact to major technological advances, even if the technology itself turns out to be revolutionary.

Our Revenue Outlook Builds in Some Insurance Against a Stock Market Downturn. Reflecting concerns about the potential effects of tariffs, the budget act enacted in June assumed revenues would decline in 2025-26 and grow modestly in 2026-27. Looking primarily at strong trends in income tax collections since June would suggest a significant upgrade to budget act revenues is warranted. However, our *Fiscal Outlook* revenue forecast reflects a smaller, temporary upgrade which reverses beginning in 2026-27. This is because our forecast incorporates the strong risk that recent income tax gains are tied to an unsustainable stock market. This does not mean our forecast assumes a stock market downturn will definitely happen. Instead, our forecast includes income tax collections that are somewhat weaker than suggested by cash trends, but still tens of billions of dollars above where they would be if stocks actually drop significantly. This middle-ground approach offers the state some insurance against revenue declines, resulting in smaller budget corrections should a market downturn actually occur.

2026-27 Budget Problem Now Larger Than Anticipated. Under our revenue and spending estimates, the Legislature faces an almost $18 billion budget problem in 2026-27. This is about $5 billion larger than the budget problem anticipated by the administration in June, despite improvements in revenue. This is because constitutional spending requirements under Proposition 98 (1988) and Proposition 2 (2014) almost entirely offset revenue gains. Moreover, we estimate costs in other programs to be about $6 billion higher than anticipated. Starting in 2027-28, we estimate structural deficits to grow to about $35 billion annually due to spending growth continuing to outstrip revenue growth.

Budget Position Is Weak. We advise the Legislature to address the budget problem through a combination of ongoing solutions—namely, achievable spending reductions and/or revenue increases. There are three reasons these actions are now critical. First, the budget problem is now larger than anticipated, despite improvements in revenue, and the structural deficits are significant and growing. Second, while our revenue estimates hedge against a market downturn, they do not reflect the revenue declines the state would experience in a recession. Third, the state has used most of its budget resiliency tools to address prior deficits. If our estimates hold, the Legislature will face a fourth consecutive year of budget problems—all during a period of overall revenue *growth*. As it stands—with larger forecasted deficits and many fewer tools available to address them—California's budget is undeniably less prepared for downturns.

INTRODUCTION

Each year, our office publishes the *Fiscal Outlook* in anticipation of the upcoming budget season. This report gives the Legislature our independent estimates and analysis of the state's General Fund budget condition with the goal of helping lawmakers prepare for the 2026-27 budget process. As always, our *Fiscal Outlook* evaluates the budget's condition based on current law and policy both at the state and federal level. This means we are assessing the state's spending and revenues assuming no new laws or policies are enacted. This is not a prediction of what will happen—state and federal laws and policies will change in the coming years—but rather serves as a baseline to help the Legislature understand its starting place. This year, for example, our outlook reflects our best estimates of the effects of H.R. 1: One Big Beautiful Bill Act on the state budget but does not make assumptions about future federal policy changes.

AI ENTHUSIASM BOOSTING REVENUES, BUT FOR HOW LONG?

Middling Corporation and Sales Tax Collections in Line With Generally Weak Economic Conditions. Both the California and U.S. economies currently face significant headwinds. Borrowing costs, a key factor in business expansions and major consumer purchases, remain high. New tariffs on imports into the U.S. are creating cost pressures for businesses and consumers. And uncertainty with the federal government appears to be contributing to a general anxiety about the economy. Amid these conditions, California businesses have pared back hiring, resulting in no payroll job growth in the state so far this year. California consumers similarly are limiting spending, with sales of taxable goods flat over the last year. Consumers also continue to report historically low optimism about the economy's future. Consistent with these trends, collections from the sales tax and corporation tax (adjusted for recent policy changes) have posted below-average growth in recent months.

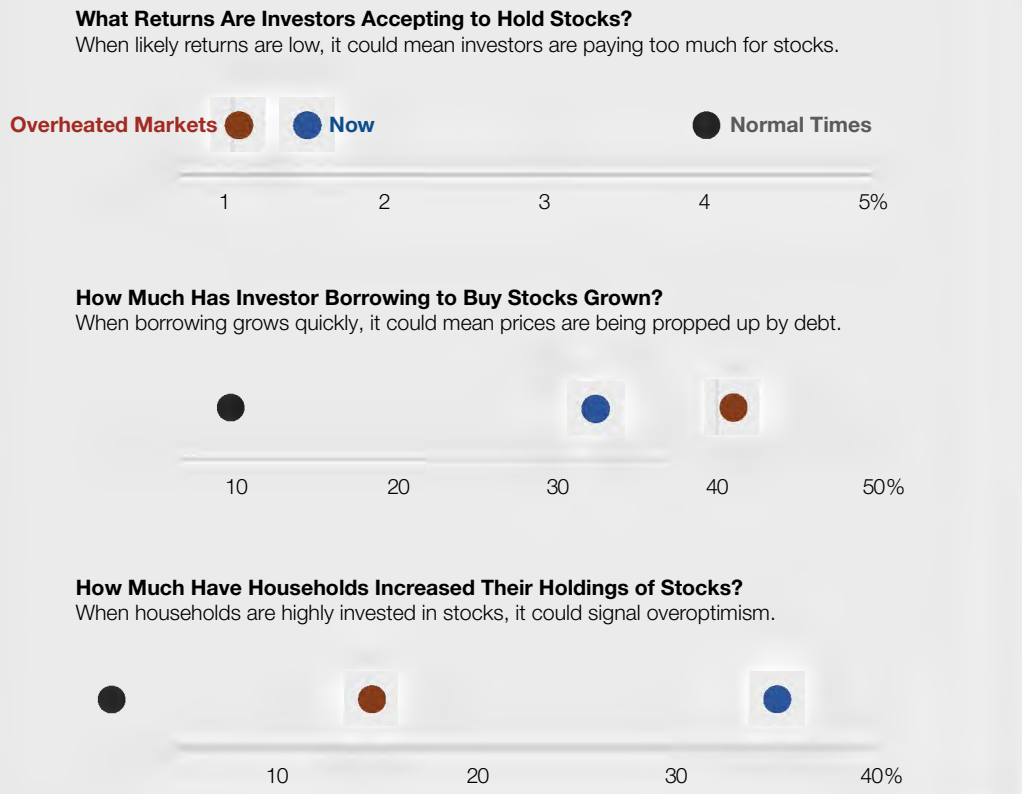
Income Tax, Fueled by Exuberance Over Artificial Intelligence (AI), Remains Lone Bright Spot. In stark contrast, income tax collections have been strong in recent months, growing at double-digit rates. These strong income tax collections are being driven by enthusiasm around AI, which has pushed the stock market to record highs and boosted compensation among the state's tech workers. The stock market (S&P 500) has risen 50 percent in the last two years. Most of these gains come from the meteoric rise in the value of a handful of tech companies that investors believe will be major beneficiaries of recent advances in AI. These companies have made big bets on AI, spending hundreds of billions of dollars on data centers and offering extraordinary pay packages to recruit AI researchers. This spending, coupled with sizable gains to investors and tech company employees via stock options, is boosting state income tax receipts.

This Time Might Be Different, but It Is Not Safe to Bet on It. With so much enthusiasm surrounding AI, it now appears time to take seriously the notion that the stock market has become overheated. History suggests that the stock market is prone to overreact to major technological advances, even if the technology itself turns out to be revolutionary. For California, the dot-com era—when stocks rose and then fell precipitously in response to widespread adoption of the internet—offers the most salient example. The internet has proven to be a transformative technology and, yet, the stock market's initial reaction was clearly overly exuberant. As shown in Figure 1, many signs of an overly exuberant stock market are present today: measures of whether stocks are "expensive" are at historically high levels,

Figure 1

Signs the Stock Market May Be Due for a Downturn

Below, we compare stock market metrics from **right now** to **prior overheated markets that ended in crashes** and show that current conditions look a lot like prior overheated stock markets. The data is quartely and covers 1952 to present. Growth in borrowing and stock ownership are changes from two years prior.



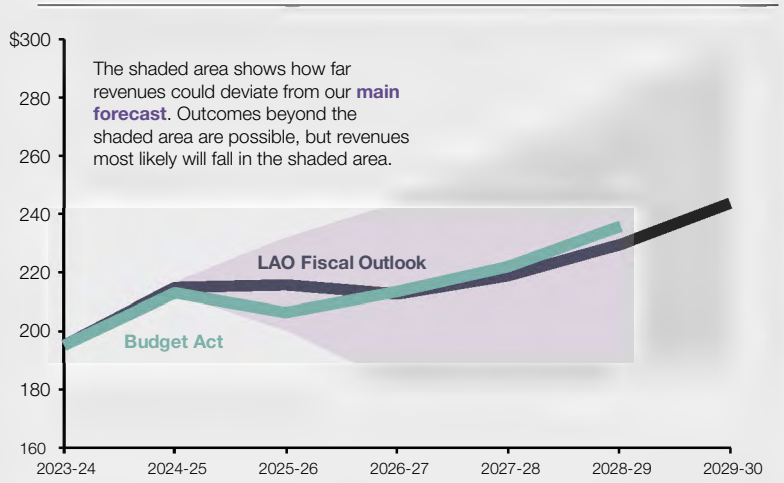
investors are borrowing more to buy stocks, and households are more invested in the stock market than they have been in at least 70 years. In the past, these patterns have been a sign that a stock market downturn will occur in the next couple of years. There certainly is some chance that this time is different and such a downturn is not forthcoming. Nonetheless, the risk appears strong enough—and the potential consequences for the state budget dire enough—that we think it should be incorporated in the state's revenue outlook.

Our Revenue Outlook Builds in Some Insurance Against a Stock Market Downturn. Reflecting concerns about the potential effects of tariffs, the budget act enacted in June assumed revenues would decline in 2025-26 and grow modestly in 2026-27. Looking primarily at strong trends in income tax collections since June would suggest a significant upgrade to budget act revenues is warranted. However, our *Fiscal Outlook* revenue forecast, shown in **Figure 2** on the next page, reflects a smaller, temporary upgrade which reverses beginning in 2026-27—resulting in 2026-27 revenues being in line with budget act estimates. This is because our forecast incorporates the strong risk that recent income tax gains are tied to an unsustainable stock market. This does not mean our forecast assumes a stock market downturn will definitely happen. Instead, because a market downturn is only a risk but not a certainty, our

Figure 2

LAO Revenue Outlook

Total Revenues (In Billions)



forecast includes income tax collections that are somewhat weaker than suggested by cash trends, but still tens of billions of dollars above where they would be if stocks actually drop significantly. This middle-ground approach offers the state some insurance against revenue declines, resulting in smaller budget corrections should a market downturn actually occur. On the other hand, if a market downturn does not occur, revenues very likely will beat our forecast. Should this occur, we advise the Legislature to treat these extra revenues as temporary for the time being.

WHY DO BUDGET PROBLEMS GROW?

$18 Billion Budget Problem in 2026-27

2025-26 Budget Act Anticipated Deficits Through the Multiyear. The Legislature has needed to address budget problems for three years in a row. The state solved a $27 billion deficit in 2023-24, a $55 billion deficit in 2024-25, and a $15 billion deficit in 2025-26 (in addition to roughly $28 billion in proactive budget-balancing actions taken the year before). At the time of the *2025-26 Budget Act*, the administration anticipated the state would face an almost $13 billion budget problem in 2026-27. In addition, the administration estimated the state would continue to face structural deficits between $15 billion and $25 billion through 2028-29.

2026-27 Budget Problem Now Larger Than Anticipated. Under our revenue and spending estimates, the Legislature faces an almost $18 billion budget problem in 2026-27. This is about $5 billion larger than the budget problem anticipated by the administration in June. Figure 3 provides our estimates of the General Fund condition, including our estimate of the budget problem. The budget's bottom line is the accumulated change in General Fund revenues and spending across the three fiscal years in the budget window—2024-25, 2025-26, and 2026-27—and reflected in the ending balance in the Special Fund for Economic Uncertainties in 2026-27.

Figure 3

General Fund Condition Under *Fiscal Outlook*

(In Millions)

	2024-25	2025-26	2026-27
Prior-year balance	$41,978	$33,386	$23,833
Revenues and transfers	228,694	222,639	212,400
Total expenditures	237,286	232,193	235,931
Ending fund balance	$33,386	$23,833	$302
Encumbrances	$18,001	$18,001	$18,001
SFEU balance	**$15,385**	**$5,832**	**-$17,699**
Reserves			
BSA balance	18,351	14,023	14,023

SFEU = Special Fund for Economic Uncertainties and BSA = Budget Stabilization Account.

Revenue Improvement Almost Entirely Offset by Constitutional Requirements. Across 2024-25 to 2026-27, our revenue estimates are up $11 billion compared to the budget act. These revenue improvements do not, on net, improve the budget's bottom line, however. This is because of the requirements of Proposition 98 (1988), which governs school and community college funding, and Proposition 2 (2014), which specifies reserve deposits and debt payments, as seen in **Figure 4**. Together, due to higher revenue estimates, these requirements increase by over $10 billion—representing nearly all of the revenue gain. The share of revenues going to these requirements is more than typical. Specifically, over 60 percent of the revenue improvement—$7 billion—goes to schools and community colleges. Of this increase, $5.1 billion reflects formula-driven increases in the Proposition 98 requirement resulting from our higher revenue estimates. (A portion of this increase is due to "maintenance factor"—a formula requiring the state to accelerate funding in 2024-25 to compensate for the suspension of the minimum requirement in the previous year.) The remaining $1.9 billion is related to paying a preexisting "settle-up" obligation from the June 2025 budget. (More information about funding for schools and community colleges under our outlook can be found in the box on the next page.) In addition, while we assume Proposition 2 reserve deposits for 2026-27 are suspended—due to the anticipated budget problem—revenue improvements in 2024-25 and 2025-26 require the state to make $2.8 billion in "true up" reserve deposits. Under our revenue estimates, the state also is required to make roughly $600 million more in debt payments in 2026-27 compared to budget act assumptions. If the state did not choose to suspend the BSA deposit for 2026-27, constitutional requirements would actually *exceed* the state's revenue gains under our outlook.

Figure 4

Revenue Improvement More Than Offset by Higher Costs

(In Billions)

Anticipated Deficit at *2025-26 Budget Act*	**-$12.6**
Revenues higher	$11.1
Proposition 98 higher	-7.0
Proposition 2 higher	-3.4
All other spending higher	-5.7
Anticipated Deficit at LAO Fiscal Outlook	**-$17.7**

All Other Costs Increase Budget Problem by Almost $6 Billion. Across all other programs, total spending increases about $6 billion compared to budget act estimates. These changes are described below and summarized in **Figure 5** on page 9.

- ***Statewide Expenditures Higher by $2.4 Billion.*** Statewide expenditures include items like retiree health care, pension payments, and statewide administrative costs, as well as set-asides for major state costs or savings that are not easily reflected in departments' budgets. At the time of the budget act, the administration assumed savings in statewide expenditures that are not reflected in our outlook.
- ***H.R. 1 Increases Costs by $1.3 Billion Across Medi-Cal and CalFresh.*** H.R. 1 made a number of changes to Medicaid, known as Medi-Cal in California, and the Supplemental Nutrition Assistance Program, known as CalFresh in California. Generally, these changes will result in fewer program beneficiaries and increased state costs. In 2026-27, we anticipate state costs for Medi-Cal and CalFresh to increase about by $1 billion and $300 million, respectively, due to H.R. 1. Importantly, our estimate assumes the state can continue levying provider taxes at their existing levels. (Shortly before we released this report, federal administrators issued preliminary guidance suggesting that the state would need to start adjusting certain provider taxes beginning July 2026. Our estimates do not reflect this recent guidance.)
- ***Corrections Costs Higher by About $850 Million.*** Our estimates for corrections costs are higher across the budget window by a total of about $850 million compared to the administration's estimates. Fundamentally, these higher cost estimates reflect an imbalance between the California Department of Corrections and Rehabilitation costs and the amount provided in its budget. The imbalance includes two components: (1) the partial continuation of a gap between its budget and its ongoing costs that were identified in 2024-25 but that have not been

School and Community College Funding

Proposition 98 Requirement Controlled by Formulas. Proposition 98 (1988) establishes a minimum annual funding level for schools and community colleges. The state calculates this requirement each year using formulas in the State Constitution that account for changes in General Fund revenue, per capita personal income, student attendance, and other inputs. The state meets the requirement through General Fund spending and local property tax revenue. For any given budget, the state has new estimates for the previous, current, and upcoming years.

Formula-Driven Requirements Increase General Fund Spending by $5.1 Billion. We estimate the Proposition 98 formulas require a $5.1 billion increase in General Fund spending across the 2024-25 through 2026-27 period (relative to the June 2025 estimates). This increase mainly reflects our higher revenue estimates in 2024-25 and 2025-26. Specifically, the formulas automatically direct nearly 40 percent of the additional revenue to schools and community colleges, and they also require the state to make a larger "maintenance factor" payment. Maintenance factor accelerates the required funding increase in 2024-25 to compensate for the suspension of the minimum requirement in 2023-24.

Preexisting "Settle-Up" Obligation Increases Spending by $1.9 Billion. The June 2025 budget approved school and community funding at a level $1.9 billion below the estimated requirement for 2024-25. This gap created a one-time obligation commonly known as settle up. We assume the state pays this obligation in the upcoming budget, consistent with its practice since 2018-19. Trailer legislation specifies that the state will use the payment to support existing education programs, eliminate payment deferrals, and/or avoid future deferrals.

Large One-Time Windfall and Modest Ongoing Increase for School and Community College Programs. Accounting for the formula-driven increases and the settle-up payment, total General Fund spending is up nearly $7 billion from the June 2025 estimates (see "Proposition 98 Funding Changes for Schools and Community Colleges" in the appendix). We estimate this higher spending—combined with growth in local property tax revenue and several smaller adjustments—makes $7.4 billion in one-time funds available for school and community college purposes in the upcoming budget. Regarding ongoing funds, we estimate the state could cover a 2.51 percent statutory cost-of-living adjustment for existing programs, but no other ongoing increases.

State Has Options to Help Protect Ongoing Programs. If state revenues decline, the funding set aside under Proposition 98 would decrease by about 40 cents for each $1 in lower revenue. Moreover, our outlook projects a zero balance in the state's school reserve by the end of 2026-27. The Legislature could use the one-time funding to build a buffer that would protect school and community college programs. Specifically, it could (1) eliminate the payment deferrals included in the June budget, (2) provide schools and community colleges with an advance payment toward their future funding allocations, and (3) expedite the restoration of a block grant that it previously reduced. We explain these options in *The 2026-27 Budget: Fiscal Outlook for Schools and Community Colleges*.

Figure 5

Other Spending Up by About $6 Billion

(In Billions)

Other Spending Changes	
Statewide expenditures	$2.4
H.R. 1	1.3
Corrections	0.9
Solutions erosion	0.8
Other	0.3
Total	**$5.7**

addressed fully and (2) additional efficiencies assumed as part of the 2025-26 budget that we estimate will yield less savings than anticipated.

- ***All Other Costs Up by $1.1 Billion.*** We reflect a solutions erosion of close to $800 million related to employee compensation changes adopted as part of the budget package. In addition, all other costs, mostly in health and human services programs, are up close to $300 million.

Out-Year Budget Problems of About $35 Billion Each Year

While Some Recent Solutions Tempered Spending Growth... In our November 2024 outlook, we highlighted that both the difference in the *levels* of revenue and spending as well as the difference between revenue and spending *growth rates* were driving structural deficits. In addressing the budget problem, the Legislature enacted some ongoing spending solutions that reduced spending by an estimated $2.5 billion in 2025-26, which at the time were expected to grow to over $10 billion by 2028-29. These ongoing solutions largely were focused in Medi-Cal, which prior to the budget act had been expected to grow over 7 percent on average annually. While the costs of H.R. 1 increase Medi-Cal spending, which we describe in the nearby box, we now anticipate Medi-Cal growth to be 4.1 percent on average from 2025-26 through 2029-30.

...Spending Growth Remains Elevated. Despite these solutions, the gap between spending and revenues widens by over $10 billion in 2027-28. This widening gap is due to both faster spending growth in 2027-28 as well as below-average revenue growth in that year. Faster spending growth is driven by a few factors, including: (1) the costs of H.R. 1 ramping up, (2) the expiration of certain one-time solutions, namely furloughs, (3) the planned repayment of budgetary borrowing (like the Proposition 98 and Medi-Cal maneuvers), and (4) the planned expansion of certain programs, like child care slots and foster care rate reform. After 2027-28, although forecasted spending and revenue growth rates roughly even out, the gap between their respective levels remains, causing structural deficits to persist.

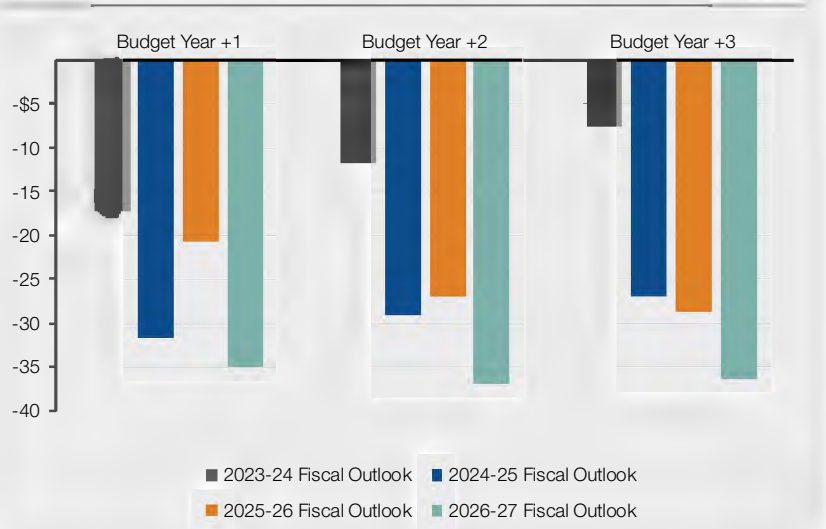
Estimated Fiscal Effects of H.R. 1 on Medi-Cal and CalFresh

In total, we estimate H.R. 1 will increase state costs by about $5 billion by 2029-30. Specifically, we estimate Medi-Cal costs will increase on net by $3 billion and CalFresh costs will increase by almost $2 billion. The largest drivers of the costs in Medi-Cal are the restrictions on provider taxes and an increase in the state's share of costs for limited-scope coverage for immigrant populations. These costs are offset by the anticipated decline in enrollment of childless adults due to the new community engagement (or work) requirements. In CalFresh, increased costs largely are driven by the state's share of costs for benefits. (While the state is taking steps to reduce the state's share of costs for benefits, the success of those efforts is yet to be known.) Importantly, our estimate of state costs under H.R. 1 are limited to only those costs the state must pay due to changes in cost sharing ratios and other changes in law. Our estimates do not include any costs of changes in policy that are under the Legislature's discretion, like backfilling reductions in federal funds due to eligibility changes.

Structural Deficits Now Moving in the Wrong Direction. Under our estimates, structural deficits would be around $35 billion annually starting in 2027-28. These out-year deficits are larger than our recent outlooks as shown in **Figure 6**. There are two main drivers of these deficits. One, revenues dropped significantly in 2022-23 and today remain below where they were projected to be. Two, the state has not adjusted the current level of ongoing state services to fully reflect this more limited capacity. To some degree, this is because certain solutions, particularly related to state operational efficiencies, were overly optimistic in their assumed level of savings.

Figure 6

Budget Problems Now Moving in the Wrong Direction
(Dollars in Billions)



COMMENTS

Budget Position Is Weak. We advise the Legislature to address the budget problem through a combination of ongoing solutions—namely, achievable spending reductions and/or revenue increases. There are three reasons these actions are now critical. First, the budget problem is now larger than anticipated, despite improvements in revenue, and the structural deficits are significant and growing. Second, while our revenue estimates hedge against a market downturn, they do not reflect the revenue declines the state would experience in a recession. Third, as explained below, the state has used most of its budget resiliency tools to address prior deficits. If our estimates hold, the Legislature will face a fourth consecutive year of budget problems—all during a period of overall revenue *growth*.

Budget Resilience Waning. In solving the last few years of deficits, the Legislature largely was able to avoid making ongoing spending cuts to the state's core programs. Rather, the budget problems were addressed mostly with temporary fixes, which included reducing one-time spending, using budgetary borrowing, withdrawing reserves, and temporarily increasing revenues. Some options remain, however. The state has $14 billion in reserves and could likely find additional capacity for budgetary borrowing, if needed. That said, at this point, the state has used over $20 billion in borrowing, one-time and temporary spending solutions are exhausted, and budget reserves are at about half of their peak. As it stands—with larger forecasted deficits and many fewer tools available to address them—California's budget is undeniably less prepared for downturns.

Ignoring Risks Could Create Serious Challenges Later. While important components of the state economy are sluggish, revenues are not falling, nor are conditions as bad as they would be in an outright recession. This makes solving the budget problem with ongoing solutions all the more important. Continuing to use temporary tools—like budgetary borrowing—would only defer the problem and, ultimately, leave the state ill-equipped to respond to a recession or downturn in the stock market. Our revenue forecast begins to factor in the

possibility of such a downturn. As such, building a budget using these revenues would mean taking important steps toward bringing the state into structural balance before a crisis arrives.

Upside on Revenue Unlikely to Balance Budget… Revenues could come in higher than our forecast. Even with significant revenue improvement, however, the state likely would still face deficits in future years. As a rough rule of thumb, due to the requirements of Proposition 98 and Proposition 2, to balance the budget, revenue improvement needs to be almost double the size of the deficit. As such, under our estimates, annual revenues would need to be about $60 billion higher than we forecast to close the out-year gaps. Revenue gains of this magnitude are quite unlikely.

…Or Be Sustainable. In the near term, a key source of upside is continued stock market strength. If this occurs, we advise the Legislature to consider such an upside as temporary and still take steps to bring the budget into structural balance. We recommend the Legislature use any additional revenues to rebuild budget resilience either through reserve deposits or repaying outstanding budgetary debts.

APPENDIX

Appendix Figure 1

LAO Fiscal Outlook Revenues

(In Billions)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Personal Income Tax	$128.8	$130.4	$125.2	$133.6	$141.4	$151.9
Corporation Tax	41.3	41.7	41.7	41.5	43.0	45.2
Sales Tax	33.6	34.0	34.3	35.4	36.5	37.5
Total "Big Three" Revenue	**$203.7**	**$206.1**	**$201.2**	**$210.4**	**$220.9**	**$234.7**
Other Revenues	$11.4	$10.0	$11.7	$8.5	$8.9	$9.2
Total Revenues	**$215.0**	**$216.1**	**$213.0**	**$219.0**	**$229.8**	**$243.9**
BSA Deposit or Withdrawal	$4.8	$4.3	—	-$2.3	-$3.0	-$2.3
Other Transfers	8.8	2.2	-$0.6	0.7	-0.3	-0.3
Total Revenues and Transfers	**$228.7**	**$222.6**	**$212.4**	**$217.4**	**$226.4**	**$241.3**

BSA = Budget Stabilization Account.

Appendix Figure 2

General Fund Spending by Agency Through 2029-30

(Dollars in Billions)

Agency	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Average Annual Growth[b]
Legislative, Executive	$7.6	$5.1	$3.6	$3.6	$3.0	$3.0	-5.5%
Courts	3.2	3.3	3.4	3.5	3.7	3.8	4.2
Business, Consumer Services, and Housing	3.7	0.7	1.0	0.6	0.6	0.6	-16.8
Transportation	0.3	0.2	—	—	—	—	—
Natural Resources	7.5	2.7	2.5	3.4	3.5	4.0	16.8
Environmental Protection	0.6	0.1	0.1	0.1	0.1	0.1	0.1
Health and Human Services	76.2	86.5	91.8	99.8	104.5	108.9	5.9
Corrections and Rehabilitation	13.6	13.3	13.1	13.0	12.9	13.0	-0.2
Education	19.9	19.3	21.6	23.5	24.3	25.3	5.5
Labor and Workforce Development	1.1	1.0	0.9	1.0	1.0	1.0	1.0
Government Operations	3.5	2.8	3.5	3.2	3.9	3.8	2.4
General Government							
Non-Agency Departments	2.4	1.2	1.1	1.7	1.1	1.1	-0.7
Tax Relief/Local Government	0.7	0.8	0.6	0.7	0.7	0.7	4.3
Statewide Expenditures	1.1	4.4	4.4	6.3	7.5	8.4	23.7
Capital Outlay	0.8	0.7	0.2	0.3	0.2	0.2	-10.6
Debt Service	5.5	5.8	5.9	5.9	5.9	6.0	0.6
Non-98 Spending Total	**$147.8**	**$147.9**	**$153.8**	**$166.6**	**$173.1**	**$179.9**	**5.4%**
Proposition 98[a]	$89.5	$84.3	$82.1	$85.8	$90.2	$97.7	6.0%
Total Forecasted Spending	**$237.3**	**$232.2**	**$235.9**	**$252.3**	**$263.2**	**$277.5**	**5.6%**

[a] Reflects General Fund component of the Proposition 98 guarantee.
[b] From 2026-27 to 2029-30.

Appendix Figure 3

Proposition 98 Funding Changes for Schools and Community Colleges

(Dollars in Millions)

	June Budget Estimates	November LAO Estimates	Change	
			Amount	Percent
2024-25				
General Fund[a]	$85,711	$89,520	$3,809	4.4%
Local property tax	32,317	32,581	263	0.8
Totals	**$118,029**	**$122,101**	**$4,072**	**3.5%**
2025-26				
General Fund	$80,738	$84,326	$3,588	4.4%
Local property tax	33,821	34,029	208	0.6
Totals	**$114,558**	**$118,355**	**$3,796**	**3.3%**
2026-27				
General Fund	$82,536	$82,130	-$406	-0.5%
Local property tax	35,556	35,671	115	0.3
Totals	**$118,092**	**$117,800**	**-$291**	**-0.2%**
Three-Year Totals				
General Fund	$248,985	$255,976	$6,991	2.8%
Local property tax	101,694	102,280	586	0.6
Totals	**$350,679**	**$358,256**	**$7,577**	**2.2%**

[a] June budget amount excludes $1.9 billion "settle-up" obligation. Our November outlook assumes the state pays this obligation.

LAO PUBLICATIONS

This report was prepared by Carolyn Chu, Ann Hollingshead, and Brian Uhler, with contributions from others across the office. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

To request publications call (916) 445-4656. This report and others, as well as an e-mail subscription service, are available on the LAO's website at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, California 95814.

Economic News Release

Consumer Price Index Summary

Transmission of material in this release is embargoed until
8:30 a.m. (ET) Friday, April 10, 2026 USDL-26-0599

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CONSUMER PRICE INDEX - MARCH 2026

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9 percent on a seasonally adjusted basis in March, after rising 0.3 percent in February, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 3.3 percent before seasonal adjustment.

The index for energy rose 10.9 percent in March, led by a 21.2-percent increase in the index for gasoline which accounted for nearly three quarters of the monthly all items increase. The shelter index also increased in March, rising 0.3 percent. The index for food was unchanged over the month as the index for food away from home rose 0.2 percent, while the index for food at home fell 0.2 percent.

The index for all items less food and energy rose 0.2 percent in March. Indexes that increased over the month include airline fares, apparel, household furnishings and operations, education, and new vehicles. Conversely, the indexes for medical care, personal care, and used cars and trucks were among the major indexes that decreased in March.

The all items index rose 3.3 percent for the 12 months ending March, after rising 2.4 percent for the 12 months ending February. The all items less food and energy index rose 2.6 percent over the year, following a 2.5-percent increase over the 12 months ending February. The energy index increased 12.5 percent for the 12 months ending March. The food index increased 2.7 percent over the last year.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Mar. 2026
	Sep. 2025	Oct. 2025	Nov. 2025	Dec. 2025	Jan. 2026	Feb. 2026	Mar. 2026	
All items	0.3	-	-	0.3	0.2	0.3	0.9	3.3
Food	0.2	-	-	0.7	0.2	0.4	0.0	2.7
Food at home	0.3	-	-	0.6	0.2	0.4	-0.2	1.9
Food away from home(1)	0.1	-	-	0.7	0.1	0.3	0.2	3.8
Energy	1.4	-	-	0.3	-1.5	0.6	10.9	12.5
Energy commodities	3.4	-	-	-0.3	-3.3	1.1	21.3	19.4
Gasoline (all types)	3.6	-1.3	2.7	-0.3	-3.2	0.8	21.2	18.9
Fuel oil	0.7	-	-	-0.8	-5.7	11.1	30.7	44.2
Energy services	-0.4	-	-	1.0	0.2	0.2	0.4	5.0
Electricity	-0.3	-	-	0.2	-0.1	-0.7	0.8	4.6
Utility (piped) gas service	-0.9	-	-	3.7	1.0	3.1	-0.9	6.4
All items less food and energy	0.2	-	-	0.2	0.3	0.2	0.2	2.6
Commodities less food and energy commodities	0.2	-	-	0.0	0.0	0.1	0.1	1.2
New vehicles	0.2	0.0	0.2	0.0	0.1	0.0	0.1	0.5
Used cars and trucks	-0.2	0.7	0.1	-0.9	-1.8	-0.4	-0.4	-3.2
Apparel	0.5	-	-	0.3	0.3	1.3	1.0	3.4
Medical care commodities(1)	-0.1	-	-	0.3	-0.1	0.0	-1.0	0.3
Services less energy services	0.2	-	-	0.3	0.4	0.3	0.2	3.0
Shelter	0.2	-	-	0.4	0.2	0.2	0.3	3.0
Transportation services	0.3	-	-	0.4	1.4	0.2	0.6	4.1
Medical care services	0.2	-	-	0.4	0.3	0.6	0.0	3.7

Footnotes
(1) Not seasonally adjusted.

NOTE: The Oct and Nov 2025 data values are not available due to the 2025 lapse in appropriations.

Food

The index for food was unchanged in March after rising 0.4 percent in February. The food at home index declined 0.2 percent over the month. Four of the six major grocery store food group indexes decreased in March. The index for meats,

poultry, fish, and eggs decreased 0.6 percent over the month as the index for eggs declined 3.4 percent. The cereals and bakery products index also decreased 0.6 percent in March, as did the dairy and related products index. The index for nonalcoholic beverages fell 0.3 percent over the month.

In contrast, the fruits and vegetables index rose 1.0 percent in March. The index for other food at home was unchanged over the month.

The food away from home index rose 0.2 percent in March. The index for full service meals rose 0.3 percent over the month and the index for limited service meals rose 0.2 percent.

The food at home index rose 1.9 percent over the 12 months ending in March. The index for other food at home rose 2.9 percent over the last 12 months. The fruits and vegetables index increased 4.0 percent over the same period and the nonalcoholic beverages index rose 4.7 percent. The index for cereals and bakery products increased 2.1 percent over the 12 months ending in March. In contrast, the dairy and related products index fell 1.6 percent over the year and the meats, poultry, fish, and eggs index decreased 0.9 percent over the same period.

The food away from home index rose 3.8 percent over the last year. The index for full service meals rose 4.3 percent and the index for limited service meals rose 3.2 percent over the same period.

Energy

The index for energy increased 10.9 percent in March, the largest monthly increase in the index since September 2005. The gasoline index increased 21.2 percent over the month, the largest monthly increase since the series was first published in 1967. (Before seasonal adjustment, gasoline prices increased 24.9 percent in March.) The index for electricity rose 0.8 percent in March. The fuel oil index increased 30.7 percent over the month, the largest monthly increase in the index since February 2000. Conversely, the index for natural gas decreased 0.9 percent over the month.

The index for energy increased 12.5 percent over the past 12 months and the index for gasoline rose 18.9 percent. The electricity index increased 4.6 percent over the last 12 months and the natural gas index rose 6.4 percent.

All items less food and energy

The index for all items less food and energy rose 0.2 percent in March, as it did in February. The shelter index increased 0.3 percent over the month as did the owners' equivalent rent index. The index for rent increased 0.2 percent in March. The lodging away from home index rose 0.2 percent over the month.

The index for airline fares increased 2.7 percent over the month, after rising 1.4 percent in February. The apparel index rose 1.0 percent in March and the household furnishings and operations index rose 0.2 percent. The index for education rose 0.3 percent over the month and the index for new vehicles rose 0.1 percent in March.

The medical care index decreased 0.2 percent in March, after rising 0.5 percent in February. The index for prescription drugs decreased 1.5 percent over the month. Conversely, the physicians' services index increased 0.7 percent over the month and the hospital services index rose 0.4 percent.

The personal care index declined 0.5 percent in March and the used cars and trucks index decreased 0.4 percent over the month. The index for recreation and the index for motor vehicle insurance were both unchanged over the month.

The index for all items less food and energy rose 2.6 percent over the past 12 months. The shelter index increased 3.0 percent over the last year. Other indexes with notable increases over the last year include medical care (+3.1 percent), household furnishings and operations (+4.0 percent), airline fares (+14.9 percent), and recreation (+2.2 percent).

Not seasonally adjusted CPI measures

The Consumer Price Index for All Urban Consumers (CPI-U) increased 3.3 percent over the last 12 months to an index level of 330.213 (1982-84=100). For the month, the index increased 1.0 percent prior to seasonal adjustment.

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increased 3.3 percent over the last 12 months to an index level of 323.500 (1982-84=100). For the month, the index increased 1.3 percent prior to seasonal adjustment.

The Chained Consumer Price Index for All Urban Consumers (C-CPI-U) increased 3.1 percent over the last 12 months. For the month, the index increased 1.1 percent on a not seasonally adjusted basis. Please note that the indexes for the past 10 to 12 months are subject to revision.

The Consumer Price Index for April 2026 is scheduled to be released on Tuesday, May 12, 2026, at 8:30 a.m. (ET).

Rebasing of Selected Consumer Price Index Series

With the publication of April 2026 data on May 12, 2026, several CPI series will be rebased to December 2024 = 100. When new base years are introduced, BLS recalculates each index back to the beginning of that series to ensure continuity. A complete list of indexes to be rebased is available at www.bls.gov/cpi/additional-resources/rebased-series.htm

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Technical Note

Brief Explanation of the CPI
The Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers. The all urban consumer group represents over 90 percent of the total U.S. population. It is based on the expenditures of almost all residents of urban or metropolitan areas, including professionals, the self-employed, the poor, the unemployed, and retired people, as well as urban wage earners and clerical workers. Not included in the CPI are the spending patterns of people living in rural nonmetropolitan areas, farming families, people in the Armed Forces, and those in institutions, such as prisons and mental hospitals. Consumer inflation for all urban consumers is measured by two indexes, namely, the Consumer Price Index for All Urban Consumers (CPI-U) and the Chained Consumer Price Index for All Urban Consumers (C-CPI-U).

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is based on the expenditures of households included in the CPI-U definition that meet two requirements: more than one-half of the household's income must come from clerical or wage occupations, and at least one of the household's earners must have been employed for at least 37 weeks during the previous 12 months. The CPI-W population represents approximately 30 percent of the total U.S. population and is a subset of the CPI-U population.

The CPIs are based on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 housing units and approximately 22,000 retail establishments (department stores, supermarkets, hospitals, and other types of stores and service establishments). All taxes directly associated with the purchase and use of items are included in the index. Prices of fuels and a few other items are obtained every month in all 75 locations. Prices of most other commodities and services are collected every month in the three largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visit, telephone call, web, or app collection by the Bureau's trained representatives.

In calculating the index, price changes for the various items in each location are aggregated using weights, which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. For the CPI-U and CPI-W, separate indexes are also published by size of city, by region of the country, for cross-classifications of regions and population-size classes, and for 23 selected local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period. For the C-CPI-U, data are issued only at the national level. The CPI-U and CPI-W are considered final when released, but the C-CPI-U is issued in preliminary form and subject to three subsequent quarterly revisions.

The index measures price change from a designed reference date. For most of the CPI-U and the CPI-W, the reference base is 1982-84 equals 100. The reference base for the C-CPI-U is December 1999 equals 100. An increase of 7 percent from the reference base, for example, is shown as 107.000. Alternatively, that relationship can also be expressed as the price of a base period market basket of goods and services rising from $100 to $107.

Sampling Error in the CPI

The CPI is a statistical estimate that is subject to sampling error because it is based upon a sample of retail prices and not the complete universe of all prices. BLS calculates and publishes estimates of the 1-month, 2-month, 6-month, and 12-month percent change standard errors annually for the CPI-U. These standard error estimates can be used to construct confidence intervals for hypothesis testing. For example, the estimated standard error of the 1-month percent change is 0.04 percent for the U.S. all items CPI. This means that if we repeatedly sample from the universe of all retail prices using the same methodology, and estimate a percentage change for each sample, then 95 percent of these estimates will be within 0.08 percent of the 1-month percentage change based on all retail prices. For example, for a 1-month change of 0.2 percent in the all items CPI-U, we are 95 percent confident that the actual percent change based on all retail prices would fall between 0.12 and 0.28 percent. For the latest data, including information on how to use the estimates of standard error, see www.bls.gov/cpi/tables/variance-estimates/home.htm.

Calculating Index Changes

Movements of the indexes from 1 month to another are usually expressed as percent changes rather than changes in index points, because index point changes are affected by the level of the index in relation to its base period, while percent changes are not. The following table shows an example of using index values to calculate percent changes:

	Item A	Item B	Item C
Year I	112.500	225.000	110.000
Year II	121.500	243.000	128.000
Change in index points	9.000	18.000	18.000
Percent change	9.0/112.500 x 100 = 8.0	18.0/225.000 x 100 = 8.0	18.0/110.000 x 100 = 16.4

Use of Seasonally Adjusted and Unadjusted Data

The Consumer Price Index (CPI) program produces both unadjusted and seasonally adjusted data. Seasonally adjusted data are computed using seasonal factors derived by the X-13ARIMA-SEATS seasonal adjustment method. These factors are updated each February, and the new factors are used to revise the previous 5 years of seasonally adjusted data. The factors are available at www.bls.gov/web/cpi/cpi-seasonal-factors.xlsx. For more information on data revision scheduling, please see the Seasonal Adjustment questions and answers page at www.bls.gov/cpi/seasonal-adjustment/questions-and-answers.htm and the Timeline of Seasonal Adjustment Methodological Changes at www.bls.gov/cpi/seasonal-adjustment/timeline-seasonal-adjustment-methodology-changes.htm.

How to Use Seasonally Adjusted and Unadjusted Data

For analyzing short-term price trends in the economy, seasonally adjusted changes are usually preferred since they eliminate the effect of changes that normally occur at the same time and in about the same magnitude every year-such as price movements resulting from weather events, production cycles, model changeovers, holidays, and sales. This allows data users to focus on changes that are not typical for the time of year.

The unadjusted data are of primary interest to consumers concerned about the prices they actually pay. Unadjusted data are also used extensively for escalation purposes. Many collective bargaining contract agreements and pension plans, for example, tie compensation changes to the Consumer Price Index before adjustment for seasonal variation. BLS advises against the use of seasonally adjusted data in escalation agreements because seasonally adjusted series are revised annually for five years.

Intervention Analysis

The Bureau of Labor Statistics uses intervention analysis seasonal adjustment (IASA) for some CPI series. Sometimes extreme values or sharp movements can distort the underlying seasonal pattern of price change. Intervention analysis seasonal adjustment is a process by which the distortions caused by such unusual events are estimated and removed from the data prior to calculation of seasonal factors. The resulting seasonal factors, which more accurately represent the seasonal pattern, are then applied to the unadjusted data.

For example, this procedure was used for the motor fuel series to offset the effects of the 2009 return to normal pricing after the worldwide economic downturn in 2008. Retaining this outlier data during seasonal factor calculation would distort the computation of the seasonal portion of the time series data for motor fuel, so it was estimated and removed from the data prior to seasonal adjustment. Following that, seasonal factors were calculated based on this

"prior adjusted" data. These seasonal factors represent a clearer picture of the seasonal pattern in the data. The last step is for motor fuel seasonal factors to be applied to the unadjusted data.

For the seasonal factors introduced for January 2026, BLS adjusted 57 series using intervention analysis seasonal adjustment, including selected food and beverage items, motor fuels and vehicles.

Revision of Seasonally Adjusted Indexes

Seasonally adjusted data, including the U.S. city average all items index levels, are subject to revision for up to 5 years after their original release. Every year, economists in the CPI calculate new seasonal factors for seasonally adjusted series and apply them to the last 5 years of data. Seasonally adjusted indexes beyond the last 5 years of data are considered to be final and not subject to revision. For January 2026, revised seasonal factors and seasonally adjusted indexes for 2021 to 2025 were calculated and published. For series which are directly adjusted using the Census X-13ARIMA-SEATS seasonal adjustment software, the seasonal factors for 2025 will be applied to data for 2026 to produce the seasonally adjusted 2026 indexes. Series which are indirectly seasonally adjusted by summing seasonally adjusted component series have seasonal factors which are derived and are therefore not available in advance.

Determining Seasonal Status

Each year the seasonal status of every series is reevaluated based upon certain statistical criteria. Using these criteria, BLS economists determine whether a series should change its status from "not seasonally adjusted" to "seasonally adjusted", or vice versa. If any of the 81 components of the U.S. city average all items index change their seasonal adjustment status from seasonally adjusted to not seasonally adjusted, not seasonally adjusted data will be used in the aggregation of the dependent series for the last 5 years, but the seasonally adjusted indexes before that period will not be changed. For 2026, 36 of the 81 components of the U.S. city average all items index are not seasonally adjusted.

Contact Information

For additional information about the CPI visit www.bls.gov/cpi or contact the CPI Information and Analysis Section at 202-691-7000 or cpi_info@bls.gov.

For additional information on seasonal adjustment in the CPI visit www.bls.gov/cpi/seasonal-adjustment/home.htm
If you are deaf, hard of hearing, or have a speech disability, please dial 7-1-1 to access telecommunications relay services.

- Table 1. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category
- Table 2. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by detailed expenditure category
- Table 3. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, special aggregate indexes
- Table 4. Consumer Price Index for All Urban Consumers (CPI-U): Selected areas, all items index
- Table 5. Chained Consumer Price Index for All Urban Consumers (C-CPI-U) and the Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, all items index
- Table 6. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category, 1-month analysis table
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U.S. BUREAU OF LABOR STATISTICS Consumer Price Index Office of Prices and Living Conditions Suitland Federal Center Floor 7 4600 Silver Hill Road Washington, DC 20212-0002

Telephone: 202-691-7000_ www.bls.gov/CPI Contact CPI

California ENERGY COMMISSION

Enter keywords, e.g. Tracking Progress

California's Oil Refineries

California Oil Refinery History

- There are three tables based on refinery operational status (Open, Idle, Closed).
- Refineries are arranged alphabetically in each table.
- Information current as of January 26, 2026.
- **Contact:** Media & Public Communications Office | mediaoffice@energy.ca.gov | 916-654-4989

Collapse All

Open California Refinery Facilities

California Refinery Facilities	Began Operations	Ownership Information	Current Crude Capacity (Barrels/Day)	Notes
Chevron, El Segundo Refinery	1912	Standard Oil Co: 1912-1926 Standard Oil Company of California (Socal): 1926-1977 Chevron USA Inc: 1977-2001	269,000	

		ChevronTexaco Corp: 2001-2005 Chevron Corp: 2005-Present		
Chevron, Richmond Refinery	1902	Pacific Coast Oil: July 7, 1902-1906 Standard Oil Co: 1906-1926 Standard Oil Company of California (Socal): 1926-1977 Chevron USA Inc: 1977-2001 ChevronTexaco Corp: 2001-2005 Chevron Corp: 2005-Present	245,271	
Kern Energy, Bakersfield Refinery	1934	El Tejon Oil & Refining Co: 1934-1943 Kreiger Oil Co: 1943-1945 Douglas Oil Co: 1945-1962 Continental Oil: 1962-1966 Edgington Oil/Signal Oil & Gas: 1966-1971 Kern County Refinery Inc. (Charter Oil Co.): 1971-1976 Kern County Refinery Inc. (Privately Held): 1976-1982	26,000	Also known as Kern Oil & Refining Company.

		Kern Oil & Refining Co: 1982-Present		
Lunday Thagard Oil Company, South Gate Refinery	1937	Lunday Thagard Oil Co: 1937-Present	8,500	Subsidiary of World Oil Company.
Marathon Petroleum Co., Carson Refinery	1938	Richfield Oil Corp: 1938-1966 Atlantic Richfield Company (ARCO): 1966-2000 BP West Coast Products: 2000-June 2013 Tesoro Refining & Marketing: June 2013-August 2017 Andeavor: August 2017-October 2018 Marathon Petroleum: October 2018-Present	256,830	Marathon Carson and Wilmington began reporting as one entity known as Marathon Los Angeles Refinery (LAR) as of 2019 with a capacity of 365,000 barrels per day.
Marathon Petroleum Co., Wilmington Refinery	1923	California Petroleum Corp: 1923-1928 Texas Company: 1928-1959 Texaco, Inc: 1959-1998 Equilon Enterprises (joint venture of Shell Oil Co. & Texaco Inc.): 1998-2002 Shell Oil Co: 2002-2007	98,340	Marathon Carson and Wilmington began reporting as one entity known as Marathon Los Angeles Refinery (LAR) as of 2019 with a capacity of 365,000 barrels per day.

		Tesoro Refining & Marketing: June 2013-August 2017 Andeavor: August 2017-October 2018 Marathon Petroleum: October 2018-Present	
PBF Energy, Martinez Refinery	1915	Shell Company of Calif: 1915-1939 Shell Oil Company, Inc: 1939-1949 Shell Oil Co: 1949-1998 Equilon Enterprises (joint venture of Shell Oil Co. & Texaco Inc.): 1998-2002 Shell Oil Co: 2002-February 2020 PBF Energy: February 2020-Present	156,400
PBF Energy, Torrance Refinery	1907	Vacuum Oil Co: 1907-1929 General Petroleum Corporation of Calif: 1929-1931 Socony-Vacuum Corp: 1931-1934 Socony-Vacuum Oil Company, Inc: 1934-1955 Socony Mobil Oil Co: 1955-1966 Mobil Oil Corp: 1966-2000	160,000

		ExxonMobil: 2000-July 2016 PBF Energy: July 2016-Present		
San Joaquin Refining Company, Bakersfield Refinery	1969	San Joaquin Refining Co: 1969-Present	15,000	
Talley Asphalt Inc., Kern Refinery	2021	Talley Asphalt Products: 2021-Present	1,700	
Valero, Benicia Asphalt Refinery	1982	Huntway Refining: 1982-2001 Valero Refining Co: 2001-Present	13,000	Now part of Valero Benicia Refinery with a capacity 145,000 barrels per day.
Valero, Benicia Refinery	1968	Exxon Co USA: 1968-2000 Valero Refining Co: 2000-Present	145,000	Valero, Benicia Refinery currently intend to cease refining operations by the end of April 2026.
Valero, Wilmington Asphalt Refinery	1980	Huntway Refining: 1980-2001 Valero Refining Co: 2001-Present	6,300	
Valero, Wilmington Refinery	1969	Champlin Petroleum Co: 1969-1987 Union Pacific Resources Co: 1987-1988	85,000	

		Ultramar Refining: 1988-1997 Ultramar Diamond Shamrock: 1997-2002 Valero Refining Co: 2002-Present		

Idle California Refinery Facilities

California Refinery Facilities	Began Operations	Ownership Information	Current Crude Capacity (Barrels/Day)	Notes
Global Clean Energy Holdings, Bakersfield Refinery	1932	Mohawk Petroleum Corp: 1932-1975 Reserve Oil & Gas Co: 1975-1980 Getty Oil Co: 1980-1984 Texaco, Inc: 1984-2000 Equilon: 2000-2001 Shell Oil Co: 2001-2005 Big West of Calif. (Flying J): 2005-June 2010 Alon USA Energy Inc: June 2010-July 2017 Delek US: July 2017-May 2020 Global Clean	66,000	Facility to be converted to produce renewable diesel fuel with capacity of 17,000 barrels per day. Work projected to be completed by 2nd half of 2023.

		Energy Holdings: May 2020-Present		
Marathon Petroleum Co., Golden Eagle Refinery, Martinez/Avon	1913	Associated Oil Co: 1913-1937 Tidewater Associated Oil Co: 1937-1966 Phillips Petroleum: 1966-1976 Tosco Corp: 1976-2000 Ultramar Diamond Shamrock: 2000-2002 Valero Refining Co: 2002 Tesoro Refining & Marketing: June 2013-August 2017 Andeavor: August 2017-October 2018 Marathon Petroleum: October 2018-Present	166,000	Facility to be converted to produce renewable diesel fuel with capacity of 48,000 barrels per day by late 2023. The facility has reached full Phase I production capacity of 17,000 barrels per day of renewable diesel.
Phillips 66, Rodeo Refinery	1896	Union Oil Co of Calif: 1955-1983 Unocal: 1983-1997 Tosco Corp: 1997-2001 Phillips: 2001-2002 ConocoPhillips: 2002-May 2012	90,200	Facility has been reconfigured to produce 800 million gallons per year of renewable diesel, renewable gasoline, and sustainable jet fuel. Full conversion to a renewable facility was officially

		Phillips 66: May 2012-Present		announced June 2024.
World Energy, Paramount Refinery	1930s	Ajax Oil Company: 1930s-1937 Kreiger Oil Co: 1937-1940s Douglas Oil Co: 1940s-1961 Continental Oil Company (Conoco): 1961-September 1981 EI du Pont de Nemours & Co: September 1981-January 1983 Pacific Oasis, Inc: January 1983-April 1984 Paramount Petroleum Corp: April 1984-2006 Alon USA Energy Inc: 2006-July 2017 Delek US: July 2017-March 2018 World Energy: March 2018-Present	50,000	

Closed California Refinery Facilities

California Refinery Facilities	Began Operations	Ownership Information	Current Crude Capacity (Barrels/Day)	Notes
Anchor Refining, McKittrick Refinery	1979	Anchor Refining: 1979-February 1984	9,000	
Bridge Point Long Beach, LLC, Long Beach Refinery	1932	Apex Oil Co: 1932-1941 Edgington Oil Co: 1941-2006 Alon USA Energy Inc: 2006-July 2017 Delek US: July 2017-July 2018 Bridge Point Long Beach, LLC: July 2018-Present	31,500	Refinery was removed and converted to commercial warehousing as of August 2021.
Chemoil Refining Corporation, Signal Hill Refinery	1923	MacMillan Ring-Free Oil Co: 1923-1988 Chemoil Refining Co: 1988-April 1994	18,000	
Chevron, Bakersfield Refinery	1913	Standard Oil Co: February 22, 1913-1926 Standard Oil Company of California (Socal): 1926-1977 Chevron USA Inc: 1977-July 1986	26,000	

Coastal Petroleum Refiners, Inc., Bakersfield Refinery	1980	Coastal Petroleum Refiners: 1980-December 1985	10,000	
DeMenno/Kerdoon, Compton Refinery	1977	DeMenno/Kerdoon: 1977-August 1983	15,000	Reprocesses Waste Oil as Oil Re-Refiner.
Eco Petroleum, Signal Hill Refinery	1977	ECO Petroleum: 1977-1984	10,550	
Gibson Oil Refining, Bakersfield Refinery	1978	Gibson Oil Refining: 1978-July 1987	9,600	
Golden Eagle Refining, Carson Refinery	1948	Sunset Oil: 1948-1958 Golden Eagle Refining: 1958-February 1985	16,170	
Golden West Refining Company, Santa Fe Springs Refinery	1936	Wilshire Oil Co: 1936-1960 Gulf Oil Corp USA: 1960-August 1983 Golden West Refining Co. (sub. of Thrifty Oil Co.): August 1983-March 1992	47,000	Refinery Closed in March of 1992, Continued Operating as a Terminal Until 1997.
Greka Energy, Santa Maria Asphalt Refinery	1932-33	Five C Refining Co: 1932/33-1951 Douglas Oil Co: 1951-1960 Conoco: 1960-September 1981	9,500	Ceased operations in April 2021 and shutdown in January 2022.

		EI du Pont de Nemours & Co (DuPont): September 1981-1994 Saba Petroleum Co: 1994-1999 Greka Energy: 1999-Present		
Independent Valley Energy Company (IVEC), Bakersfield Refinery	1978	Independent Valley Energy Co: Late 1978-April 1984 Paramount Petroleum Corp.: April 1984-August 1987 Texaco: August 1987-1988 Texaco Inc: 1988 - integrated with Alon USA Bakersfield refinery	27,000	Integrated as part of Alon USA Bakersfield Refinery.
Pacific Refining, Hercules Refinery	1967	Sequoia Refining Corp: 1967-1968 Gulf Oil Corp USA: 1968-1976 Pacific Refining: 1976-July 1995	50,000	Ceased refinery operations July of 1995. Continued limited storage and terminal operations until September of 1997.
Pauley Petroleum Co., Newhall Refinery	1930	San Fernando Refining Co: 1930-1942 Newhall Refining Co: 1942-February 1959	22,500	

		Pauley Petroleum Co: February 1959-December 1989		
Pauley Petroleum Co., Wilmington Refinery	Prior to 1951	Fletcher Oil Refining: Prior to 1951-March 1988 Pauley Petroleum: March 1988-October 1992	29,675	
Phillips 66, Santa Maria Refinery	1955	Union Oil Co of Calif: 1955-1983 Unocal: 1983-1997 Tosco Corp: 1997-2001 Phillips: 2001-2002 ConocoPhillips: 2002-May 2012 Phillips 66: May 2012-Present	41,800	Phillips 66 Rodeo and Santa Maria began reporting as one entity as of 2017 with a capacity of 120,200 barrels per day. Phillips 66 Santa Maria ceased operations in January 2023.
Phillips 66, Wilmington Refinery	1917	Union Oil Co of Calif: 1917-1983 Unocal: 1983-1997 Tosco Corp: 1997-2001 Phillips: 2001-2002 ConocoPhillips: 2002-May 2012 Phillips 66: May 2012-Present	139,000	Phillips 66, Wilmington Refinery ceased processing crude oil at the Los Angeles Refinery on Oct. 16, with remaining units expected to be idled by end of 2025.
Powerine Oil Company, Santa Fe Springs Refinery	1934	Rothschild Oil Co/Powerine Oil Co: 1934-1984 Closed - bankruptcy: 1984-	46,500	Ceased refinery operations June of 1995. CENCO was offering the refinery

		1986 Powerine Oil Co: 1986-1993 Castle Energy Corp: 1993-1995 Kenyen Resources: 1995-1996 Energy Merchant Corp: 1996-1998 Creative Energy Company (CENCO): 1998-Present		equipment for sale, as of April 2007.
Quad Refining Company, Bakersfield Refinery	1979	Quad Refining Co: 1979-October 1981	7,000	
Road Oil Sales, Inc., Bakersfield Refinery	1973	Road Oil Sales, Inc: 1973-December 1981	6,000	
Sabre Refining, Inc., Bakersfield Refinery	1972	Sabre Refining Co: 1972-September 1987	10,000	
Shell Oil Products US, Carson Refinery	1923	Shell Company of Calif: 1923-1939 Shell Oil Company, Inc: 1939-1949 Shell Oil Co: 1949-1992 Converted to distribution terminal: 1992-Present	120,000	Was converted to distribution terminal in 1992.

Sunland Refining Corporation, Bakersfield Refinery	Prior to 1929	Sunland Refining Corp: Prior to 1929-December 1995	12,000	Ceased Operations March 1995.
Tenby Incorporated, Oxnard Refinery	Prior to 1951	Tenby Inc: Prior to 1951-December 2011	2,800	Also known as Oxnard Oil Refining.
Tosco, Bakersfield Refinery	1941	U.S. Government: 1941-1946 (Area 2) Idle 1946-1950 Norwalk Co: 1950-1950s Bankline: 1950s-1959 Signal Oil and Gas Co:1959-1970 Tosco Corp:1970-1983 Idle 1983-1986 Texaco Inc: 1986 - integrated with Alon USA Bakersfield refinery	38,800	Integrated as part of Alon USA Bakersfield Refinery.
Tricor Refining LLC, Oildale Refinery	1938	Witco Chemical Corp: 1938-1997 Golden Bear: 1997-June 2001 Tricor Refining LLC: June 2001-January 2002	12,500	
Ultramar Oil, Hanford Refinery	1931	HH Bell Refinery Co. 1931-1932 Caminol Oil Co: 1932-1967 Beacon Oil Co:	17,300	

		1967-1982 Ultramar Oil Co: 1982-December 1987	
USA Petrochem Corporation, Ventura Refinery	1977	USA Petrochem Corp: 1977-December 1984	24,000
West Coast Oil Company, Oildale Refinery	1948	West Coast Oil Co: 1948-October 1988	5,000
Western Oil Refining, Long Beach Refinery	1977	Marlex Oil Refining: 1977-August 1985 Western Oil Refining: August 1985-December 1987	19,200

Source: Compiled by California Energy Commission, Energy Assessments Division, Transportation Fuels Data Unit

Notes: 1 Atmospheric crude oil distillation processing capacity as measured in barrels per calendar day - source: Energy Information Agency - Refinery Capacity Reports

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June 27, 2025

Dear Governor Newsom,

Thank you for the opportunity to respond to your April 21, 2025, letter soliciting recommendations from our office on changes to state policy to ensure adequate transportation fuels supply during this pivotal time in our state's clean energy transition. In the months since receiving your letter, your energy team has engaged with the Petroleum Strategy Task Force, continued deep research into global petroleum market trends, convened roundtables and discussions with diverse stakeholders representing varied interests, and utilized new data afforded to us by legislation enacted over the last several years to better understand the petroleum industry.

This letter offers our strategies and recommendations to address your request for actions to ensure that Californians have access to safe, affordable, and reliable transportation fuels and that petroleum refiners continue to see value in serving the California market, even as in-state demand for petroleum-based fuels declines over the coming decades. These recommendations reflect the complexity of the issue, input from a multitude of stakeholders, and a faithful synthesis of robust data and discussions. We believe that these actions are necessary as the State considers its next steps to further our clean energy transition.

We look forward to working with members of the Legislature, fellow state agencies, industry, and stakeholders to implement these strategies. Together, we will evolve California's strategy to successfully phase out petroleum-based fuels by 2045 while protecting communities, workers, and consumers, and foster market conditions that support the industry's ability to operate safely, reliably, and successfully to meet demand through the transition.

Executive Summary

California's petroleum market is evolving rapidly, as California's pioneering climate and air quality policies, which are critical to protecting our communities' health, have accelerated the adoption of highly fuel-efficient conventional vehicles and zero emission vehicles (ZEVs), leading to a decline in demand for petroleum-based fuels. The decreasing demand for petroleum-based fuels underscores California's success in its transition to a sustainable, clean energy future. But the decreasing demand, economic factors, and volatility of the international petroleum market also introduces uncertainty to the petroleum industry, which impacts consumers, the workforce, and fenceline communities. That uncertainty has only been compounded this year by actions of the current federal administration, which have both added more shocks to the global petroleum market and sought to undermine California's transition away from reliance on petroleum-based fuels.

In California, recent years have been marked by higher gasoline retail prices, in-state petroleum refinery conversions and exits, and a growing reliance on fuel imports to meet consumer demand. These impacts are not isolated to California and are also being felt nationally and globally. To address dramatic gasoline retail price spikes, you partnered with the Legislature in 2023 and 2024 to provide the CEC with new industry and market transparency tools to better understand the causes behind gasoline price spikes and to develop strategies to protect consumers during the transition to clean, alternative fuels.

Current analysis indicates a continued decline in gasoline demand; a credible risk of rapid near-term conversions or exits of existing refineries, which is consistent with global refinery industry consolidation; impacts to other critical infrastructure across the upstream, midstream and downstream segments; and safety and reliability challenges associated with disinvestment along the petroleum value chain.

The success of California's decarbonization strategies are transforming the state's transportation sector from its early transition phase into its pivotal and challenging "mid transition" phase.[1] In this phase, demand for the

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[1] Grubert and Hastings-Simon (2022). *Designing the mid-transition: A review of medium-term challenges for coordinated decarbonization in the United States*. WIREs Climate Change. https://doi.org/10.1002/wcc.768

incumbent petroleum-based fuel system, while declining, remains substantial, as the clean, alternative fuel system continues to scale. In this phase, investor confidence in the incumbent system is expected to falter due to long-term uncertainty about the trajectory and pace at which these two systems evolve.

During this mid-transition phase, the State must simultaneously continue supporting the rapid expansion of new clean, alternative fuels while actively managing a gradual responsible phase-down of the incumbent systems that millions of Californians will continue to depend upon for years to come. Successfully managing this transition and continuing the State's long-standing leadership in addressing climate, air quality, health, and environmental issues will require coordinated actions and strategic alignment of state, regional, and local jurisdictions.

As a result of all of these factors, immediate State actions are necessary to stabilize the near-term vulnerabilities of the entire transportation system and implement a comprehensive strategy to support a successful transition. Given sufficient time, the petroleum market is likely to find a new equilibrium following the disruption of a refinery closure, but in the near term, an abrupt loss of refining capacity and the increased need for imported fuel to compensate is likely to create new risks for stable fuel prices and supply. Keeping in-state and imported fuel competitive will be an important balancing act moving forward, because if the cost of refining fuel in state exceeds the cost of importing fuel, it could further accelerate additional petroleum refinery exits.

Collaboratively, we must harmonize regulations and processes to maximize market-driven solutions and continue to advance State policy goals. By doing so, the State can ensure safe and reliable operations through an orderly, managed transition of the petroleum sector that safeguards California consumers, workers, communities, and the environment.

Since receiving your April 21, 2025 letter, my office has continued its engagement with the cross-agency Petroleum Strategy Task Force, other relevant state and local regulators, industry, and impacted stakeholders and communities. Drawing from this engagement and lessons learned from energy transition challenges in other sectors nationally and internationally, we have identified both risks to fuel supply and

opportunities to support a managed transition in the transportation sector. Our office recommends the pursuit of three concurrent strategies:

1. Stabilize fuel supply through imports of refined fuels and maintaining in-state refining capacity.
    a. Support necessary import of refined fuel products (such as California-specific gasoline) by addressing regulatory and permitting issues that limit import capacity.
    b. Retain in-state petroleum refining capacity where possible to maintain resilience of the transportation fuels system.
2. Provide sufficient confidence to industry to invest in maintaining reliable and safe infrastructure operations to meet demand.
    a. Stabilize in-state crude oil production and distribution to bolster supply for California refineries and support the petroleum fuels system.
    b. Implement near-term statutory and regulatory changes that improve investment confidence while advancing state policy goals.
    c. Strengthen coordination across state, regional, and local authorities, communities, and stakeholders to inform policy implementation.
3. Develop and execute a holistic transportation fuels transition strategy.
    a. Implement a suite of policies and programs to ensure environmental, public health, labor, economic, and consumer protections for a successfully managed transportation fuels transition.

The recommendations laid out in this letter reflect the complexity of the issue, input from a multitude of stakeholders, and a faithful synthesis of robust data and discussions. We believe that these actions are necessary as the State considers its next steps in the clean energy transition.

Introduction and Background:

Over the past two decades, California has embarked on a transformative effort to decarbonize its economy. Through pioneering climate and air quality policies, the state has:

- Catalyzed the development of clean energy technologies,
- Fostered new clean energy industries employing tens of thousands of Californians,
- Decreased annual gasoline demand by more than 2 billion gallons (13.4%) in 8 years,
- Replaced more than 2 billion gallons of fossil diesel with renewable diesel, resulting in nearly 72% of diesel needs met by renewable diesel,
- Increased zero emission vehicle (ZEV) adoption from an annual rate of 7.8 percent new vehicle sales in 2020 to over 25 percent in 2024, and
- Made significant progress in improving air quality for communities across the state, including reducing over 77,500 tons of NOx since 2016, and
- As a result of the Low Carbon Fuel Standard (LCFS), the variety of transportation fuels and consumer choices have increased including rapid deployment of renewable diesel and zero emission infrastructure and will reduce fuel costs for Californians per mile by 42% translating to savings of over $20 billion in cost savings by 2045.

At every inflection point—whether driven by market changes, climate and public health imperatives, national and global policy shifts, or technological breakthroughs—California has enacted forward-looking policies, regulations, and processes to continue advancing its decarbonization goals while prioritizing affordability, safety, and reliability.

Now, as the transportation sector enters a new phase in its transition, marked by rapid changes in the petroleum fuels system, California needs to once again continue to evolve its strategy to ensure success. If a lack of proactive management during this phase of the transition leads to rising energy prices and less reliable fuel supplies, that instability could erode support for continued decarbonization. We must take the necessary steps to chart a path for an orderly and safe transition away from legacy

petroleum-based systems that maintains system reliability, protects communities, workers, and consumers, and continues to advance the state's decarbonization trajectory.

Shifts in Petroleum Fuel Supply: A Global Issue and Californian Opportunity

California's petroleum value chain is complex and must be considered holistically in managing the transportation fuels transition (Figure 1). It supplies gasoline, diesel, jet fuel and other petroleum derivatives, and consists of interdependent activities and infrastructure that include:

- Upstream activities related to production of crude oil,
- Mid-stream activities related to gathering, storing, processing, and transporting petroleum products, and
- Downstream activities related to refining and distribution, marketing and sale of refined products.

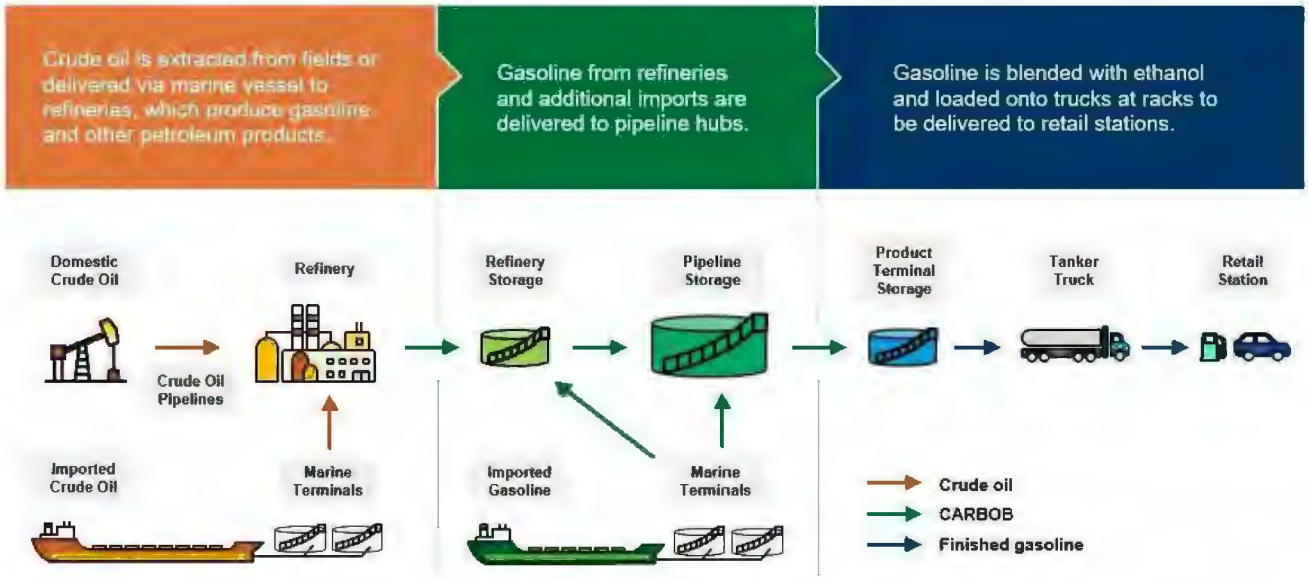

Figure 1. The petroleum value chain is complex and interdependent, and policies should consider the system holistically. Investments across the value chain are necessary for a managed decline.

California currently imports over 75% of its crude oil to meet the demand of in-state petroleum refineries and about 10-20% of its gasoline from out-of-state and foreign sources, depending on refinery maintenance

activities. Gasoline imports statewide could increase to 25-35% of demand by the summer of 2026, and up to 50% in the northern California region after the announced anticipated refinery closures, bringing risk of supply disruptions and price volatility. The interdependent elements of the petroleum-based system therefore cross state and national boundaries and contain critical vulnerabilities tied to changes in local, state, federal, and international policies, markets, and events.

A wide range of factors affecting the petroleum value chain are accelerating the decline and consolidation of the refining industry in many U.S. states, as well as developed economies across the globe. One in five refineries globally risk shutdown by 2030[2]. Across the nation, petroleum refiners face the conjoined challenges of rising operating costs, softening demand for some refined products, and competition from newer, more efficient mega-refineries in other countries. Geopolitical events and changing federal and foreign government policies are also impacting industry decisions. Further, many national petroleum refineries, including some in California, are well over 100 years old and require substantial financial investments to maintain safe and reliable operations. In recent years, these factors have driven the closure of petroleum refineries in places as diverse as Australia, the United Kingdom, and multiple states, including some that have been perceived as especially profitable settings, like Texas.

As a result of such factors and as California's policies continue to drive down demand for petroleum-based fuels, California's in-state petroleum refining capacity has been declining faster than its demand for refined petroleum products and has been supported by increase in imports of refined products. Future trends are uncertain: recent federal actions and policies, including undercutting California's clean air standards and its impact on ZEV adoption combined with global conflicts (currently, about 30% of crude supply to California's refineries comes from the Middle East), are creating further uncertainty in both in-state demand for refined gasoline and global petroleum markets. To prevent a further exacerbated imbalance of supply and demand from harming Californians—whether through disrupted fuel supply, insufficient facility maintenance, or ongoing pollution threatening public health—and to maintain resilience in the

[2] Wood Mackenzie (2025). *Global 2035 refinery closure threat update: Which assets are most at risk of closure?. https://www.woodmac.com/news/opinion/global-refinery-closure-outlook-2035/*

system in light of ongoing uncertainty, the State must actively manage the decline of its legacy petroleum-based systems while maintaining affordable, reliable, safe, and equitable access to transportation fuels statewide.

Proactively Navigating the Challenges of the Mid-Transition

California is entering a pivotal and challenging phase of decarbonization described in scholarly work as the "mid-transition," in which the demand for the incumbent petroleum-based system, while declining, remains substantial, and the clean alternative fuels, continue to scale up[3] (Figure 2). Over the past five years:

- Two Californian refineries, Marathon Martinez and Phillips 66 Rodeo, have converted to producing renewable fuels —transitions that support the State's shift to cleaner, less carbon-intensive fuels, but that have also reduced gasoline refining capacity in the state.
- Phillips 66 has announced its intent to close its Wilmington refinery in the fourth quarter of 2025. Phillips 66 has committed to working with California to maintain or increase levels of supply to meet consumer needs, including through imports[4].
- Valero has announced its intent to idle, restructure, or cease refining operations at its Benicia refinery by the end of April 2026.

[3] Grubert and Hastings-Simon (2022). *Designing the mid-transition: A review of medium-term challenges for coordinated decarbonization in the United States*. WIREs Climate Change. https://doi.org/10.1002/wcc.768

[4] https://investor.phillips66.com/financial-information/news-releases/news-release-details/2024/Phillips-66-provides-notice-of-its-plan-to-cease-operations-at-Los-Angeles-area-refinery/default.aspx

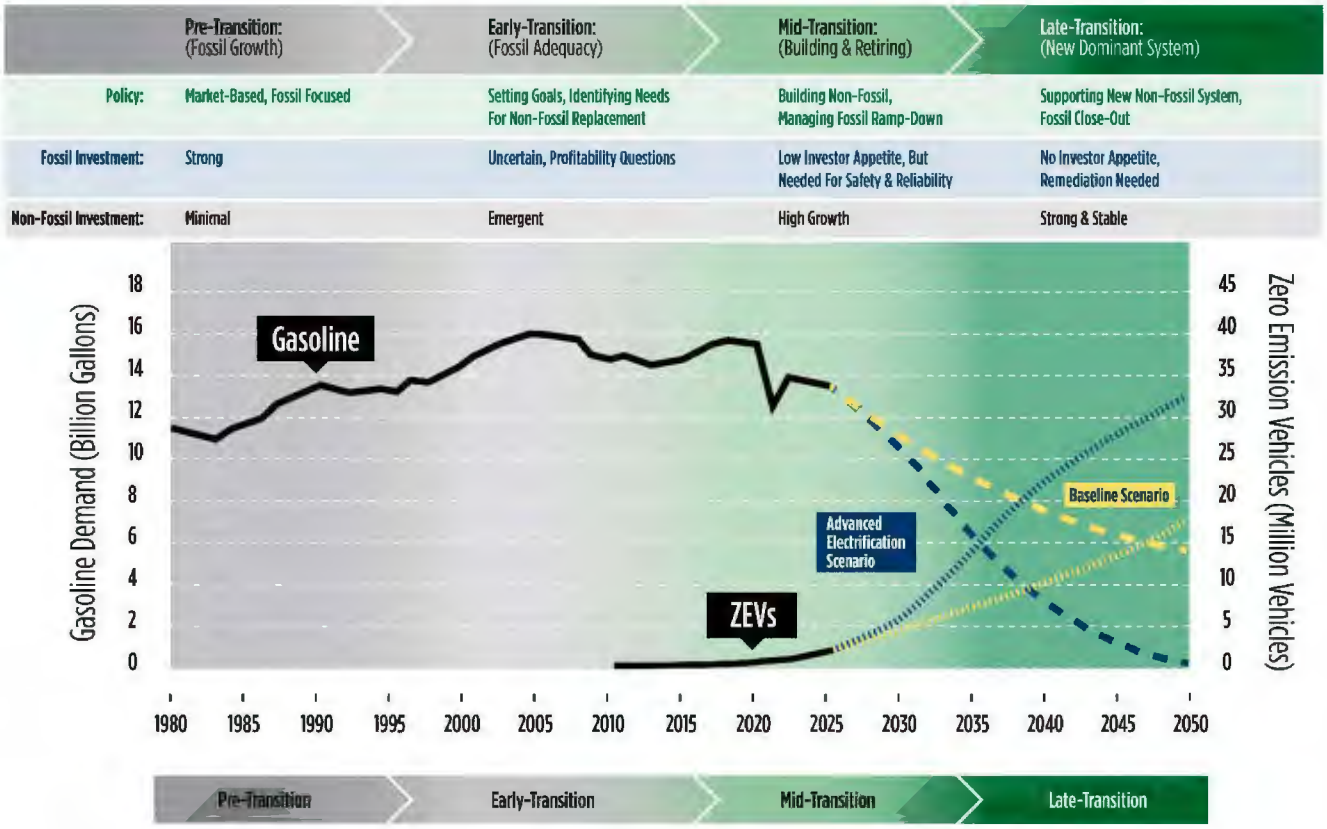

Figure 2. California has entered the mid-transition, a critical phase in which the State must not only support the growth of new clean energy systems but also manage the phase-out of their fossil-fueled predecessors. The CEC's 2024 Integrated Energy Policy Report (IEPR) includes two scenarios for gasoline demand and ZEV adoption: a baseline scenario and a higher transportation-electrification scenario.

To ensure energy reliability and economic stability, sustained investments in both legacy and emerging infrastructures are essential during the mid-transition to support the totality of market needs. Sudden and unmanaged exits of critical legacy energy infrastructure can have significant negative impacts on energy security, local governments, worker safety, consumer prices, public health, environmental protection, and the communities that depend on jobs and revenue from those industries.

To protect consumers, frontline communities, workers, the economy, and the environment, California's policies must simultaneously achieve two objectives:

1. Accelerate deployment of renewable and low-carbon technologies to sustain decarbonization momentum.
2. Establish clear mechanisms and incentives to keep legacy petroleum-based assets safe, reliable, and affordable until the new clean energy system can fully replace them.

Current analysis suggests that under today's market and regulatory conditions, California faces the prospect of continued reduction in in-state petroleum refining capacity that outpaces demand decline for petroleum-based fuels and closures of other critical parts of the state's petroleum-based fuel value chain. Without a clear, state-led transition pathway, these sudden exits create a very real risk of severe price spikes, supply constraints, and long-term liabilities at sites. The industry is likely to become more heavily concentrated with fewer but more powerful incumbent firms. Given sufficient time, the petroleum market is likely to find a new equilibrium following the disruption of a refinery closure, but in the near term, an abrupt loss of refining capacity and the increased need for imported fuel to compensate is likely to increase price volatility. Keeping in-state and imported fuel competitive will be an important balancing act moving forward, because if the state's regulatory paradigms lead to the cost of refining fuel in state exceeding the cost of importing fuel, it could further accelerate additional refinery exits.

By contrast, proactive state policy can not only prevent these potential severe risks, but also achieve a just, least-cost transition to clean energy, while securing major benefits for fenceline communities, consumers, petroleum industry workers, and the environment. It will be increasingly important to foster a competitive market open to all. Adjusting conditions that help steer the market in ways that align decline in California's petroleum-based fuel production with in-state and regional demand can also make California's energy systems more resilient in an increasingly unstable national and international context.

These market adjustments must also align with California's trailblazing climate policies. The State's longstanding commitment to protecting air quality, public health, and the environment, as well as recent actions to enhance consumer protections against gasoline retail price spikes, provide a strong foundation on which California can solve the interlocking challenges of the mid-transition. By learning the lessons of past industrial transitions and of refinery closures around the country and the world,

California can once again chart a groundbreaking policy path—this time, for the safe, effective, and necessary transition away from petroleum-based fuels.

In designing policies to manage the decline of California's petroleum fuel system, policymakers face a set of interlocking issues that must be addressed together to support a successful transition:

Reliability and Affordability of Supply: California faces an unusually tight set of constraints on its access to supplies of crude oil and refined petroleum products. Geography and the state's long energy history both largely limit the state to in-state production and marine imports. To combat air pollution and meet federally required air quality standards, California has also long used a specialized gasoline blend that is produced by a limited number of refineries worldwide. Domestic demand for this gasoline already outstrips in-state refineries' cumulative capacity. Under these supply constraints, even a single refinery outage can lead to gasoline price increases.

Increasing marine imports of gasoline to replace lost supply especially in the near term can be costly, slow, and constrained by bottlenecks in import infrastructure. Imports also introduce new vulnerabilities into the fuel supply by making the State more exposed to impacts of geopolitical events, external markets, and regulatory changes in other jurisdictions. Nonetheless, California is likely to become more dependent on imports of refined fuels if the decrease in in-state refining capacity continues to outpace declining demand and proactive planning is needed.

Safety and Reliability of Infrastructure: Petroleum refineries are high-hazard infrastructure that require regular investment in maintenance to protect workers and communities from accidents. Without policy intervention, declining capital inflows could lead to deferred maintenance and heightened dangers. Petroleum refinery accidents can pose grave health risks to workers and residents in the vicinity, and unplanned events impact fuel supply and retail prices, as well as impose unanticipated costs on petroleum refiners, potentially leading to sudden or accelerated closures. For example, Pennsylvania's PES Refinery closed suddenly in 2019 after a major explosion caused by a corroded 50-year-old pipe. Releases and spills can permanently damage entire ecosystems, with acute and chronic public health, ecological, and economic consequences, including potentially many hundreds of millions of dollars in remediation

per site and long-term withdrawal of land from other beneficial uses. It is imperative that refinery operators make necessary investments in refinery maintenance on a timely basis throughout the transition.

Employment Security: Recent petroleum refinery conversions and exits have revealed challenges for displaced workers in finding comparable employment. Workers across the petroleum value chain, including crude oil extraction, similarly face continued job losses and difficult hiring conditions in a declining field. These workers' skills will remain critical for maintaining safe and reliable fuel supplies throughout the duration of the energy transition. Moreover, existing skilled refinery craftsmen are leaving the state to seek similar work in other markets, reducing the experience level of the California petroleum refinery workforce. To retain these workers and their skills, state policy should help ensure that work remains safe and that job transitions are meaningfully supported.

Community Impacts: Petroleum refineries and other elements of the petroleum-based fuel system play significant roles in local economies but also impact the health and safety of fenceline communities. Many examples show that industrial decline can damage community safety, health, and the environment. Because fenceline communities are often dependent on their industrial facilities' tax payments, payrolls, and value chains, a single industrial closure can hollow out the local economy in ways that are very difficult to absorb. Proactive planning and resources will be necessary to prepare communities for a future without petroleum industry, including refineries, and to ensure that fossil fuel-related legacies do not cause new harm.

Smooth Transition for Successful Decarbonization: The many risks posed by an unmanaged clean energy transition also threaten California's continued climate progress. If energy prices rise and fuel supplies become less reliable during the mid-transition, support for continued decarbonization may erode. By contrast, creating clear, transparent, long-term plans for the phase-out of petroleum infrastructure can give the public confidence in the trajectory of state climate policy and create space for industry, state and local governments, and community groups to find least-cost, least-harm solutions to tackling the clean energy transition.

Strategies and Recommendations

Many impacted stakeholders, including representatives from industry, labor, environmental and environmental justice organizations, and state and local agencies continue to engage with the CEC in productively discussing the interlocking challenges of the clean energy transition. While not all groups align in their preferred strategies to address these challenges, there has been shared recognition of different constituencies' priorities and common goals. A holistic solutions framework developed from this consultation guides this response.

The cross-agency Petroleum Strategy Task Force has additionally provided valuable insight and recommendations for addressing these complex and cross-jurisdictional issues. Building off these engagements, lessons learned from transition challenges in petroleum and other sectors nationally and internationally, and previous work including the CEC's Transportation Fuels Assessment, the CEC has identified needs and opportunities to support affordable, reliable, equitable, and safe fuel supply through a managed transportation fuels transition that pursues three concurrent strategies:

1. Stabilize fuel supply through imports of refined fuels and maintaining in-state refining capacity.
2. Provide sufficient confidence to invest in maintaining reliable and safe infrastructure operations to meet demand.
3. Develop and execute a holistic transportation fuels transition strategy.

Solving the challenge of transportation fuel transition will require state policymakers to pursue solutions that achieve these three objectives together, including near-term stabilization actions as well as long-term holistic transition solutions, and that advance the state's commitment to its overarching priorities.

Strategy 1: Maintain capacity to stabilize fuel supply

TOPLINE: The CEC thinks it is prudent to immediately stabilize in-state supply by working to retain in-state refining capacity while demand persists, and by supporting sufficient imports, storage, and delivery of refined products.

PROBLEM: In-state petroleum refining capacity is declining faster than gasoline demand and the abrupt exit of a refinery has numerous consequences to consumers, workers, and communities. Northern

California is already experiencing a net regional shortage in refining capacity and is particularly vulnerable if the State fails to maintain existing Northern California refinery operations in the near term and upgrade the import infrastructure capabilities at Bay Area ports. Due to previously enacted legislation, the state receives a one-year notice prior to petroleum refinery operational changes that helps the State plan for the decline in refining capacity. To support system resilience as in-state refining capacity declines, the State needs to receive sufficient and timely volumes of marine-imported fuel.

1a: Supporting Imports of Refined Products

Background:

Crude oil, gasoline, jet fuel, and other petroleum products are imported into California via marine oil terminals, primarily at the Ports of Long Beach and Los Angeles and in the San Francisco Bay region that includes San Pablo Bay and Carquinez Strait. Gasoline refining capacity in California is already insufficient to meet demand, with the shortfall increasing during refinery maintenance events. The shortfall must be made up through marine imports of refined product. To keep fuel supply and prices stable, the import process must be efficient and surge capacity must be preserved. Investments in third-party marine oil terminals, facilities where oil and petroleum products are stored, are key to incrementally increasing import capacity; these terminals are not associated with one individual refiner and can be utilized by multiple market participants, which in turn increase market competition and protects consumers. Greater import capacity will be necessary to maintain resilience in the system as refining capacity in California continues to fall.

Permitting delays and investment uncertainty can be barriers to repairing, optimizing and increasing import, storage, and delivery capacity – in some instances, permit delays can obstruct project completion by months or years. While the rate at which import reliance will increase is uncertain, State action is needed in the short term to make sure California has an adequate supply of fuel to reliably and affordably serve demand. Projects that increase import capacity, without permitting delays, can take anywhere from three to 24 months, with most projects such as dock improvements or pipeline modifications taking between 12 and 18 months. Specific challenges and opportunities to increase capacity and efficiency vary by location and facilities.

Recommendations:

- Support confidence for the private sector to invest in import, storage, and delivery infrastructure through sector-wide regulatory coordination (see Strategy 2).
- Address regulatory and permitting issues to import capacity and efficiency, especially in regions with major refining capacity loss.
- Establish an interagency workgroup that includes the CEC, the State Lands Commission, relevant Air Districts, local governments, and ports to develop a plan to improve coordination, establish clear lines of communication to prioritize critical energy infrastructure projects, enhance early public engagement, and identify efficiencies and reduce redundancies in permitting.
- Explore ways to increase the throughput capacity of third-party terminals to receive and distribute gasoline and jet fuel.

1b: Prudent Retention of In-state Refining Capacity

Retaining in-state refining capacity while demand for refined fuel persists supports the resilience of the transportation fuels system in California. It can also maintain employment and local revenue while giving workers and communities time to plan for the future.

The CEC is engaging with market players to explore strategies to retain operations at existing refineries.

Strategy 2: Provide sufficient confidence to industry to invest in maintaining reliable and safe operations to meet continued demand

TOPLINE: System-wide needs must be addressed in the near term to protect consumers and fenceline communities and ensure needed investments are made to safely meet demand while achieving climate goals and public health protective standards.

PROBLEM: Increasing petroleum business uncertainty in California is leading to reduced industry confidence to invest in the state as they continually seek other, higher-return opportunities. This has prompted company decisions to discontinue operations in California, especially when faced with significant investment decisions (e.g. refinery turnarounds) and uncertain future returns on those investments. Disinvestment in fossil infrastructure with closure on the horizon poses risk to safety and reliability. Due to the interdependencies of the petroleum

value chain (up-, mid-, and downstream), disruptions can have widespread consequences to the entire system (Figure 1). Additional closures and operational challenges elsewhere in the value chain (e.g. viability of crude oil pipelines with low throughput volumes) are likely in the near term and inevitable in the long term.

Industry participants have identified several intersecting regulatory and administrative issues in maintaining system-wide stability: crude oil extraction and delivery, CEC's regulatory tools, At-Berth regulations, Cap-and-Trade, and issues related to other regional, state and local authorities. CEC continues to engage with a wide range of impacted stakeholders and communities to discuss these issues and possible solutions. While not all groups are unified in their preferred approach to these challenges, there has been general recognition of the benefit of a holistic approach and strategically aligning state and local regulation of the petroleum system to support the achievement of state goals and priorities.

In consultation with industry, labor, fenceline communities, and the cross-agency Petroleum Strategy Task Force, the CEC has identified a suite of measures to bolster confidence in the California market and ensure reliable and safe operations during the transportation sector's mid-transition. These measures are organized into two tiers:

- Tier 1 – Immediate Actions: Options for near-term adoption via administrative directives or statutory modifications.
- Tier 2 – Further Exploration: Options requiring additional analysis, stakeholder consultation, and impact assessment before implementation.

Tier 1: Issues to Prioritize for Immediate Action

1. Stabilizing In-State Crude Oil Production and Distribution.

Background:

Crude oil production in California in recent years has dropped far faster than demand from in-state refineries, largely because of California Environmental Quality Act (CEQA) litigation that stalled crude oil production permitting in Kern County. That decline in in-state crude oil production has forced a shift toward increased foreign and Alaskan crude oil imports. This rapid decline in crude production introduces several challenges that include:

- *Refinery Adaptation Challenges and Cost Pressures:* Many California refineries were engineered for the specific qualities of local crude oil. Several refineries are not logistically well set up to receive waterborne imported crude. Without retrofit investment, they incur higher processing costs and reduced efficiency when processing imported crude.
- *Pipeline Throughput Decline and Infrastructure Risk:* California has a network of pipelines, primarily from Kern County, that deliver crude oil to in-state refineries. Reduced in-state crude production has driven several crude pipelines to shut down due to low throughput. Several remaining crude oil pipelines now run intermittently due to low volumes, inflating crude transportation costs.
- *Exposure to Geopolitical Risks:* Relying heavily on imported crude oil ties California's energy security to volatile foreign-policy dynamics and geopolitical tensions.
- *Economic and Fiscal Impacts:* The contraction in domestic crude oil production erodes high-wage jobs and shrinks local tax bases, placing additional strain on oil-dependent communities and public services.

Recognizing the interdependence between in-state crude oil production and related critical infrastructure across the petroleum value chain, we think it is prudent to stabilize in-state crude production to support resilience in the petroleum system.

Recommendation:

As part of a managed transition strategy, we recommend that the State take action to achieve targeted stabilization of crude oil production in California to supply in-state refineries while ensuring that production is consistent with critical health and environmental protections. Specifically, limited production that is needed to achieve targeted stabilization should be prioritized in existing established, and densely developed oilfields, and outside of Health Protection Zones (HPZs) surrounding homes, schools, and other sensitive receptors where new permitting is prohibited by law; and production should not include methods that are prohibited by important environmental protection laws, such as California's ban on new offshore oil and gas leases and California's ban on well stimulation treatments.

The Legislature may wish to consider, for example, statutory changes to declare the Kern County Zoning Ordinance Second Supplemental Environmental Impact Report (SCH20130879) in compliance with CEQA and conclusive for purposes of its use by responsible agencies to allow the County's ministerial approval of oil and gas wells with the mandatory mitigation measures identified in the ordinance. This change would allow for a more appropriate amount of extraction in Kern County's well-established oil fields. While clarifying that oil extraction on those already-disturbed lands, away from neighborhoods, is permissible, the Legislature may also wish to expand the current limitations on new offshore oil and gas development and codify the ban on well stimulation treatments in statute.

Additional legislative or administrative actions could include a targeted regulatory framework that ties crude production and permitting more directly to demand over the transition period. The objective would be to facilitate more timely, predictable, and legally durable permitting for crude oil production outside of HPZs in established, densely developed oilfields coupled with a requirement to permanently seal at least two wells for each new well drilled – one located in that same oilfield and the other located in an HPZ. This would facilitate a managed production decline that aligns with and adapts to declining demand throughout the transition to create more certainty, maintain critical infrastructure investment, and protect consumers, workers, and fenceline communities.

2. Regulatory Tools.

Background:

Several intersecting regulatory authorities supporting the achievement of the State's climate, public health, and consumer protection priorities impact the petroleum industry. Strategic implementation of the State's suite of regulatory tools can support the necessary investment confidence to retain safe and reliable industry operations and achieve policy goals.

To protect California consumers from extraordinary spikes in retail gasoline prices, such as those during 2022 and 2023, you called for two special sessions of the Legislature in 2023 and 2024 resulting in the passage of SB X1-2 (Skinner, Chapter 1, Statutes of 2023 First Extraordinary Session) and AB X2-1 (Hart, Chapter 1, Statutes of 2024 Second Extraordinary Session). These efforts collectively:

- Expanded the CEC's data collection authority that significantly increased transparency into various aspects of the petroleum market and helped identify the key factors that contribute to fuel price volatility;
- Created a new independent market oversight division, the Division of Petroleum Market Oversight (DPMO), responsible for oversight, investigations, economic analysis, and policy recommendations regarding the transportation fuels market;
- Required development of two planning efforts 1) an assessment of California's transportation fuels market with potential strategies to address price spikes, and 2) a Transportation Fuels Transition Plan with CARB; and
- Provided CEC with new regulatory authorities to mitigate retail gasoline price spikes and protect consumers: establishing a maximum gross gasoline refinery margin (GGRM) and penalty, setting minimum inventory requirements for refiners, and establishing resupply requirements for planned refinery maintenance events.

The Legislature required that CEC engage in careful consideration of the impacts to consumers and the petroleum sector from implementing the new regulatory authorities. The CEC has exercised caution by focusing on gathering the necessary information to develop a holistic view of the petroleum value chain and establishing the best ways to protect consumers during this transition.

To protect the public health of local communities near ports, CARB adopted its at-berth regulation in 2007 to address emission reductions from ocean-going vessels when they are docked at California ports. The regulations were most recently amended in 2020 and as of January 2025, crude oil and petroleum product tankers at the Port of Los Angeles and the Port of Long Beach are subject to the regulation.

The majority of tanker industry partners are complying with the regulation through one of two approved pathways: (a) the Innovative Concepts, an alternative compliance approach that applies the emissions reductions from approved projects towards vessel visits, or (b) the Remediation Fund, used as an interim solution until their chosen primary control

technologies—such as shore power or barge-based capture systems—are installed. One barge-based system for tankers has received CARB approval, with additional systems under review. Small terminals may comply under the low-use exception or by using the Remediation Fund in combination with barge-based systems or shore power as approvals are finalized. While systems are undergoing approval, capture and control companies can offer research exceptions to vessel and terminal operators for participating in testing. Tankers will be subject to the regulation at all ports as of January 2027.

AB 32 (Nuñez, 2006) enables CARB to implement programs that are globally recognized as cost-effective tools for reducing carbon pollution and for generating billions in proceeds to support investment in innovative and pollution-reducing projects. One of these tools is the Cap-and-Trade program, which was officially launched in 2012 and carefully balances the steady decline of greenhouse gas emissions, provides utility ratepayer benefits through the climate credit, and provides industry credits to mitigate for leakage. Petroleum market participants are regulated entities under the Cap-and-Trade program.

Recommendation:

The CEC believes that its available refinery regulatory tools should be implemented holistically and prudently to maximize consumer benefit and avoid unintended consequences. The CEC's analyses have demonstrated a relationship between California's volume of gasoline inventory ("days of supply") and retail prices, whereby low inventory volumes are associated with higher retail prices. The CEC sees value in continuing to assess, in collaboration with the industry, how the resupply and minimum inventory strategies could be implemented to promote market liquidity during refinery outages and stabilize prices.

The CEC has determined that additional analytical work is necessary to establish a maximum GGRM and to impose a penalty for exceeding it that would protect California consumers as intended.

In order to prioritize CEC's development and implementation of the resupply and/or minimum inventory regulatory tools, we recommend that the CEC adopt a pause for a reasonable length of time on implementing a maximum GGRM and penalty.

We recognize that there are challenges in technological compliance specifically for tanker vessels and that the regulation can add unanticipated cost and operational burden. We recommend that you request that CARB meet with each refiner and terminal covered by the at-berth regulation and discuss current status and barriers to implementation of all technical tools intended to achieve emissions reductions from tankers at berth to assess the timelines for deployment of those emissions reductions.

We recommend that the Air Resources Board continue to work on the regulatory process for continued implementation of the Cap- and-Trade program, including progress towards required targets, cost containment strategies and minimizing leakage.

Tier 2: Issues for Further Exploration

3. Local and Regional Authority.

Background:

Petroleum infrastructure is subject to various local and regional regulations and often requires permits from a variety of local agencies.

In California, the local air districts have primary authority to regulate all non-mobile pollution sources of air pollution, including stationary sources. This means that local air districts are responsible for adopting regulations to reduce emissions from stationary sources, such as refineries, and for permitting of these sources. All districts with refineries have adopted, implemented, and are enforcing regulations to reduce emissions from the refineries. The regulations reflect the air quality issues in each area and aim to address criteria pollutant emissions in order to comply with the federally enforceable State Implementation Plan, and toxic emissions that impact local communities. The district permits generally require facilities to be in compliance with all applicable regulations, depending on the district and the facility type.

Industry has asserted that the stringency, inconsistency, and compliance costs of air quality requirements placed on refineries, along with extended permitting timelines at air districts and other local and regional agencies, pose uncertainty and risk to their longer-term planning. Industry also has asserted that the potential for new local taxation, fees, and regulatory initiatives causes significant investor uncertainty.

Recommendation:

As noted above, we recommend the formation of an interagency working group to address immediate coordination challenges. In addition, we recognize the importance of working with the Legislature and local stakeholders to address concerns. We think the Administration should consider partnering with the Legislature to advance solutions to strategically align regulations and permitting processes across all levels of government that could best support achievement of State policy goals.

Strategy 3: Holistic Transition Strategy

TOPLINE: Near- and medium-term actions must be part of a holistic transition strategy that is built on shared understanding, collaboration, and development of policies across state agencies and stakeholders. A managed transition is critical for protecting Californians and will depend on coordination and collective action.

PROBLEM: Transitioning California's transportation fuel system away from petroleum-based fuels is providing substantial benefits to consumers, workers, communities, and the environment, but an unmanaged transition poses significant and acute risks to safety, health, environment, economy, and affordability.

While concurrently addressing the previous objectives, the State should implement policies and plans to support a successful transition, which could include:

- Identify and pursue necessary transition funding to support climate, health, community, and worker priorities.
- Protect workers and communities such as through robust process safety management regulations at refineries, which has the added benefit of increasing reliability of the facilities.
- Support and protect California's authority to set emission standards and achieve climate goals.
- Further California's ability to diversify and evolve its transportation sector to comply with federal and state air quality standards and meet climate goals, such as by continuing to expand the availability and reduce the cost of ZEVs.
- Identify challenges, opportunities, and strategies for the future of land affected by the transition (e.g. remediation, marketability, and

value), such as Asset Retirement Obligations and standards for refinery remediation and decommissioning plans.

- Evaluate whether new approaches to California's fuel specifications could continue to protect public health and meet federally required air quality standards while making the State more resilient to disruptions during its fossil fuel transition.
- Continue to evaluate additional options presented in the Transportation Fuels Assessment, e.g. product reserve and production enhancement strategies such as E15 or Reid Vapor Pressure (RVP) modification.
- Explore further pathways to increase resilience in the system, such as improving connectivity between Northern and Southern California fuel markets, e.g. through increased marine oil terminal capacity or repurposing of existing fossil fuel transportation infrastructure.
- Develop strategies that can support a managed phase-out especially during the late transition phase of the transportation sector, such as state management or ownership of assets.

Conclusion

The problems laid out in this letter are complex but solvable. California has entered a critical but challenging phase in its transition to a decarbonized transportation sector, which is made more challenging by California's unique petroleum market, global changes in the refining sector and across the petroleum value chain, and new disruptions at the federal level. The strategies and recommendations laid out here represent our careful, comprehensive, collaborative assessment of the petroleum market and the future of the clean energy transition.

Thanks to your leadership and commitment and the expertise of agencies, stakeholders, and communities, California is rising to the challenge. Equipped with new data made available by forward-thinking policies led by you and the Legislature in the past two years, we have a much clearer understanding of the causes of gasoline price spikes and the strategies needed to protect consumers and communities in the future. We are working closely with a broad range of partners to continue to evolve the State's approach so that we may successfully 1) accelerate momentum to decarbonize California's economy, and 2) ensure that

petroleum firms can continue to supply petroleum-based fuels while the clean, alternative fuels continue to scale.

We are thankful for the opportunity to share this analysis with you, the Legislature, our partners, and the public. We look forward to collaborating with the Legislature, state and local agencies, industry partners, and impacted stakeholders to ensure a reliable, affordable, and safe clean energy future for all Californians.

Sincerely,

G. S. Gundha

Siva Gunda
Vice Chair
California Energy Commission