Michael Nemeth

Please see my attached comments.

March 9, 2026

California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Public Comment on Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Invest Program)

Dear Chair Sanchez and Members of the Board:

I am writing to submit public comment on the proposed amendments to the Cap-and-Trade Program, now rebranded as the *Cap-and-Invest Program*, as set forth in the Initial Statement of Reasons (ISOR) released January 20, 2026. I respectfully urge the Board to abandon the proposed amendments and instead pursue the complete termination of this program. The Cap-and-Trade program has inflicted severe and disproportionate economic harm on working-class Californians, and these proposed amendments, which are explicitly designed to tighten allowance supply and drive up the carbon price signal, will dramatically deepen that harm. Renaming the program does not change its fundamental nature as a regressive cost imposed on those least able to bear it.

The Proposed Changes Will Drive Costs Higher By Design

The ISOR is transparent about the fact that these amendments are designed to increase carbon prices. The proposed amendments would remove approximately 118 million allowances from the 2027 through 2030 budgets and establish a post-2030 cap trajectory declining to just 30.3 million allowances by 2045. The ISOR further proposes diverting 1 percent of each year's post-2030 budget, totaling approximately 13.7 million allowances from 2031 to 2045, to the Allowance Price Containment Reserve. On top of this, the new "offsets under the cap" mechanism mandated by AB 1207 will remove additional allowances from future budgets based on 6 percent of verified emissions whenever compliance offsets are used, further constricting supply.

Current allowance prices sit at approximately $28 per ton, near the program's price floor of $26. These amendments are specifically designed to push that price substantially higher. The ISOR projects $3.5 billion in increased Greenhouse Gas Reduction Fund revenue through 2035 and

$9.7 billion in increased utility allowance auction revenue through 2046. This projected revenue does not materialize out of thin air. It comes directly from higher costs imposed on California's businesses and consumers. Higher allowance prices translate directly to higher gasoline, diesel, and natural gas costs for every household and business in the state. The California Energy Commission's own data shows that the Cap-and-Trade program currently adds approximately $0.24 per gallon to gasoline costs at present allowance prices. As allowance prices increase under the tightened budgets, this per-gallon impact will grow significantly.

The Cost Burden on Working Californians

California gasoline prices currently average approximately $5.16 per gallon according to AAA as of early March 2026, while states like Oklahoma, Mississippi, and Texas average under $2.70. This differential of more than $2.00 per gallon represents an enormous transfer of wealth out of the pockets of working families. Taxes and regulatory costs, including the state excise tax, federal excise tax, sales tax, LCFS requirements, and Cap-and-Trade allowance costs, contribute between $1.25 and $1.64 per gallon depending on the period measured, representing roughly a quarter to a third of the price at the pump. According to a study by Professor Michael Mische of USC's Marshall School of Business, the total regulatory burden amounts to approximately $1.64 per gallon.

This burden falls hardest on those who can least afford it. Low-income households spend a significantly larger share of their income on fuel and transportation than wealthier households. A single parent commuting from Riverside to a job in Los Angeles, a farmworker driving to the fields in the Central Valley, a small business owner running a delivery service: these are the people who pay the real price for this program every single day. As Andy Walz, Chevron's President of Downstream, Midstream and Chemicals, stated in his March 2026 letter to the Governor, "These impacts will fall most heavily on lower-income households that spend a disproportionate share of income on transportation fuels." The Cap-and-Trade program functions as a deeply regressive tax, and no amount of rebranding it as "Cap-and-Invest" changes that reality.

The ISOR's own Standardized Regulatory Impact Assessment acknowledges that higher allowance prices will increase costs for covered entities and that these costs will be passed through to consumers. The Board's response, pointing to the California Climate Credit on utility bills and GGRF-funded programs, is wholly inadequate. The Climate Credit returns a fraction of what consumers pay in increased energy costs, and the GGRF appropriations process offers no guarantee that revenues will reach the communities most burdened by higher fuel and energy prices. The proposed shift of free allowances from natural gas suppliers to electric distribution utilities will further increase natural gas costs for the millions of California households that still

rely on gas for heating and cooking, particularly in lower-income communities that cannot afford to electrify their homes.

The Program Is Driving Refineries Out of California

The cumulative effect of this program and the broader regulatory environment it anchors is the systematic destruction of California's refining capacity. In the early 1980s, California had more than 40 operating refineries. By the end of 2026 there will be only 11, according to the American Petroleum Institute. Phillips 66 ceased crude oil processing at its Wilmington refinery in October 2025, and Valero is shutting down its Benicia facility by late April 2026. Together, these closures eliminate approximately 284,000 barrels per day of processing capacity, representing roughly 17 percent of the state's total refining infrastructure.

Chevron, which relocated its corporate headquarters from San Ramon to Houston, Texas in 2024, wrote directly to the Governor's office in March 2026 warning that the proposed Cap-and-Invest regulatory changes will, in the words of Andy Walz, Chevron's President of Downstream, Midstream and Chemicals, "cripple the survivability of the state's remaining refineries, which will result in California losing the entire industry to this misguided program." Chevron's projections show gasoline prices will increase by more than one dollar per gallon by 2030 as a direct result of these regulatory changes. PBF Energy has similarly warned CARB that the proposed amendments "will inevitably drive in-state refining capacity to zero." Separately, UC Davis economists project an additional $1.21 per gallon increase by August 2026 from the refinery closures alone.

California is not connected to the national fuel pipeline network. Most gasoline consumed in the state must be refined in-state due to California's unique CARBOB fuel blend requirements. When refining capacity disappears, it cannot be readily replaced with out-of-state supply. As UC Davis researchers have noted, "refiners and retailers cannot simply buy gasoline from other states in a pinch to meet demand." The Board's ISOR speaks of maintaining "elevated free allocations" to industrial entities to prevent emissions leakage, yet the trajectory of the program makes long-term refinery operation in California economically unviable. Free allocations do not solve the fundamental problem when the overall cap is declining to 30.3 million allowances by 2045, a level that is incompatible with the continued existence of petroleum refining in California. The Board is overseeing a policy that is simultaneously increasing the cost of producing fuel while making the state entirely dependent on a shrinking base of in-state production. This is not a sustainable policy. It is an economic trap, and working-class Californians are the ones caught in it.

The Proposed Amendments Remove What Little Accountability Remained

The proposed amendments redefine "Price Ceiling Units" in a manner that eliminates the previous requirement that revenues generated from their sale be used to achieve emission reductions on at least a metric ton for metric ton basis. Under the proposed language, proceeds are instead deposited into the "California Climate Mitigation Fund" with no equivalent accountability mechanism. This change reveals the program's true trajectory: it is evolving from a market-based emissions reduction mechanism into an unconstrained revenue extraction tool. The Board is asking Californians to pay ever-increasing costs at the pump with no assurance that the money collected will produce commensurate environmental benefits.

This concern is reinforced by the program's own revenue history. Through Q4 2025, quarterly auctions have raised over $34 billion in GGRF revenues, a figure confirmed in the ISOR itself. Yet the ISOR projects that the proposed amendments will generate an *additional* $3.5 billion in GGRF revenue through 2035 and $9.7 billion in utility auction revenue through 2046. This is not a climate program that has reached a steady state. It is a program whose architects are deliberately engineering cost escalation to maximize revenue collection. The question the Board must answer is: at what point does the economic damage to California's working families outweigh the claimed benefits?

The Human Cost Is Real and Growing

Professor Michael Mische of USC's Marshall School of Business has warned that the combined effect of refinery closures and the regulatory cost burden could push gasoline prices to between $7.35 and $8.43 per gallon by the end of 2026. Even if more moderate projections prevail, any significant increase will have cascading effects across the California economy. Higher fuel costs raise the price of food, goods, services, and transportation. They increase operating costs for small businesses. They push more families toward financial insecurity.

According to UC Davis economists, the California price gap relative to the national average has grown from approximately $0.25 per gallon in 2000 to $1.50 per gallon in 2025. This trajectory directly mirrors the expansion of programs like Cap-and-Trade, the LCFS, and the state's excise tax increases. Working-class Californians are not experiencing these costs as abstractions. They are choosing between filling their gas tanks and paying their rent. They are leaving the state. California's population decline in recent years is driven in significant part by the cost of living, of which energy costs are a major component.

The ISOR claims $123 billion in cumulative health benefits from 2027 through 2046 and $192 to $486 billion in "avoided future global climate damages." These figures rely on speculative modeling, long-range projections, and the social cost of carbon, a metric whose values vary enormously depending on discount rates and modeling assumptions. Meanwhile, the costs to California consumers are immediate, concrete, and measurable at the pump every week. The Board cannot credibly claim to be protecting Californians from climate impacts while

simultaneously implementing policies that make basic transportation and heating unaffordable for millions of residents today.

Request for Action

I urge the Board to take the following actions:

1. Reject the proposed amendments in their entirety. The removal of 118 million allowances from 2027 through 2030 budgets, the declining trajectory to 30.3 million allowances by 2045, the offsets-under-the-cap mechanism, the APCR diversions, the natural gas supplier allocation shift, and the elimination of ton-for-ton accountability for price ceiling revenues will collectively impose enormous costs on California consumers with no credible assurance of proportionate benefit.

2. Initiate proceedings to wind down and terminate the Cap-and-Trade program. The program has failed to deliver emission reductions commensurate with its economic cost and has instead driven productive capacity out of the state while imposing a regressive burden on working families. California's emissions have declined 21 percent since 2000, but the relevant question is how much of that reduction is attributable to Cap-and-Trade versus the suite of complementary regulations, technology improvements, and economic shifts that would have occurred regardless.

3. Conduct a comprehensive and independent economic impact analysis that honestly accounts for the program's role in refinery closures, gasoline price increases, cost-of-living escalation, population outmigration, and the disproportionate burden on low-income and working-class households. The ISOR's economic analysis is conducted by the same agency that administers the program and has an institutional interest in its continuation. It cannot be considered independent.

4. Prioritize energy affordability and reliability over revenue generation. Climate policy that impoverishes the people it claims to protect is not good policy. It is a policy that has lost sight of its purpose. The Board should not be engineering deliberate cost escalation at a time when two major refineries are closing, gasoline imports are surging, and millions of Californians are already struggling with the highest fuel costs in the nation.

The working people of California deserve a government that considers the full economic consequences of its regulatory actions. The Cap-and-Trade program has become an engine of

inequality, raising the cost of living for those at the bottom while generating tens of billions in revenue that flows through bureaucratic channels with diminishing accountability. I respectfully request that the Board act in the interest of the millions of Californians who cannot absorb another dollar-per-gallon increase in fuel costs.

Respectfully,

Michael Nemeth