California Resources Corporation (Andrew Cochrane)

Please find attached California Resources Corporation's comments on the April 14, 2026 15-day modifications to the proposed amendments to the Cap-and-Invest Regulation and Mandatory Greenhouse Gas Emissions Reporting Regulation, submitted on behalf of Jason Marshall, Vice President – Regulatory Affairs.

CRC appreciates CARB's consideration of these comments and looks forward to continued engagement as this rulemaking proceeds.

CALIFORNIA RESOURCES

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California Air Resources Board
1001 I Street
Sacramento, CA 95814

Submitted electronically

Re: 15-Day Proposed Amendments to the Cap-and-Invest Program

Dear Chair and Board Members:

California Resources Corporation (CRC) appreciates the opportunity to comment on the 15-day changes to the California Air Resources Board's (CARB's) proposed amendments to the Cap-and-Invest (C&I) Program. CRC is an independent energy and carbon management company committed to providing affordable, reliable energy to Californians while advancing the state's climate objectives. We strongly support California's goal of achieving net-zero greenhouse gas emissions by 2045 and actively invest in technologies necessary to meet that target.

CRC respectfully requests that CARB:

1. Finalize a Board-approved CCUS quantification methodology and permanence requirements in this rulemaking to provide the regulatory certainty necessary to secure investment in large-scale decarbonization projects;
2. Expand Manufacturing Decarbonization Incentive eligibility to include the retrofit of existing natural gas power generation and cogeneration facilities with carbon dioxide capture equipment that connects to sequestration/storage facilities, adopt an allocation methodology that delivers the incentive at the capital-formation state rather than only after commissioning, and confirm that oil and gas extraction is eligible for the full set of MDI pathways found in Section 95891(g)(2)(A)-(G), and not limited to Section 95891(g)(2)(H);
3. Reclassify NAICS codes 211111 and 211112 into the Standard Activities column of Table 9-2, consistent with their High leakage risk designation in Table 8-1; and,
4. Include an interim compliance crediting mechanism for CO_2 stored in federally permitted Class VI sequestration projects.

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

I. Background

CRC operates oil and gas fields throughout California and supplies in-state refineries that produce fuels upon which Californians rely. CRC also operates electric generation facilities supporting its operations and providing affordable and reliable electricity to the grid. Through our Carbon TerraVault business, CRC develops CCUS and carbon dioxide removal (CDR) projects designed to permanently store CO_2 underground. CRC recently broke ground on California's first CCUS project at Elk Hills in Kern County and anticipates initial CO_2 injection in Spring 2026.

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

California is a closed-loop market. In-state crude production supplies in-state refineries, and the economic viability of upstream production depends on the stability of in-state refining and midstream infrastructure. Regulatory changes that materially increase compliance costs for refiners risk accelerating capacity reductions, increasing dependence on imported crude and refined products, and elevating lifecycle greenhouse gas emissions through emissions leakage. A diminished in-state refining sector would also reduce demand for California-produced crude and emerging CCUS services, weakening investment in both energy production and carbon management. We urge CARB to give due consideration to the concerns of California refiners regarding the economic implications of these proposed regulations.

CARB is statutorily obligated to design regulations that achieve emission reductions in a manner that is cost-effective, minimizes leakage, and preserves affordability.[1] CARB should evaluate the 15-day amendments against those requirements.

II. Carbon Capture and Sequestration (Section 95852.3)

A. Regulatory Certainty Drives Investment

CRC strongly supports inclusion of a CCUS compliance pathway and agrees with CARB's stated conclusion that "…there is no path to carbon neutrality without carbon removal and sequestration."[2] The 15-day amendments, however, do not resolve the core concern CRC raised in its March 9, 2026, letter. The proposed regulation still does not provide sufficient certainty regarding the methodology, permanence standards, or timing under which stored CO_2 will reduce compliance obligations.

[1]HSC §§ 38562(b)(1)(A), 38562(b)(7), 38562.2(c)(1), 38562.2(d)(2) (2022).
[2]California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (p. 84).

Regulatory certainty drives investor confidence. Large-scale CCUS projects require capital commitments of hundreds of millions of dollars. That capital competes directly with projects in jurisdictions that offer defined, durable compliance frameworks. Capital providers cannot underwrite a compliance pathway that depends on a future rulemaking of unspecified timing. Without a Board-approved quantification methodology in this rulemaking, investors will continue to discount or decline California projects, and capital will flow to other states.

CRC recognizes that the proposed rule includes a crediting mechanism for CCUS projects. However, the rule defers full implementation of that provision until CARB adopts a "…Board-approved…quantification methodology…" referenced in Section 95852.3 but not included in this proposed rule. CARB should adopt the quantification methodology and permanence standards in this rulemaking. Continued delay will result in a corresponding delay in the development and deployment of CCUS capacity, and California will fall short of the deployment levels assumed in the 2022 Scoping Plan.[3]

B. Adopt Subpart RR in This Rulemaking

CARB has proposed adopting 40 C.F.R. Part 98, Subpart RR into the Mandatory Reporting Regulation (MRR), building on its prior adoption of Subpart PP. Together, Subparts PP and RR provide comprehensive accounting of Scope 1 greenhouse gas emissions associated with CCUS projects. CARB should designate Subpart RR as the approved quantification methodology for purposes of the Cap-and-Invest Program in this rulemaking. Adoption of Subpart RR for C&I purposes would provide immediate regulatory clarity, harmonize state and federal requirements, avoid duplicative rulemakings, and maintain environmental integrity consistent with Health and Safety Code § 39741.1.[4] Failure to designate a defined methodology in this rulemaking will delay CCUS deployment.

C. Adopt CCUS Permanence Requirements in This Rulemaking

CARB appears to anticipate adopting additional requirements to ensure permanence and compliance of CCUS projects. CRC does not object to the development of regulations implementing these statutory requirements. CARB should, however, adopt those requirements in the current rulemaking to provide regulatory certainty. Adoption of Subpart RR within the MRR, together with clear permanence and compliance provisions, would give CARB the elements it needs to designate a Board-approved quantification methodology and allow CCUS projects to reduce C&I compliance obligations.

CCUS projects require enormous capital investment. Companies will not proceed without assurance that stored CO_2 will reduce compliance obligations in a predictable and timely manner. If CARB will not finalize an approved methodology in this rulemaking, it should complete that rulemaking as soon as possible. The CARB 2022 Scoping Plan targets California to achieve 20 million metric tons of annual sequestration by 2030. CRC alone has sought permits for 9 Class VI injection projects across CA, with a total annual sequestration capacity of over 16 million metric tons per year. With development lead times of over 4 years from the point of final investment decision, we need to have regulatory certainty within the next 9 to 12 months if we are to achieve the 2022 sequestration targets.

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[3]California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (pp. 93, 222).
[4]HSC § 39741.1 (2022).

D. Do Not Penalize Early Adopters

The proposed structure creates a perverse incentive. Entities that wait to deploy CCUS will benefit, while those that invested early under state encouragement are disadvantaged. CRC has installed pre-combustion CO_2 capture at Elk Hills and expects to begin injection into a federally approved Class VI sequestration project in Spring 2026. Under the current proposal, CRC would surrender allowances for CO_2 that is permanently stored until CARB completes a future rulemaking adopting a quantification methodology. This outcome contradicts statutory direction to encourage early action and undermines investment confidence.[5]

If CARB declines to finalize a methodology in this rulemaking, it should include an interim provision allowing exclusion from compliance obligations for CO_2 stored in federally permitted Class VI projects that meet Subpart RR requirements.

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

CRC appreciates that the 15-day amendments add a CCUS pathway to the Manufacturing Decarbonization Incentive (MDI) under Section 95891(g)(2)(H). This change acknowledges CCUS as a core decarbonization pathway, critical to the 2022 Scoping Plan and achieving California's GHG targets. Two targeted changes remain necessary to make the MDI effective for California's near-term decarbonization opportunities.

A. Include Natural Gas Power Generation with CCS, Including Cogeneration

CARB should extend MDI eligibility to the retrofit of existing natural gas power generation with CCS, including cogeneration. Retrofitting existing natural gas generation with carbon capture represents the largest near-term decarbonization opportunity for CRC and the state. These facilities require capital-intensive, long-cycle investment and will not proceed without a defined incentive and a clear compliance pathway.

As drafted, the MDI does not reach these facilities. Natural gas power generation does not receive industrial allowance allocation under Section 95891(b) or (c), a prerequisite for MDI eligibility under Section 95891(g)(1)(A). The pathway with the greatest near-term potential to decarbonize dispatchable generation therefore sits outside the program — a gap inconsistent with the Scoping Plan's reliance on CCUS at existing fossil-based electric generation to achieve carbon neutrality.[6]

California's climate planning already relies on this pathway. The 2022 Scoping Plan applies CCS to 16.7 MMT of CO_2 from existing fossil gas electricity generation in 2045 to achieve the 85 percent anthropogenic emissions reduction required by AB 1279, and identifies earlier application as additive to those 2045 reductions.[7] The California Energy Commission's 2025 SB 100 Joint Agency Report Draft

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[5]HSC § 38562(b)(1)(A) (2022).
[6]California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (pp. 2-1, 96, 201).
[7]California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (pp. 86, 201).

Results carries that direction into resource planning: the Reference portfolio includes 1,600 MW of CCS retrofits, modeled compliant 2045 portfolios select CCS retrofits, and a 15 GW Carbon Capture scenario emerges as the lowest-cost pathway to the state's GHG goals.[8] The C&I Program should reflect the same premise: if the state's compliance pathway depends on these retrofits, the state's principal industrial decarbonization incentive should fund them.

Closing this gap requires CARB to (i) extend MDI eligibility under Section 95891(g) to retrofits of existing natural gas combined cycle, cogeneration, and peaker facilities that install carbon capture and storage, and (ii) adopt an allocation methodology that delivers the incentive at the capital-formation stage, not after commissioning. An output-based methodology that allocates per MWh of low-carbon generation delivered would credit performance only after CCS becomes operational — too late to underwrite the capital decisions these projects require today. CRC recommends a capacity-based allocation: CARB issues allowances scaled to the host facility's permitted nameplate capacity (MW), conditioned on a binding commitment to commission CCS. This approach front-loads the incentive to the stage where developers need it, scales with the size of the decarbonization opportunity, and uses the same conceptual basis as other Section 95891 industrial benchmarks.

This approach scales with the size of the decarbonization opportunity, fits within Section 95891's existing allocation architecture, and avoids the need for a new electricity-sector cap. CRC recognizes this is new methodological work and stands ready to work with staff on baseline determination, benchmark setting, milestone definition, and coordination with existing electricity-sector allocation provisions. Deferring this work to a later rulemaking forecloses the near-term investment window for these retrofits.

That window is concrete, not hypothetical. Active development in California now covers approximately 1 GW of natural gas generation with CCS, and Carbon TerraVault's permitted and in-permitting storage portfolio can accommodate sequestration from up to 5 GW of natural gas power generation with CCS. Retrofit candidates lack only a compliance and incentive framework — the framework the MDI provides. Without MDI eligibility and a capital-stage allocation methodology, these retrofits will slip toward the 2040s timeline that the 2022 Scoping Plan establishes as a floor — foreclosing a decade of earlier emissions reductions and forcing the state to overbuild less-firm resources to fill the gap in the interim.

B. Oil and Gas Extraction Should Be Eligible Beyond the CCUS-Only Pathway

CRC reiterates its position that oil and gas extraction should be eligible for the full range of MDI decarbonization pathways, not only the CCUS pathway under Section 95891(g)(2)(H). The Scoping Plan identifies oil extraction as a sector requiring deep decarbonization.[9] The emissions reduction technologies that could be implemented by extraction operators include electrified equipment, renewable electricity generation and storage, solar thermal and geothermal energy, and electrified

[8]California Energy Commission. (2026). *2025 SB 100 Joint Agency Report – Draft Results Workshop*, Docket No. 23-SB-100, TN #268689 (Feb. 19, 2026).
[9]California Air Resources Board. (2022). *2022 Scoping Plan for Achieving Carbon Neutrality* (pp. 87, 93).

thermal energy procurement — each of which is eligible for other industrial sectors under Section 95891(g)(2)(A) through (G).

Restricting oil and gas extraction to the CCUS-only pathway excludes a portfolio of lower-cost, nearer-term emissions reduction measures from program support. These measures are the kinds of projects the MDI targets. CARB should remove that restriction and allow extraction operators to apply for MDI support across the full set of eligible pathways.

Expanding the MDI in these two respects would accelerate deployment of essential infrastructure, reduce compliance costs over time, mitigate leakage risk, and align regulatory design with CARB's long-term climate modeling.

IV. Cap Adjustment Factor (Section 95891; Table 9-2)

A. NAICS Codes 211111 and 211112 Should Receive the Standard Activities CAF

The 15-day amendments revise Table 9-2 to increase Cap Adjustment Factor (CAF) values for Standard Activities for budget years 2027 through 2030, with additional uplift for a defined set of process-intensive industrial activities under NAICS codes 325311, 327310, and 327410. CRC supports the uplift to Standard Activities and the recognition that the prior trajectory did not reflect statutory leakage and affordability directives. The revised Table 9-2, however, places Crude Petroleum and Natural Gas Extraction under NAICS codes 211111 and 211112 in a new category alongside Universities and Public Service Facilities, Legacy Contracts, and Natural Gas Suppliers, and holds those codes at the prior, un-uplifted CAF values through 2030.

That categorization is inconsistent with CARB's own leakage risk assessment. Table 8-1 classifies NAICS 211111 and 211112 as "High" leakage risk. The activities grouped with oil and gas extraction in the new Table 9-2 column — universities, public service facilities, legacy contract generators, and natural gas suppliers — do not share that leakage risk profile, do not operate in internationally traded commodity markets, and do not face the emissions leakage pressures the CAF addresses. Grouping NAICS 211111 and 211112 with those categories mismatches the regulatory tool to the underlying risk.

The consistent approach is to assign NAICS 211111 and 211112 the Standard Activities CAF values. Standard Activities receives the leakage-protection uplift, and it is the category that matches the High leakage risk classification CARB has already applied to NAICS 211111 and 211112 in Table 8-1. Assigning oil and gas extraction the Standard Activities CAF would align Table 9-2 with Table 8-1, treat comparable leakage risks comparably, and recognize the role of in-state upstream production in supplying California's refineries.

The categorization itself sets the baseline for the steeper declines that follow and establishes the framework CARB will apply in future rulemakings. Correcting the categorization now ensures that framework reflects the actual leakage risk profile of the affected sectors.

V. Conclusion

CRC appreciates CARB's continued work to strengthen the Cap-and-Invest Program. The 15-day amendments reflect meaningful progress, including the addition of a CCUS pathway to the Manufacturing Decarbonization Incentive and the uplift to Standard Activities CAF values. With targeted revisions in the remaining areas identified in this letter, the program can better align with statutory requirements, protect affordability, minimize leakage, and unlock the scale of CCUS deployment assumed in California's climate planning.

Finalizing a Board-approved CCUS quantification methodology and permanence standards in this rulemaking, extending the MDI to natural gas power generation with CCS and to the full pathway set for oil and gas extraction, and aligning the Table 9-2 CAF categorization with the Table 8-1 leakage risk classification will strengthen both the environmental integrity and economic durability of the program.

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

Sincerely,

Jason Marshall
Vice President – Regulatory Affairs
California Resources Corporation