Phillips 66 Company (Sourabh Pansare)

Please see the attached comment letter. Thank you.

Sourabh Pansare
Sr. Advisor, Regulatory Strategy

PROVIDING ENERGY. IMPROVING LIVES.

PHILLIPS 66 HEADQUARTERS
2331 CityWest Blvd
Houston, TX 77042

May 4, 2026

Dr. Steven S. Cliff,
Executive Officer, California Air Resources Board
1001 I Street, Sacramento, CA 95814

Submitted electronically via the [Public Comment Form]

Re: Comments regarding proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Dr. Cliff,

Phillips 66 Company (Phillips 66) appreciates the opportunity to comment on the proposed Amendments to the Regulation for the California Cap on Greenhouse Gas (GHG) Emissions and Market-Based Compliance Mechanisms. Phillips 66 has major operations in California to produce and market liquid transportation fuels and is an obligated entity under the Mandatory Reporting Regulation (MRR) and the Cap-and-Invest (C&I) Regulation. In 2024, Phillips 66 ceased crude oil processing at its San Francisco Refinery facility and completed its transition to a 100 percent renewable fuel production facility - the Rodeo Renewable Energy Complex (RREC). This conversion enabled a new lower carbon operation to produce renewable diesel (RD), renewable naphtha (RN), and alternative jet fuel (AJF) which is blended with conventional jet fuel to produce blended sustainable aviation fuel (SAF).

As a result of this transition, RREC has reduced its facility-level GHG footprint by over 50 percent, thereby making a meaningful contribution to California's statewide GHG reduction targets. RREC's production of AJF for use in SAF blends would be consistent with California policies to decarbonize the aviation sector[1] and aligns with CARB's goal to *ensure at least 200 million gallons of cost-competitive and commercially viable sustainable aviation fuel is available for use by operators in California by 2035*[2]. In addition to operating RREC, Phillips 66 is also a marketer of transportation fuels and other products in California.

Phillips 66 considers C&I a key market-based approach for achieving California's GHG reduction goals. CARB's prior focus on program stability, allowance cost containment, and allocation to Energy-Intensive, Trade-Exposed (EITE) facilities has been critical to maintaining compliance certainty and

[1] 2022 Scoping Plan Update
[2] CARB and nation's leading airlines announce landmark partnership for a sustainable aviation future | California Air Resources Board

mitigating leakage risk for regulated entities. Phillips 66 appreciates CARB's continued emphasis on these principles in the proposed amendments to C&I and MRR regulations. Because these regulations and proposed amendments directly affect Phillips 66's operations at RREC, we submit the following comments in support of California's SAF production and manufacturing decarbonization objectives. We also encourage CARB to adopt these proposed amendments at the May 28 Board Meeting to provide certainty to regulated entities with respect to 2027 industrial allocation.

Summary of Phillips 66's Comments and Recommendations

- Phillips 66 supports CARB's newly proposed changes to Cap Adjustment Factors (CAFs) and industry Assistance Factors (AFs) for budget years 2027 to 2030. Phillips 66 also supports CARB's proposed Manufacturing Decarbonization Incentive, including the proposed expansion of potential value and the extension of eligibility to SAF production facilities, and views this as a critical long-term signal for capital-intensive decarbonization projects.
- Phillips 66 recommends CARB define post-2030 CAF and AF trajectories that decline gradually and predictably to provide long-term compliance certainty and minimize leakage risk for in-state EITE facilities, including SAF producers. To reflect actual trade exposure and support the ramp-up of in-state SAF production, Phillips 66 recommends classifying SAF production facilities (NAICS 325199) as having 'High' leakage risk.

C&I allowance allocation for SAF production facilities

One of the most impactful provisions of the proposed C&I amendments for Phillips 66's operations is the direct allocation of California GHG allowances for transition assistance and leakage minimization (§95890 and §95891). Phillips 66 offers the following comments regarding the cap adjustment factor and the assistance factor.

Cap Adjustment Factor (CAF)

Phillips 66 supports CARB's proposed CAFs for budget years 2027 to 2030, which provide needed compliance certainty and leakage protection for EITE facilities. However, the lack of defined CAFs beyond 2030 creates substantial regulatory and investment uncertainty originating from unknown allowance allocation in future compliance periods. A precipitous reduction in the CAF, such as that contemplated in the Initial Statement of Reasons[3], would impose significant and sudden compliance burdens. Regulatory certainty beyond 2030 is essential for long-term operational planning, including capital investment and facility turnaround decisions. To support the continued viability of SAF production in California, Phillips 66 urges CARB to adopt CAFs for post-2030 budget years that decline at a predictable rate consistent with the 2027-2030 trajectory.

Assistance factor (AF) and leakage risk classification

Phillips 66 appreciates CARB's proposal to maintain the assistance factor at 100% through 2030 for all EITE facilities, regardless of leakage risk classification (High, Medium, Low). However, compressing the period with 100% assistance factor from 2027-2035 (as suggested in the ISOR[3]) to 2027-2030 materially affects investment certainty beyond 2030, particularly for SAF production facilities currently classified as having "Medium" leakage risk. The combined effect of a medium leakage risk classification and uncertain post-2030 industrial assistance create substantial challenges for capital planning and operational decision-making. Phillips 66 therefore urges CARB to reclassify biorefineries—particularly SAF production facilities—into the "High" leakage risk category to accurately reflect the potential for production to shift to other jurisdictions if compliance costs or

[3] Appendix A-1 Proposed Regulation Order

allocation uncertainty become disproportionate. Biofuels are traded in international markets, and California imports substantial (~50-60%[4,5]) volumes of biofuels such as RD and SAF consumed in-state each year. Following its conversion, RREC remains energy-intensive and is also more trade-exposed[4,5] than when it operated as a traditional crude oil refinery. Reclassification would help protect this emerging SAF production sector and support its continued growth in California.

Manufacturing Decarbonization Incentive Allocation

In §95891(g), CARB proposes a novel and noteworthy concept of a CAF modifier to be applied to allowance allocation for eligible facilities as a manufacturing decarbonization incentive from budget year 2028 through 2035. By providing this incentive over multiple compliance periods, CARB is sending a strong signal to in-state EITE facilities to pursue technologically feasible decarbonization projects that may not yet be economically viable under the current market conditions. Phillips 66 appreciates CARB's leadership in developing this innovative incentive to advance manufacturing decarbonization and supports the inclusion of SAF production facilities among the eligible participants.

Concluding Remarks

Phillips 66 appreciates this opportunity to comment on the proposed amendments to the C&I and MRR regulations. Phillips 66 generally supports the proposed CAFs for budget years 2027 to 2030 and maintenance of a 100% Assistance Factor during that period. Phillips 66 respectfully recommends that CARB classifies SAF production facilities as having "High" leakage risk and expeditiously adopt a less aggressive and predictable CAF reduction trajectory for post-2030 budget years to provide needed compliance and operational certainty as this sector continues to scale. Phillips 66 also appreciates CARB's intent to advance manufacturing decarbonization through a new and innovative incentive and thanks CARB for extending eligibility to SAF production facilities. This approach will further catalyze investments aligned with California's SAF and climate policy objectives. If there are any questions, please contact me at sourabh.s.pansare@p66.com.

Sincerely,

Sourabh Pansare

cc: Rajinder Sahota, Deputy Executive Officer

---

[4] Almost all U.S. renewable diesel is consumed in California; most isn't made there - U.S. Energy Information Administration (EIA)

[5] https://afdc.energy.gov/data/10967