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Cap-and-Invest Program
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Submitted electronically via Workshop Comment Submittal Portal and email to ctworkshop@arb.ca.gov

California Resources Corporation (CRC) appreciates the opportunity to comment on the California Air Resources Board's (CARB) Cap-and-Invest October 29, 2025, workshop in support of a forthcoming rulemaking process. CRC operates exclusively in California as an independent, publicly traded energy company supporting the State's energy security and economic stability with reliable, in-state production.

CRC has a long history of operating safely and responsibly under California's rigorous environmental and safety standards. Today, CRC expands our traditional operations to include investment in carbon management solutions through our Carbon TerraVault (CTV) platform. In 2024, CRC received the nation's third approved Class VI permit from the U.S. Environmental Protection Agency and the first such permit issued in California, enabling construction of the Carbon TerraVault I (CTV I) project. This experience gives CRC unique insight into the practical realities of developing commercial-scale carbon capture, utilization, and storage (CCUS) projects within California's regulatory framework.

We appreciate CARB's continued efforts to advance a Cap-and-Invest framework that meets California's ambitious greenhouse gas (GHG) reduction targets while supporting affordability, reliability, and economic competitiveness.

Support for California's Climate Targets

CRC's growing focus on CCUS supports California's statutory goals to achieve a 40% reduction in GHG emissions by 2030 (SB 32, AB 1207) and carbon neutrality by 2045 (AB 1279). These goals are critical to continued progress on emissions reduction and ensuring a stable, responsibly produced energy supply.

At the same time, CARB must balance these statutory requirements with affordability and reliability concerns as directed under AB 1207. The Cap-and-Invest Program should ensure that compliance costs do not result in the loss of industrial operations or the export of emissions to other jurisdictions ("leakage"), which would undermine both climate and economic goals.

Smoothing of Offsets Removed from Allowance Budgets

AB 1207 (Irwin, 2025) requires "*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*" (amended Section §38562(c)(2)(E)(iii)). In practice, most offsets are purchased during the last year of each 3-year compliance period, as covered entities assess their total emissions and appetite for offsets during the compliance period. Though AB 1207 limits offsets to 6% of a covered

entity's annual emissions, in practice this could lead to zero offsets in the first two years of a compliance period and offsets equal to 18% of annual covered emissions during the third year of a compliance period. Should these offsets be deducted from the next year's allowance budget, this could create significant fluctuations in annual allowances available, resulting in market volatility. To avoid these negative outcomes, CRC recommends CARB adopt a mechanism to smooth out the deduction of offsets from annual allowance budgets.

Industrial Allowance Allocation and Leakage Protection

CARB requested stakeholder feedback on the appropriate level of industrial allocation needed to minimize emissions leakage under the revised allowance budgets.

CRC observes that Concept 2 represents the minimum level of industrial allocation and encourages CARB to consider a slower reduction schedule beyond Concept 2 to maintain industrial competitiveness. Industrial allocation is core mechanism to ensure the Cap-and-Invest Program operates cost-effectively and supports in-state production. Free allowance allocations provide critical assistance to energy-intensive and trade-exposed (EITE) sectors, allowing companies to invest in long-term decarbonization projects while reducing financial burdens associated with the compliance.

AB 1207 reaffirmed the Legislature's intent to maintain 100 percent industrial assistance factors through 2030 and clarified that the Cap Adjustment Factor need not decline in proportion to the overall allowance budget. This provides CARB with greater flexibility than prior statutory frameworks to preserve higher industrial allocations and design a decline trajectory that reflects realistic technology deployment timelines and economic conditions. CRC encourages CARB to use the authority in AB 1207 to adopt an even more modest decline rate in allowance allocations that proposed in Concept 1 or 2.

Industrial allowance allocations are critical to:

- Preventing leakage and loss of high-quality jobs;
- Promoting affordability for consumers; and
- Sustaining California's manufacturing and refining sectors through the transition to carbon neutrality.

CARB's own leakage analyses confirm that output-based allocations are effective in mitigating emissions leakage risks for energy-intensive, trade-exposed (EITE) industries. However, historical data may not fully reflect current economic conditions, changes in financial support for decarbonization projects, or emerging international market dynamics. CARB should release its updated leakage analysis for public review and incorporate stakeholder feedback before finalizing allocation decisions, ensuring that policy design is grounded in current data and realistic deployment timelines.

Given instability in transportation fuels markets observed earlier this year by the California Energy Commission[1], CARB should adopt an allocation structure that provides long-term predictability and protection for California-based oil-production. Maintaining responsible, lower-carbon-intensity in-state production enables California to reduce reliance on imported oil and gas that may be tied to higher emissions, weaker regulatory oversight for environmental protection, or extraction practices inconsistent with the State's sustainability priorities. Local operations also help insulate California's energy systems from global geopolitical volatility while reinforcing energy resilience and transparency –

[1] California Energy Commission (CEC), *Response to Governor Newsom's Letter of June 27, 2025,* Letter from Vice Chair Siva Gunda to Governor Gavin Newsom, June 27, 2025. Available at: CEC's_Response_to_Governor_Newsom's_Letter_June-27-2025

critical elements of a just and sustainable transition.

Integration of Carbon Capture, Utilization, and Storage (CCUS)

CRC strongly supports incorporating CCUS into both the Cap-and-Invest Program and the Mandatory Reporting Regulation (MRR) during this rulemaking cycle. As CARB acknowledged during the workshop, the State is not on track to meet the CCUS deployment goals identified in the 2022 CARB Scoping Plan[2], which calls for deployment of carbon capture across electricity generation, cement production facilities, and refineries. Governor Newsom has also directed CARB to target 20 $MMTCO_2$ capture and removal by 2030 and 100 $MMTCO_2$ by 2045[3].

Without clear regulatory recognition of CCUS, within Cap-and-Invest (including accounting for CCUS as emissions reductions), new projects are unlikely to move forward. The Carbon TerraVault I (CTV I) project is currently unique in California, with unique inherent economic benefits that drive that project to completion. However, California policies should not assume that additional CCUS projects will advance without regulatory alignment and market certainty. Based on CRC's experience developing the Elk Hills Power Plant CCS project, the timeline to develop and deploy a CCS project is approximately six years[4]. Until inclusion of CCUS in C&I occurs, that project development timeline will not start for other projects, underscoring the urgency to act now to avoid missing the State's 2030 capture target. To that end, CRC takes note of and appreciates the aggressive regulatory development timeline CARB proposes.

Integrating CCUS into Cap-and-Invest and MRR now will:

- Allow CARB to credit verifiable CO_2 reductions from Class VI–permitted storage projects;
- Support compliance flexibility for covered entities;
- Reduce overall program costs and enhance affordability; and
- Advance the State toward its 2030 and 2045 climate goals.

CCUS plays a vital role in the decarbonization of hard-to-abate industries such as cement, refining, and power generation—sectors identified in the Stanford "Pathways to Carbon Neutrality" report[5] as having no other viable decarbonization option.

In addition to reducing GHG emissions, CCUS deployment provides measurable reductions in criteria air pollutants, improving air quality for local communities. Analysis by the Clean Air Task Force[6] found that applying CCS to refinery operations can achieve up to 73% reductions in NO_x, 99% in SO_x, and over 95% in particulate matter emissions, while reducing CO_2 emissions by approximately 87%.

To achieve these outcomes, CRC recommends that CARB take specific action in this rulemaking to recognize sequestration as a direct emissions reduction under the Cap-and-Invest Program. Each ton of

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[2] California Air Resources Board, *2022 Scoping Plan for Achieving Carbon Neutrality* (2022), p. 86.
[3] California Air Resources Board, *2022 Scoping Plan for Achieving Carbon Neutrality* (2022), p. 84.
[4] California Resources Corporation, *Carbon Capture Project Development Timeline*, Aug. 2025 (based on Elk Hills Power Plant CCS and 300 MMT Class VI storage permitting).
[5] Stanford University, *Pathways to Carbon Neutrality* (2022), pp. 1, 51.
[6] Clean Air Task Force, *Air Pollutant Reductions from Carbon Capture* (Nov. 2023), p. 8, available at: https://www.catf.us/resource/air-pollutant-reductions-carbon-capture/.

verified CO_2 sequestered should be deducted from a covered entities' reported emissions under the MRR. Further, CARB's regulations should recognize these emissions reductions separately from the Cap and Invest Program's existing 6% limit on offset use. Were emissions reductions for carbon capture and sequestration made subject to the 6% offset limit, that limit would disincentivize deployment of beneficial decarbonization actions by covered entities. This approach is consistent with the intent of AB 1207 and ensures that CCUS projects receive appropriate recognition as emissions-reduction activities.

CARB should also clarify that Class VI-permitted geologic storage facilities meeting all monitoring, reporting, and verification requirements qualify for these emissions reductions. This would allow operators to apply permanently stored CO_2 toward their compliance obligations, thereby providing a direct incentive for large-scale deployment of CCUS in California.

Finally, CRC notes that CCUS delivers significant economic benefits—driving in-state investment, creating construction and operational jobs, and preserving the competitiveness of California's manufacturing base. By including CCUS within Cap-and-Invest, CARB can provide a compliance pathway that keeps industries and jobs in-state while attracting new private capital to support California's clean energy transition.

Use of Cap-and-Invest Funds for Industrial Decarbonization

CRC fully supports the use of Cap-and-Invest funds to stimulate industrial decarbonization, particularly in sectors that face limited alternatives to reduce emissions. State programs can and should play a complementary role by ensuring predicable and durable support for early-stage industrial decarbonization projects. First-of-a-kind projects require financial assistance to overcome high initial costs and deliver cost reductions through demonstration and learning. CARB should prioritize C&I funding for:

- Decarbonizing cement, refining, and power generation sectors;
- Class VI–permitted CCUS projects; and
- Projects that generate co-benefits for local communities and the broader electricity system through reduced GHG and criteria pollutant emissions[6]

This approach aligns with the intent of AB 1207 and SB 840, which emphasize affordability, leakage prevention, and investment in innovation to achieve California's long-term climate goals.

Commitment to California's Climate and Energy Goals

CRC thanks CARB for its continued leadership in advancing California's climate program. As a California-based operator committed to responsible energy production and carbon management, CRC supports the development of a Cap-and-Invest framework that:

- Maintains affordability and reliability for California consumers;
- Protects against emissions leakage and job loss;
- Enables deployment of CCUS and other decarbonization technologies; and

- Provides a stable, predictable path toward achieving the State's 2030 and 2045 GHG reduction goals.

CRC looks forward to continued engagement with CARB as this rulemaking progresses and welcomes the opportunity to contribute technical and operational expertise gained from our Carbon TerraVault projects.

Sincerely,

Jason Marshall
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California Resources Corporation