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California Independent Petroleum Association Comments on the October 5, 2023 – Informal Cap-and-Trade Workshop

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Via electronic submittal to: [regulatory docket]

Thank you for the opportunity to share comments and potential concerns related to the recent Cap-and-Trade Program Public Workshop held on October 5, 2023, on behalf of the members of the California Independent Petroleum Association (CIPA). CIPA represents nearly 300 crude oil and natural gas producers, royalty owners, and service and supply companies who all operate in California under the toughest regulations on the planet. Our comments focus on workshop slides[1] that explicitly address allowance allocation for the oil/gas extraction sector both directly (Cap Adjustment Factor) and indirectly (Allowance Budget Scenarios).

The mission of CIPA is to promote greater understanding and awareness of the *unique* nature of California's independent oil and natural gas producer and the marketplace in which they operate; highlight the economic contributions made by California independents to local, state and national economies; foster the efficient utilization of California's petroleum resources; promote a balanced approach to resource development and environmental protection and improve business conditions for members of our industry.

CIPA, and its members, strongly oppose Cap-and-Trade regulatory amendments in which in-state crude, produced under the strictest environmental standards in the world, is replaced with imported crude either by direct regulation or indirect impact. A true and successful market-base GHG program cannot not shift emissions, tax-base and jobs to other jurisdictions. The goal of the Cap-and-Trade Program is to provide the most cost-effective emission reductions, while minimizing emissions leakage through a long-term carbon price signal. CIPA is concerned the potential changes previewed at the Workshop continue to accelerate the rate of change of cost increases of doing business faster than emission reductions can be achieved in the industrial space—especially within the permit approval constraints of California. This regulatory environment itself is a source of emissions and business leakage.

The schedule of this rulemaking adoption is starting to accelerate with the recent announcement of the California-Quebec modeling workshop even before the last workshop comments are due. CIPA understands the breadth and significance of the discussions by CARB staff require sequential comment periods, but the economic modeling that will be presented next would

[1] https://ww2.arb.ca.gov/sites/default/files/2023-10/nc-CapTradeWorkshop_Oct052023_0.pdf

certainly have impacted these comments today. In previous workshops staff has discussed needing to look holistically at the Program and the statewide policy goals and planning assumptions, one of which is that there will be millions of liquid-fueled legacy cars and trucks on the road in the decades ahead—even with the current ZEV sales mandates for light-duty and heavy-duty trucks.

Crude oil is a world-wide commodity and the price producers receive does not adjust for the costs for Cap-and-Trade compliance. These costs place tangible pressure on in-state production and could result in early retirement of locally produced crude, and could reduce jobs, taxes, and impact on the State's reliable highly-regulated energy supply. Such impacts also carry over to the cost borne by Californians in their daily fuel cost.

California produced crude oil, is the only traditional fuel feedstock produced under California's Cap-and-Trade Program where the production emissions are *already accounted for, and capped*. Imported crude is neither subject to the State's methane rules, nor price on carbon. California's GHG goals simple cannot claim success if the result is shifting the emissions to other (higher-emitting) jurisdictions.

Morning Slides Related Industrial Allocation

We understand and appreciate that the material presented is not yet a staff 'proposal' but accelerating the decline in the Cap over the final five years of the decade to catch-up and adjust for total aggregate emissions that would have been emitted over the entire decade puts added upward pressure on allowance prices, so much so that CARB has indicated a potential need to increase the price containment tier trigger level. This projected increase in production costs is certainly not felt by importing oil jurisdictions. This differential is a significant leakage concern for CIPA the state's demand for petroleum products isn't shrinking as fast.

To meet consistent in-state demand for petroleum-derived products, every barrel of oil not produced in-state must be tankered into California via the state's crowded ports. The leading foreign sources of oil in California are Iraq, Ecuador, and Saudi Arabia - foreign sources of oil account for 74% of the oil California consumes[2]. There are no interstate pipelines that carry crude oil, and railing and trucking oil is expensive and impractical. As a result, increased tankering of foreign oil is the inevitable result of any curtailment of in-state production. Californians consume over 1.8 million barrels of crude a day. Despite the state's efforts to transition to alternative fuels, oil consumption in CA has not decreased.

Slide 20 provides three options for potential Cap Adjustment Factors (CAFs), all of which drastically reduce the current regulatory allocation projection. CIPA questions how such regulatory promises (see Table 9-2 in the current regulation[3]), which are used to make decade-long business decisions can be altered less than half way through the regulatory calendar. Capital-intensive projects like renewable energy, or thermal storage, take years to permit, engineer and build. Altering the regulation midstream is disruptive, at least, and at worse fatal for project financing. The 48% column on Slide 20 has a CAFs decline rate multiples times higher current regulation.

This reduction in allowances may be additive to the concept of a unified oil/gas benchmark that was proposed at the July workshop. CIPA has yet to see any CARB-sponsored economic

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[2] https://www.energy.ca.gov/data-reports/energy-almanac/californias-petroleum-market/foreign-sources-crude-oil-imports

[3] https://ww2.arb.ca.gov/sites/default/files/2021-02/ct_reg_unofficial.pdf

impacts analysis of either of these ideas, individually or in combination. Direct industrial allocation is at the heart of the Cap-and-Trade's cost containment measures.

An alternative to increasing the rate of decline for the CAFs, is to honor the past regulatory actions, and not adjust Table 9-2. This would provide more stability for industrial sources, and does impact the overall cap decline as envisioned by CARB.

The carbon costs of the Program are an established incentive to reduce GHG emissions and the energy intensity of production. CIPA members have been on the forefront of renewable technologies (solar PV, energy efficiency and thermal storage), as well as, carbon capture and storage. When regulatory changes are proposed that introduce stroke-of-pen risk, it has a chilling impact on potential future investments.

Morning Slides Related to Post-2030 Budget Scenarios

Also during the morning session, staff presented a proposal on 2031-2045 allowance budget scenarios. CIPA supports the efforts to build out allowance budget till 2045, which *could* provide certainty to business in California about the program post 2030—see concern above regarding changing the rules midstream. Out of the two options presented for post-2030 allowance budgets, CIPA believes the Emission Target Method should be preferred. This choice will allow the allowance budget starting point in 2031 will be in-line with 10-year linear decline rate, without any point-in-time adjustments.

Summary

California will need petroleum and natural gas fuels for many years. During this time, California should not only prioritize in-state supply but incent its carbon intensity reduction. Any regulatory proposals that run counter to the ultimate goal of reducing GHG emissions worldwide should be discarded.

The last barrel of oil used in California, should be produced in-state with all the local, regional and statewide environmental, health and safety and labor standards ensured to be used. California environmental and worker leadership cannot include looking the other way through direct or indirect promotion of foreign crude supplies.

We appreciate the opening of stakeholder dialogue with us. We look forward to working with CARB on this important topic.

Sincerely,

Rock Zierman
Chief Executive Officer
California Independent Petroleum Association