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January 23, 2013

Submitted via web: <http://www.arb.ca.gov/lispub/comm/bclist.php>

Re: Comments on ARB's January 8, 2013 Second 15 day Amendments to the California Cap on Greenhouse Gas Emission and Market-Based Compliance Mechanisms to Allow for the Use of Compliance Instruments Issued by Linked Jurisdictions

Mr. Richard Cory
California Air Resources Board
1101 I Street
Sacramento, CA 95814

Dear Mr. Cory,

Chevron has been a California company for more than 130 years and is the largest Fortune 500 Corporation based in the State. Chevron has actively participated in multiple stakeholder meetings and discussions with the Air Resources Board (ARB) and its staff in order to develop a workable program that achieves the State's emission reduction goals while avoiding negative economic impacts at a time when California is least able to absorb them.

Chevron provided comments on the draft and the final amendments for linking the California and Quebec Cap and Trade Programs. In spite of Chevron's significant interaction in this development process, the amendments remain largely unchanged. Chevron's comments to you today on the proposed linkage rulemaking reflect our serious concern that the stakeholder process did not consider critical comments on this important rulemaking.

Chevron is generally supportive of linking California to other carbon markets. Done correctly, linkage expands emission reduction opportunities and reduces overall costs minimizing economic/emissions leakage outside the State. This would avoid severely disadvantaging our State's economy and driving investment and jobs out of the State. However, Chevron is concerned that California's current proposal is overly prescriptive and will not only limit the relatively small benefits available from linking with Quebec but may discourage linkage with broader markets like the European Union Emissions Trading System (ETS) or Australia in the future.

Concerns over Proposed Linkage

No broad linkage on the horizon – While we understand that ARB considers this linkage a first step, it is also the only step that California can make in the foreseeable future. Other WCI partners (U.S. states and Canadian provinces equally) have backed away from implementing cap-and-trade programs.

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Reinforcing flawed market policies - Chevron is concerned that linking prematurely will only lead to spreading the market design flaws of California's program¹. The current market design, which is now reflected in Quebec's program, leaves the door open for market abuse due to the existence of holding limits and lack of frequent auctions.

Linking to an immature, restricted market is inefficient - Linking to the European Union Emissions Trading System (EU ETS), on the other hand, could represent a truly broad and efficient market. Further, California could simply and efficiently recognize the allowances of the EU without the lengthy, restrictive process required by a joint auction.

Increasing costs for California - The economics study done by the Western Climate Initiative² (WCI) shows a significant increase in allowance price, which will increase the competitive disadvantages faced by California's business sector, electrical generators, and ultimately residents.

Both programs should be viable and successful prior to linkage - We recommend that ARB defer linkage until the California and Québec cap-and-trade programs have been successfully implemented and demonstrate success. It is critical to allow each program to develop on a stand-alone basis and have an opportunity to demonstrate success before attempting to link them.

In summary, Chevron remains steadfastly supportive of a well designed market with broad linkage to meet AB 32's goals of cost-effectiveness and minimizing leakage. However, it is premature to embark now on a costly linkage with Quebec until California's and Quebec's programs are fully implemented and demonstrate success.

Sincerely,

via e-mail

Stephen D. Burns

¹ "Comments on Amendments to the California Cap on Greenhouse Gas Emission and Market-Based Compliance Mechanism to Allow for the Use of Compliance Instruments Issued by Linked Jurisdictions," Chevron Corporation, June 26, 2012, available at:

http://www.arb.ca.gov/lispub/comm/bcsubform.php?listname=capandtrade2012&comm_period=A

² "Discussion Draft Economic Analysis Supporting the Cap-and-Trade Program - California and Québec," prepared by the WCI Economic Modeling Team, May 7, 2012, available at:

<http://www.westernclimateinitiative.org/document-archives/Economic-Modeling-Team-Documents/Discussion-Draft-Economic-Analysis-Supporting-CA-and-QC-Linking/>