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April 4, 2014

Rajinder Sahota
California Air Resources Board
1001 I Street, P.O. Box 2815
Sacramento, CA 95812

Subject: Proposed 15-Day Amendments to the Cap and Trade Regulation dated March 21, 2014

Dear Ms. Sahota:

Chevron has been a California company for more than 130 years and is the largest Fortune 500 corporation based in the state. We have participated in stakeholder meetings and discussions with ARB and its staff in order to make the program and this proposed rule workable for California, while meeting the goals of AB 32.

Important reporting and offset issues remain to be resolved that would allow the cap and trade program to function efficiently and without unnecessary burden to regulated entities while minimizing the potential for market manipulation. We suggest that these issues need further stakeholder engagement and more creative solutions to resolve. In addition, we enclose comments to reiterate our support of industry assistance and mine methane offset protocol development. We sincerely appreciate the opportunity to work with ARB staff and leadership and submit these comments on the proposed 15-Day Amendments to the Cap and Trade Regulation, dated March 21, 2014 for consideration.

Introduction

Chevron is pleased that ARB is considering adoption of the following policies which represent improvements in the cap and trade program:

- **Industry Assistance** – Chevron supports the proposed change in the application of the industry assistance factor that recognizes the competitive environment in the refining sector and other energy intensive trade exposed industries which if left unchanged, could lead to leakage and loss of California jobs.
- **Mine Methane Capture Protocol and Offsets** – Offsets afford California a critical opportunity to meet the AB 32 environmental goals in the most efficient and low cost means possible in sectors that are not regulated. The Mine Methane Capture Protocol targets a sector that can contribute a significant US supply of greenhouse gas (GHG)

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reductions that would otherwise not be controlled. Offset protocols provide the business community and the agency with the assurance that there is a sound technical basis used to create real and permanent emission reductions. Chevron supports the Mine Methane Capture Protocol as a substantial step towards increasing the supply of offsets.

These policy changes reflect significant improvements that go toward reducing costs, creating competitive disadvantage to trade exposed sectors such as refining.

We are concerned, however, that some proposed changes add market and administrative challenges to a program that is already complex. These complex provisions create administrative burdens, and multiply the chances for covered entities to inadvertently trip legal requirements, even when we are attempting to comply with the program in good faith. Chevron recognizes that finding solutions that meet ARB's concerns to prevent fraud and foster an effective program, without burden and potential for inadvertent non-compliance, is difficult. We urge ARB to work with us and other stakeholders to further explore better options for the following proposed changes:

- Disclosure of Corporate Associations – Sections 95830, 95833 and 95912 requiring identification and specific information on all other entities with which there is indirect or direct corporate association.
- Auction Administration and Participation Application – Section 95912 requiring entities who desire to participate in an auction to provide “An attestation disclosing the existence and status of any ongoing investigation or an investigation that has occurred within the last ten years for the entities and any corporate association.”
- Annual Surrender of Offsets – Section 95856 requiring that offsets are retired annually subject to the eight percent limit.

1. Chevron Opposes the Disclosure of Corporate Associations, as written.

Chevron understands ARB's need to track corporate associations for those participating in the cap and trade program and linked programs to detect fraud and market manipulation. We cannot support the proposed changes, as written, because they require a company to list **all** of its corporate associations, regardless of whether those corporate associations have any connection to or have ever participated in the cap-and-trade program.

Chevron has over 1,610 such entities, as of April 1, 2014 and nearly 1,000 of those operate outside the United States. Further, many corporate associations operating inside the United States have no delegated corporate authority to conduct any trading related business activity. That is, they have neither impact on nor relation to any transactions in the California cap and trade program. The entities already registered by Chevron represent the only entities authorized by Chevron to conduct trading related activity under the company's corporate policies dealing with delegated authorities. These difficulties are exacerbated by the requirement to report all of the corporate associations quarterly or whenever there are changes. Reporting the details of entities that are unauthorized to conduct trading activities, many of which operate wholly outside of the United States, is not only burdensome, it is also presents a significant potential for inadvertent non-compliance.

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Recommendation

Chevron proposes an exemption from this disclosure requirement for publicly traded companies. Alternatively, we would also support changing the language to: “disclosure of corporate associations that have a mandatory or voluntary involvement in, or linkage to, the California cap and trade program”

2. Chevron Opposes the Attestation Requirements of Auction Administration and Participation Application

ARB added but did not materially change the requirement that entities that wish to participate in an auction provide an attestation as follows:

An attestation disclosing the existence and status of any ongoing investigation or an investigation that has occurred within the last ten years with respect to any alleged violation of any rule, regulation, or law associated with any commodity, securities, environmental, or financial market for that the entity participating in the auction, and all other entities with whom the entity has a corporate association, direct corporate association, or indirect corporate association pursuant to section 95833 that participate in a carbon, fuel, or electricity market. The attestation must be updated to reflect any change in the status of an investigation that has occurred since the most recent auction application attestation was submitted;

Given the proposed change to the Disclosure of Corporate Associations described above, this new attestation provision would require Chevron, on a quarterly basis, to research all potential investigations involving over years 1,610 separate entities, many of which operate wholly outside of the United States/or may be majority owned and operated by an entirely different entity, meaning the relevant information may not be shared or known. This plainly creates an undue burden and potential for inadvertent non-compliance for any large, multi-national company like Chevron. In addition, contracts may exist that prohibit Chevron’s disclosure of investigations that are pending review.

Recommendations

Chevron recommends that ARB limit the attestation to entities in a “for cause” or “as needed” approach for anything beyond the current regulatory language, and better focus the scope of the required attestation on the most relevant entities, i.e., those that are directly involved in the California cap and trade program, not every possible corporate association. Having the leeway to ask for additional information about other entities when the need arises can accomplish ARB’s need to investigate unusual situations without burdening every compliance entity with reporting data that will very likely never be the subject of concern. This type of conditional data request would provide the ARB an efficient and effective means to gather data when needed.

Chevron further requests that ARB align its attestation requirements with the very similar SEC disclosure requirements that already apply to many of the companies who are active in the California cap and trade program. The SEC reporting guidelines are tested and established

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methods for providing government agencies with prompt notice of active, relevant compliance issues.

3. **Chevron Opposes Limiting Annual Offset Retirement**

The prior Proposed Discussion Draft released January, 2014 provided that offsets could be retired “without regard to the quantitative usage limits set forth in Section 95854.” Chevron supports this policy and is disappointed that ARB has changed it to an annual limit. Annual restrictions remove flexibility both for early compliance and may be interpreted to impact later compliance. The proposed change works against flexibility that ARB had granted to allow offsets limitations to apply only on a triennial basis.

Flexibility is needed to allow full participation in the offsets market. The proposed change will disproportionately impact covered entities with smaller compliance obligations. Based on market experience, transactional costs associated with purchasing offsets over the counter make it impracticable and expensive to trade offsets in small quantities. Accordingly, it will be difficult if not unlikely for market participants to be able to contract offsets to receive delivery on an annual basis to meet the proposed change. Participants need to purchase and retain offsets in quantities sufficient for efficient management.

Without full participation, offsets are not as effective as a cost containment mechanism and therefore costs to all covered entities will increase. Early compliance will stimulate the market. Limiting amounts of offsets for later submission will reduce the use of offsets. Offsets are a key cost containment mechanism that requires flexibility to be effective.

Recommendation

Chevron recommends that ARB return to the regulatory language originally proposed in the Discussion Draft dated January 31, 2014.

Conclusion

Chevron appreciates the opportunity to comment on the proposed 15-Day Amendments to the Cap and Trade Regulation dated March 21, 2014. Chevron urges the ARB to make changes to address the serious issues outlined above which are likely to cause significant administrative burden or inadvertent non-compliance without effectively or efficiently identifying bad actors. Please don't hesitate to contact us, if you have questions regarding these comments.

Sincerely,

(submitted via email)

Michael Rubio
California Government Affairs

cc: Richard Corey, ARB
Dr. Steven Cliff, ARB