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Ms. Mary Nichols
Chairperson
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: ***ExxonMobil Comments on CARB's Preliminary Draft Regulation for a California Cap-and-Trade Program***

Dear Ms. Nichols:

ExxonMobil Corporation (ExxonMobil) appreciates the opportunity to provide comments to the California Air Resources Board (CARB) on their Preliminary Draft Regulation (PDR) for a California Cap-and-Trade Program, dated November 24, 2009.

ExxonMobil supports public policy that recognizes the important need for meeting the world's demands for affordable energy while reducing greenhouse gas (GHG) emissions in a cost effective manner.

Additionally, ExxonMobil believes that an effective GHG emissions reduction program design must:

- Ensure a uniform and predictable cost of GHG emissions across the economy;
- Let market prices drive the selection of solutions;
- Minimize administrative complexity and cost;
- Maximize transparency to regulated entities and consumers.
- Promote global participation, considering the priorities of the developing world; and
- Adjust to future developments in climate science and the economic impacts of climate policies.

To most effectively achieve a uniform and predictable cost of GHG emissions across the economy, minimize administrative complexity and cost, and promote broad participation, ExxonMobil believes GHG emissions reduction policy is better addressed through coordinated national and international policy rather than a patchwork of individual state or regional level programs. ExxonMobil believes that California's AB 32 program, and state programs in general, should be designed to be flexible enough to allow comprehensive, rapid, and cost-effective transition to any potential future federal program. Effective and efficient transition to a future federal program will offer California a number of advantages, including lower administrative costs for the State and lower cost to California's economy and consumers.

The purpose of this letter is to highlight and summarize the comments that ExxonMobil submitted to CARB on December 9, 2008, and to submit new comments on the options that CARB has outlined for addressing fossil fuel and biofuel based transportation fuels in the PDR.

In December 2008, ExxonMobil submitted comments on a linked carbon fee approach for addressing transportation fuel, revenue use and cost containment. These comments are summarized below.

Linked Carbon Fee for Transportation Fuel

ExxonMobil supports an approach that maximizes the use of market forces and includes as many GHG emissions sources as is practical in order to achieve the most cost-effective GHG reductions. The technology mandates inherent in a low carbon fuel standard (LCFS) will result in uncertain and potentially much higher costs for GHG reductions than a market based solution, while not necessarily transmitting a consistent carbon emissions cost to the users of transportation fuels. In addition, a LCFS, if not designed properly, could potentially impact fuel supply which could erode support for overall GHG reduction efforts. Lastly, LCFS, with its complicated accounting and compliance mechanisms, is inherently more complex and hence by its nature less transparent than a linked carbon fee approach as is outlined below.

Given CARB's intention to implement a cap-and-trade program, ExxonMobil supports addressing fossil transportation fuels through a market-determined carbon fee. The carbon fee would be equivalent to the cost of carbon in the cap-and-trade program. The linkage would be accomplished efficiently by basing the fee on the average cost of carbon in the large emitter cap-and-trade program during a recent period of time. This linked carbon fee approach will ensure a consistent price of carbon in the market (unlike LCFS), while minimizing market instability, price volatility and the potential for supply disruptions.

A linked carbon fee provides numerous advantages over a cap-and-trade system which includes both large emitters of GHGs and transportation fuel GHG emissions, including:

- It avoids the risk that near-term price inelasticity of transportation fuels could create serious shortfalls and price spikes in carbon markets.
- It places a known cost on vehicle tailpipe GHG emissions. This cost would remain consistent with the cost imposed on industrial sector GHG emissions, sending a consistent economic signal throughout the economy, but with lower price volatility for the consumer.
- It helps to minimize the potential for fuel supply disruptions.
- It is more transparent to the consumer, especially if posted on the pump, reinforcing consumer behavior to seek, over time, vehicle and travel efficiencies.
- It can be implemented using existing systems that collect federal and state excise taxes or fees, thus avoiding significant additional administrative burden and cost both to government and fuel suppliers.
- It is a more cost effective and transparent method of addressing emissions from the transportation sector than a LCFS.

Revenue Considerations

ExxonMobil believes that any revenue from a cap-and-trade system or a linked carbon fee should be returned to the economy with the least distortion of economic activity possible, preferably through a broad-based reduction of a current tax on labor or capital.

Cost Containment

ExxonMobil appreciates CARB's recognition that cost-containment mechanisms play an important role under a cap-and-trade regime. In the November 2008 Scoping Plan, CARB identified banking, use of offsets, and the potential for extended compliance periods as measures to help control costs in the cap-and-trade program.

ExxonMobil supports the inclusion of a strong cost-containment mechanism such as a fixed ceiling price for allowances, in addition to a robust offset program, multiyear compliance periods, and banking provisions, to promote the efficient operation of the AB 32 GHG reduction program and to assist in reducing price volatility.

Unfortunately, ExxonMobil believes that in the PDR, CARB has not outlined measures that will fulfill the requirement of AB 32 to contain costs effectively. In particular, the proposed offsets program is severely limited and there is no fixed ceiling price on allowances. The "soft collar" options that CARB is considering in lieu of a fixed ceiling price will lead to more regulatory uncertainty, which may negatively impact investments in low carbon technology and over time could result in a more costly program for California. Unlike a fixed ceiling price, soft collars can increase uncertainty which will negatively impact longer-term compliance planning and implementation for entities subject to the cap-and-trade program, especially for those contemplating capital investments. In addition, the limits on banking and the possibility of annual compliance requirements versus true multi-year compliance periods as proposed in the PDR, could further constrain industry planning and investments in the transition to lower GHG operations.

Addressing Biofuels in a Cap-and-Trade Program

ExxonMobil appreciates CARB's recognition that addressing both direct and indirect land use change (LUC) GHG emissions is critical to obtaining real net GHG reduction benefits from biofuels. ExxonMobil believes that ignoring LUC will encourage investments in technologies that have very little, if any, net GHG reduction benefits. In order to avoid this counterproductive outcome, GHG control programs need to consider LUC when assessing the GHG contributions of biofuels.

In the absence of effective international measures for regulating GHG emissions from LUC, biofuels should incur the cost of GHG impacts from LUC. For example, in the case of California's intended cap-and-trade program, biofuels could be assessed a fee based on their LUC GHG emissions per gallon, with the fee per tonne of GHG linked to the price of allowances in the cap-and-trade program.

In the PDR, CARB has requested input on how to calculate surrender obligations for both fossil fuel and biofuel based transportation fuels in a cap-and-trade program. ExxonMobil supports a surrender obligation based on the net "carbon content" for traditional fossil fuels. However for biofuels, this option does not adequately address LUC.

For biofuels, CARB has outlined four potential obligation options:

1. No obligation (*e.g.*, the net "carbon content" approach);
2. Obligation equivalent to direct combustion emissions;
3. Obligation limited to some portion of the fuel's life cycle emissions, such as direct and indirect land use emissions; or
4. Obligation equivalent to full life cycle analysis.

The only significant portion of the life cycle GHG emissions for biofuels that would not be otherwise covered by the cap-and-trade program is LUC. ExxonMobil supports option 3, in the form of a linked carbon fee specifically on the LUC GHG emissions associated with biofuels as described above, for the following reasons.

- Option 3 as described above is a simple way for CARB to properly address the key issue for biofuels, their LUC GHG emissions (both direct and indirect), while minimizing the potential for regulatory overlap (which is a concern if a full life cycle analysis approach is chosen).
- Option 1 does not properly recognize the LUC GHG emissions associated with many biofuels (*e.g.,* corn ethanol).
- Option 2 does not properly recognize the net GHG benefits of advanced biofuels (*e.g.,* cellulosic ethanol).
- Option 4 is an unnecessarily complex way to address the LUC GHG emissions associated with biofuels and would require accounting measures to ensure that any stationary source GHG emissions associated with fuels production are only counted once.

Thank you for considering our views. We look forward to engaging with CARB further on the design of the cap-and-trade program in 2010 and would welcome any inquiries on any aspect of our comments. Please contact David Ligh at (916) 444-7852 if you wish to discuss further.

Sincerely,

Sherri K. Stuewer