Henry T. Perea
Manager, CA/OR/WA Government Affairs

August 17, 2018

Rajinder Sahota
Assistant Division Chief, Industrial Strategies Division
Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Comments on the June 2018 Preliminary Discussion Draft

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 extensive stakeholder meetings and discussions with ARB and its staff to develop the program, including this proposed rule so that the end results are workable for California, while still meeting the goals of SB32 and AB 398.

Chevron appreciates the opportunity to provide pre-regulatory comments on the June 2018 preliminary discussion draft (PDD). Chevron supports a well-designed broad-based cap and trade program that a) limits competitive disadvantage and trade exposure; b) includes cost containment measures and c) can be linked to other markets, either directly or through the use of offsets. Chevron believes that continued research, innovation and application of technology are important to meet the state's climate goals to enable significant and cost-effective mitigations to climate change over the long term. To this end, Chevron is pursuing technology changes that can deliver innovative projects within 2 years. Chevron offers the following specific comments on the PDD, while reserving the ability to comment on other elements of the program at a later date:

- Maintaining industry assistance factors at 100% from 2018 to 2020 is critical to reduce California industry's competitive disadvantage. In addition, the smooth transition into the post-2020 period, as mandated by AB 398 (2017) supports maintaining industry assistance factors. The prior PDD sought comments on the industry assistance factors and information was provided to ARB that explained the importance of the factors to California industry and for a successful program. For these reasons, Chevron recommends that ARB staff add language implementing 100 percent industry assistance factors for all leakage risk categories for 2018-2020.
    - If ARB makes this change, many facilities which were not initially recognized as fully trade exposed will require additional allowance allocation for 2018 and 2019. Due to the delay in rulemaking, these two allocation periods will require true up. Rather than wait until the end of 2019, creating business uncertainty, we suggest that ARB consider an accelerated allowance allocation true up for the affected industry.
- Offsets offer an opportunity to stimulate innovation and technology development. It is possible that the offset market may decline due to the reduction in allowable offset limits and uncertainty

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on qualifications for certain offsets. Offsets offer a form of linkage to further the state's climate leadership goals while providing cost containment. In support of offsets, Chevron recommends the following:

- Define "direct environmental benefits to the state" (DEBS) to apply to any project reducing or avoiding air pollutants in or benefiting waters of the state. In addition, any offset project located entirely within California would be presumed to have DEBS. We strongly recommend against the June 21, 2018 workshop proposal to require projects that are entirely within California to provide additional justification or review to qualify as DEBS.
- Offset Limit Sales: Allow a facility's offset utilization limit to be traded to another facility because entities with smaller offset needs are disadvantaged from offset use. With the smaller limits under AB 398, this disadvantage will be exacerbated. After the last compliance period, ARB found that only half of the potential offsets were utilized in the program. Allowing a facility's offset utilization limit to be traded to another facility will not have the effect of exceeding the total, market-wide offset utilization limit, but will allow smaller offset demands to be aggregated into an economically significant size.
- ARBOC review process: Perform a systematic review of the offset credit process to make reviews more complete, reduce the iteration cycle and reduce the issuance time. Although the offset review process has been implemented for over five years, extended offset review cycles create significant business uncertainty.

- ARB is considering an alternative cap decline factor for sectors that have high process emissions and are highly trade exposed. Process emissions from hydrogen plants meet criteria proposed in the PDD. The equation that defines trade exposure is being used as the basis for qualification under this rulemaking. The Western States Petroleum Association submitted calculations in June 2018 showing that hydrogen plants would qualify as high process emissions and highly trade exposed under the ARB trade exposure test.[1] Chevron recommends that hydrogen plants be included under the process emissions alternative cap factor.
- Cap and trade should recognize emission reductions through technology changes using biofuels and feeds. Recent changes to the LCFS to encourage the use of biofuels and bio feeds have been made to spur technology and innovation. These innovations could also result in overall facility, process emissions and fuel GHG emissions reductions. The cap and trade program recognizes the GHG emission reductions of these types of fuels in Section 95852.2 Emissions Without a Compliance Obligation. Because the intent of the program is to recognize reductions through use of renewable materials, updates are needed in this section to recognize new technologies: We recommend the following changes:
    - Delete "the combustion of" from 95852.2

      Emissions from the following source categories and from ~~the combustion of~~ the following fuel types count toward applicable reporting thresholds, as applicable in MRR, but do not count toward a covered entity's compliance obligation set forth in this article unless those emissions are reported as non-exempt biomass-derived CO2 under MRR.
    - Delete "the combustion of" from Section 95852.2(a)

      Emissions from ~~the combustion of~~ biomass-derived fuels.

[1] May 24, 2018 WSPA comments at: https://www.arb.ca.gov/lists/com-attach/1229-ct-4-26-18-wkshp-ws-WzoCYABlV20KeFQ9.pdf

- Add the following to Section 95852.2(a) Emissions without compliance obligation:
  10) Renewable Gasoline
  11) Renewable Liquified Petroleum Gas (Ethane, Ethylene, Propane, Propylene, Butane, Butylene, Isobutane, Isobutylene, Pentanes Plus)
  12) Renewable biofuel or feed

Chevron respectfully provides these pre-regulatory comments on the June 2018 PDD to continue to support a balanced program supporting ongoing economic and environmental goals in California.

Sincerely,

Original sent via e-mail (JB)

Henry Perea

cc: Jason Gray, Branch Chief, Cap-and-Trade Program
Richard Cory, Executive Officer