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Mr. Kevin Kennedy
Assistant Executive Officer
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, California 95812

Subject: Chevron Comments on June 23 Offset Protocols Workshop

Dear Mr. Kennedy:

We appreciate the opportunity to provide comments on the California Air Resources Board's (ARB) June 23, 2010 offset protocol workshop (the "workshop"). We have been encouraged by several changes in ARB's approach to AB 32 implementation which move away from the economically punitive program described in the initial Preliminary Draft Regulation and toward a measured approach that recognizes current economic conditions. However, ARB's recent proposals to require additional layers of review into an offset protocols as presented in the workshop is a significant departure from this measured approach. ARB should reconsider and revise their proposed offsets policy to prevent undue hardship on California companies, and be consistent with the message in the Governor's March 24th letter to ARB calling for designing the program in a cost effective way.

We are concerned that if ARB adds additional layers of review to the already difficult process of creating offsets, the supply will not meet the needs of the California cap and trade program. The lack of available offsets will create a strain on the California economy.

There are two proposed policies raised in the workshop that should be revised:

- Development of ARB protocols – This process is unnecessary and time consuming.
- Creation of additional offset approval criteria beyond those already established by the Kyoto Protocol and the Climate Action Registry (CAR) – These create additional barriers to reducing CO2 through offset projects and introduce uncertainty into a difficult market.

Development of ARB Protocols

The workshop discussed the development of ARB protocols to be applied prior to review and approval by any other existing programs.

California will have a cap and trade market in two years. It will need immediate access to credible offsets from other programs to achieve cost effective reductions and a stable carbon market, particularly at the inception and during early years of the program. Before considering any California offsets protocols, ARB should focus first on establishing a program that automatically uses existing offsets from other

established systems, such as UN generated offsets and CAR approved offsets, for compliance credits in California's cap and trade programs, without additional administrative burden.

Linking to other robust programs will promote the use of the highest quality offset credits known today and would do so in a cost effective manner. It would also help provide assurance to capped sectors that sufficient offsets will be available when cap and trade programs start in 2012. Finally, it will send a strong signal of support from California for these types of credits to investors and offset project proponents, thereby promoting early actions and GHG reductions.

Additional Criteria

The policy proposals discussed in the workshop limit offsets to direct emissions, add the "principle of conservatism" to the existing definition of additionality, create holding limits, and shift the burden of liability for offset credits onto the buyer. All of these criteria are significant departures from existing programs. All add administrative burden and uncertainty for California's cap and trade market and would further delay offset creation just two years before offsets are needed.

In summary, ARB's policy approach should not create a more restrictive program which will simply reduce the ability and incentive to create offsets.

We look forward to working with ARB to develop a sound offsets program that does not constrain the supply of offsets which are necessary to contain costs and meet the goals of AB 32.

Best regards,

via e-mail

Stephen D. Burns