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February 27, 2020

Vicki Arroyo
Executive Director
Georgetown Climate Center
600 New Jersey Avenue, NW
Washington, DC 20001

RE: Draft Memorandum of Understanding

Dear Executive Director Arroyo:

Shell appreciates this opportunity to comment on The Georgetown Transportation Climate Initiative's ("TCI") draft Memorandum of Understanding. As we explained in our November 1, 2019 letter regarding the draft framework, we believe the TCI cap-and-invest program is a step in the right direction. The proposed program can contribute to reducing transport emissions by sending a signal to consumers to consume fuel more efficiently, provided the program is designed to drive emissions reductions beyond a business as usual scenario. At the same time, the cap-and-invest framework can provide the support needed to promote innovation, spur local economic development, and deploy technologies that can reduce emissions such as advanced biofuels, refueling infrastructure for electric and hydrogen vehicles, Carbon Capture Use and Storage (CCUS) technologies, and nature based solutions. It is with this supportive mindset that we offer comments on a few specific issues at this time.

How should the compliance period be structured to provide needed flexibility, while ensuring environmental integrity/ What factors should TCI jurisdictions consider when designing stability mechanisms for managing uncertainties regarding future emissions and allowance prices?

The Framework explains that the program would incorporate allowance banking and multi-year compliance periods and include price-based mechanisms for cap flexibility and cost containment (e.g. cost containment reserve, emissions containment reserve, minimum reserve price). The Framework further explains that price-based flexibility mechanisms would be implemented through auction design, and that linkage with programs in other jurisdictions might be another way to add flexibility and contain costs.

Shell supports inclusion of flexibility and cost containment mechanisms. Compliance flexibility allows businesses to select strategies that best suit their unique needs and evolving

circumstances, while delivering real emission reductions more efficiently and at less cost than rigid measures. Price-based mechanisms help to achieve GHG emission reductions while sending a clear and transparent signal throughout the economy. This in turn prompts behavior change that reduces emissions and spurs the investment and commercialization of advanced technologies. Well-designed cost containment provisions also increase regulatory certainty and facilitate investment.

Linking with other programs and promoting a TCI program that covers as broad a geography as possible can add flexibility and contain costs. We would also encourage the TCI jurisdictions to enlist the participation of neighboring jurisdictions. A geographically broader program, especially if linked with other programs, may help to reduce cross border dislocations and increase liquidity. The TCI proposal should ensure consistency with existing programs on the point of regulation, cost containment and the use of offsets for compliance. Adopting policies that are aligned with existing programs serve as a valuable means to ultimately encourage other jurisdictions to follow suit.

In addition to allowances, it is important for the program to allow obligated entities to meet a portion of their obligation with offsets, such as credits from the use of carbon capture and sequestration or nature based solutions to sequester carbon, while at the same time maintaining a sufficient price signal to support investments to reduce emission. Offsets serve as a cost mitigation measure when other low carbon technology options are unreasonably expensive or unavailable, thereby potentially easing the cost of the energy transition to businesses and consumers. Their eligibility provides an incentive for other non-regulated sources to reduce emissions that helps obligated entities to meet the TCI targets through innovative means. Offsets with established protocols from other compliance programs should be recognized. Eligibility determined under the terms and conditions of existing offset program protocols will encourage early investment in offset projects leading to increased market liquidity, and in turn make it more economic for businesses to meet the region's carbon reduction goals.

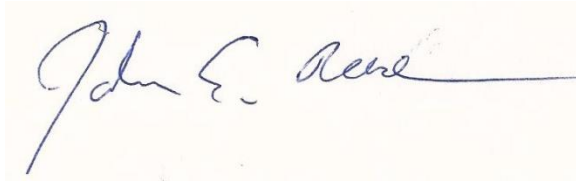
The draft MOU explains that a three year compliance period is being considered. While a multi-year compliance period does provide flexibility, it also introduces some risk to the environmental integrity of the program. For example, if there are not limitations, an obligated party might accrue three years of deficits and then declare bankruptcy without meeting its obligations under the program. To avoid such an outcome, we suggest that the TCI jurisdictions consider the approach taken in California where every year covered entities are required to turn in allowances and offsets for 30 percent of the previous year's emissions.

The program should include adequate enforcement provisions to ensure the integrity of the program and remove any economic benefits of noncompliance. This is the approach that federal fuels rules follow. Under the federal programs, noncompliance results in the assessment of substantial penalties as well as the forfeiture of any economic benefits of noncompliance. A similar approach should be taken for this program.

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We appreciate this opportunity to comment on the draft Memorandum of Understanding. If you should have any questions concerning these comments, please feel free to contact me at 713.201.4450 or John.Reese@Shell.com.

Sincerely,

A handwritten signature in blue ink on a light yellow background. The signature reads "John E. Reese" in a cursive script, followed by a long horizontal line.

John E. Reese

Downstream Policy & Advocacy Mgr., Americas