I have sent the attached e-mail to everyone copied on this e-mail with no response except auto-responders from some.

I am also sending this to all via mail in hopes that a least one of you respond and hopefully support me in my effort to become involved in developing and maintaining a pro-active energy policy for National Defense and in support of both industry and the public.

In addition to the attached prior e-mails, I would like to recommend that we establish a team to deal with MTBE in gasoline. We already have shortages as a result of California's Phenomenal government. They try a quick fix, only to find out they created a bigger problem than they had before. Now that the world anticipates the inability to add MTBE into gasoline many producers have modified their plant creating a serious supply shortage. 2001 will be bad, 2002 will be another nightmare.

We are also in a period to deal with distillates in May-August of 2001. We have east coast inventories that I hope are commingled due to stability problems. Rest assured, the storage companies are "using" the heating oil and making lots of money. We are in a backwaded market providing them great value in time trades for even 2-7 days. We should get this benefit. Jetfuel would be no different. We need to convert additional SPR crude into heating oil in the east coast by August, minimizing the industry impact but taking advantage over very depressed heating oil crack spreads. We should also do this with jet fuel or more specifically Colonial 55 grade kerosene.

I have only asked for an opportunity to become involved in the energy program. When I apply for a job, I at least get a letter of refusal. I have received nothing, but especially nothing from my Senators. I sent them numerous e-mails for over a year. I have them if you would like to review them.

Good luck in this natural gas dilemma, but don't forget to do something more about heating oil and jet fuel now. There are many other issues I would like to discuss if you have the time. I would be honored to visit any of you at my expense to express my opinion and better yet my solutions. You are using Drew lauglin, a good friend of mine, in you natural gas program. You could not have picked a better, more commercial and intelligent professional to assist you.

Last e-mail:

I have repeatedly sent e-mails to Secretary Abraham, Senator Hutchison and Senator Gramm about key energy issues. I have not received a response from any of them.

Congratulations on your selection of the lead on Energy Issues, especially the California problem. I wish that someone with some commercial sense would have reviewed the California bill that put them in this position years ago. California seems to be pro-active in their legislation but all to consumer oriented which eventually, like now, bites them hard. There should be a balance of business needs and consumer needs which is evolutionary not stagnant.

I feel that everyone in the Energy Department before this administration has been issued fire extinguishers so that they concentrate on putting out fires rather than providing the nation with a definitive long term Energy Policy.

I would like to work with you and Secretary Abraham in the development and implementation
of a sound and broadly fair energy policy. I have a sound commercial background and realize that this is a political issue and compromise seems to be the method of success. I only ask that you have some constant representation from the commercial market so that proposals, even though politically sound, like California natural gas, do not fall into the "black hole". This is also an evolutionary process that requires a pro-active approach with the very best people involved. There is no "quick fix" but proposals need to be implemented on a timely basis to insure National protection and defense when needed. I pride myself on forward thinking and making informed decisions leading to desired conclusions. I use Southwest Airlines as an example. I was their "outside industry risk management specialist" referred to in their recent earnings statements and use Gary Kelly, CFO, and John Denison, Executive Vice President, as references.

I have a home page at www.jetfuel.com and currently am a consultant in price-risk management, B2B activities and procurement auctions. My resume is on my home page.

My background is quite broad, but I would like to assist you and Secretary Abraham in the development of a national energy policy as well as become the key contact with the United States refiners, producers, end users etc. as well as being involved in the pro-active utilization of the SPR while considering the storage of jet fuel in countries around the world. I think we should convert as much of the crude to refined products stored in strategic locations on a timely basis as possible. Working with Dow Chemical, I stored millions of barrels of crude, jetfuel, heating oil and other products in salt domes. Again, my real strength is in forward thinking. I pride myself in anticipating problems and opportunities and making recommendations as to solutions. You know consultants, at the very least, they have an opinion.

My concern today is the impact of energy prices on the economy. If corporate earnings are poor, with in many cases much of the blame placed on energy costs, the consumer will get hit many times harder (I am). Just using pure economics, we could have exchanged, while increasing our overall SPR inventory, January crude for February crude and collected over $2.00 per barrel. This would also have significantly decreased the price of crude and products, not necessarily reducing refinery margins. It would have also sent a signal to OPEC that $20-$22 crude is acceptable but their "basket " of now $25 minimum ($28-$30 WTI) is unacceptable. Price elasticity has already reduced demand, and OPEC will see that through June. I expect they will announce another reduction of at least 1-1.5 MMbd of production by the middle of February. We need to address this issue as well. We need to dilute Iraq's crude influence and now is the time. Many powerful OPEC nations, like the Saudi's, want to increase their trade with their Arab brothers.

I also recommend having another key assistant to Secretary Abraham who deals with international details and coordinates very closely with the United Nations and OPEC as well as non-OPEC nations.

I can only offer you hard work, long hours and a broad experience. I would be honored to work with you. I understand your probable interest in working with people you know. I would most likely surround myself with people I know and respected. I ask only for an opportunity to visit and hopefully gain your confidence and convince you to include me in your team.

I happen to have gone to Albion College and my Father and Mother still live in Albion. I have asked Robert Teeter (knew him at Albion) to be a reference. I also played professional football for New Orleans Saints in 1967. This is the first year I have been able to say that openly.

I know this is a long e-mail and there are many more issues to resolve. Thank you for your consideration.

Good luck!

Sincerely,

Berry Siler
CEO
Rodiak Fuels

27688
February 5, 2001

The Honorable Spencer Abraham
Secretary
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, D.C. 20585

Dear Secretary Abraham:

It was good to meet you during President Bush's Inauguration. Attached is a letter I recently sent to the President that outlines Chevron's recommendations for a comprehensive U.S. energy policy.

I support the Administration's call to increase our energy supply, and improve delivery infrastructure. Developing a consensus on a national energy policy will be very challenging. One way to start building the consensus is to hold a "National Energy Summit," bringing together thought-leaders to address the pressing energy issues facing our nation.

In our meeting, we briefly discussed the electricity crisis that is gripping California. You may find the attached Chevron paper on this issue of interest.

Chevron wants to be part of the solution to the energy challenges facing the U.S. Please do not hesitate to call when we can be of assistance.

Sincerely,

[Signature]

Attachments
February 5, 2001

President George W. Bush
The White House
Washington, DC 20500

Dear President Bush:

Thank you for your call to the nation for a new approach on the way we address the energy issue in the United States. I applaud your naming Vice President Cheney to head up a new interagency team on energy issues. Too often energy development has been stymied by lack of cooperation among the federal agencies that have jurisdiction over a specific project. Your action is an important step in the right direction.

I am reminded daily of the seriousness of our nation's energy problems as I read headlines about the electricity crisis in my home state of California. During the past two years, it has been abundantly clear that the U.S. needs a clear, coherent energy policy. Your early leadership has helped put this issue squarely before the nation. I strongly support your admonition that we need to increase our energy supply, and improve the infrastructure that delivers energy to the consumer. Attached are Chevron's recommendations for a comprehensive energy policy - both domestically and internationally.

Building the necessary national consensus around a sound energy policy will require that a strong coalition be built. Already, special interests are promoting the old paradigm that increasing energy production will compromise the environment. While the public is now keenly aware that the U.S. is suffering from the lack of an energy policy, public opinion has not yet jelled on why there is a problem -- and what to do about it.

A positive first step toward building the necessary consensus should be to hold a "National Energy Summit." You have my commitment that we will provide Chevron's ideas on how to define the energy problem facing the U.S. and how to craft a U.S. energy policy. Years of federal neglect on fostering energy production cannot be reversed overnight. However, there are a few early actions that will help begin to improve the energy environment. These actions would support two goals -- building a consensus, and eliminating federal barriers to increased energy supplies.

In brief, I recommend the following:

1. Charge the Environmental Protection Agency (EPA) Administrator to identify and address federal barriers to permitting energy projects (e.g. projects to develop new supplies of energy, and projects that produce cleaner transportation fuels). Although most permitting is led by the states, EPA usually has an oversight role. Too often, this federal role is limited to identifying problems with the state's permitting procedures, rather than acting to solve problems. The federal/state interface on permitting issues should be evaluated to have EPA act as an enabler to help states ensure permits for energy projects are both environmentally sound and timely.

David J. O'Leary
Chairman and Chief Executive Officer
2. Promote legislation to address the balkanization of transportation fuels. Recent federal, state and local regulations have led to a patchwork of boutique fuel requirements, which have contributed to supply constraints and increased fuel costs. Comprehensive energy legislation should address the regulatory requirements affecting the nation's motor fuel supply. A federal plan should be developed to move the U.S. to nationwide performance-based standards for gasoline and diesel fuels.

3. Proceed with domestic energy development, including Lease Sale 181 in the Eastern Gulf of Mexico scheduled for later this year. This announcement would complement and reinforce your support to open ANWR, and demonstrate a commitment to reject unjustified opposition to new energy leasing and development.

4. Oppose any attempt to reinstate the Iran-Libya Sanctions Act (ILSA) which sunsets on August 5, 2001, and consider lifting or modifying the current Executive Order that prohibits U.S. companies from doing business with Iran. U.S. energy policy should recognize the global nature of energy supply, and the role that foreign countries play in our nation's energy security. We urge your administration to support U.S. based companies efforts to expand and diversify the supply of energy throughout the world. This includes your support for eliminating ineffective, unilateral trade sanctions and promoting open trading relationships.

Longer term, there are several elements necessary for a comprehensive energy policy. These are discussed in more detail in the attached paper.

Again, I appreciate your commitment to pursuing a sound energy policy for our nation. If I can assist in any way with the consensus building process, please do not hesitate to call me.

Sincerely,

[Signature]

Attachments
Chevron’s Recommendations
For a Comprehensive U.S. Energy Policy

I. ENERGY POLICY OBJECTIVES

An effective national energy policy that will stand the test of time is critical to sustaining the strength of the U.S. economy and improving the quality of life throughout the world.

Historically, the government and the public have become most concerned about energy issues when prices rise rapidly or there are shortages. This occurs whenever energy demand exceeds available supply -- even by a small amount -- due to politically imposed constraints, unusual weather, regulatory uncertainty, or manufacturing and distribution problems. In addition, there is increasing public concern about the impact of energy use on air and water quality, and on the climate. To address these issues, Chevron renew its call for the creation of a cohesive, long-term energy strategy.

Chevron believes that a comprehensive national energy policy should:

- ensure that energy supplies are sufficient to support economic growth which improves people’s quality of life,
- encourage responsible use of energy in order to fulfill society’s expectations for energy security, environmental performance and energy efficiency, and
- support basic and applied scientific research to improve energy availability, utilization and environmental performance,
- recognize that significant advancements in technology and improved practices permit discovery and development of energy resources with minimum environmental impact.

II. POLICY PRINCIPLES

A. Efficient Markets -- Markets are the most effective means of meeting consumers’ needs and maintaining a robust economy. Thus the government should identify and remove impediments to an efficiently functioning marketplace for energy, and work with other governments to do the same. Specifically:

- Fuel Neutrality -- The market should determine the source and use of various fuels, and govern the introduction of new technologies. Government policies should be fuel neutral and should not mandate or subsidize specific types of fuels or energy. Regulations should allow all contenders to compete on a level playing field, provided they meet environmental performance requirements.

- Incentives -- The government should provide no incentives or subsidies, except to fulfill clear and overriding energy security or environmental objectives.
• **Electricity Markets** -- U.S. policies should promote restructuring of the electric industry to facilitate the development of electricity markets characterized by price transparency; non-discriminatory, open access to transmission and distribution; multiple, competing generators/suppliers; and broad geographic scope. The government should support the creation of a seamless, interconnected transmission grid, governed by non-discriminatory standards and operating procedures.

• **Tax Neutrality** -- U.S. tax policy should not limit U.S. companies’ ability to compete internationally with non-U.S. companies. Misguided rules can disadvantage U.S. multinationals through double taxation, administrative complexities or other burdens that are not borne by their non-U.S. competitors. Most importantly, a full foreign tax credit is critical to avoiding double taxation and maintaining U.S. competitiveness.

• **Gas Pipeline Regulations** -- Government policies should continue to promote competition in the gas transmission market by ensuring open access to pipelines. There is significant competition at the supply end and burner-tip end of the natural gas pipeline grid, yet there is little or no competition among the interstate pipelines.

• **Trade Relations** -- Government policies should encourage economic engagement with other countries and reject the use of energy policy to achieve unrelated foreign policy objectives. We believe this is the best way to increase the security and diversity of energy supplies, to promote economic prosperity and to foster the growth of democracy, freedom and human rights. We oppose any unilateral interference in the market, whether it’s through the imposition of import duties/fees, trade sanctions or restricted trade relations.

• **Inter-Governmental Collaboration** -- The U.S. government should work with Canada and Mexico to encourage a well-integrated North American distribution system so that gas and electric resources can be developed and efficiently moved to market. Significant supply, market and infrastructure opportunities exist within all three countries.

**B. Environmental Responsibility** — Government policies should foster continuous improvement in environmental performance while increasing both the supply of energy and its efficient use. The nation’s environmental objectives should be supported by scientific studies and implemented through performance-based regulations. Specifically:

• **Conservation** -- Government should identify and support research programs that promote technological advancements aimed at significantly improving efficient consumption of all sources of energy. The government should also support expanding the information available to consumers concerning the energy consumption of products in order for them to make more informed decisions.
Supply -- Government should acknowledge and support environmentally responsible methods of discovery and development of new resources.

Global Climate Change -- As indicated, there is increasing public and government concern about global climate change. The government should adopt policies to give companies credit for voluntarily reducing greenhouse emissions. Furthermore, the government should fund research to better understand global climate change and the influence of human activity on the climate.

Fuel Supply -- Increased state and local regulatory activity has led to a patchwork of boutique fuels requirements, which is contributing to supply constraints and increased fuel costs. To better meet consumer needs, the federal government should adopt nationwide performance-based fuel standards for gasoline and diesel. Additionally, we support national standards for fuel parameters that are necessary to enable emission control technology to operate efficiently.

C. Energy Security -- Federal policy should encourage the expansion and diversification of supplies of all sources of energy. Government should acknowledge and support development of energy resources based on significant technological advancements that permit discovery and development with minimum environmental impact.

Access to Energy Resources -- Substantial federal policy and regulatory barriers constrain the supply of U.S. natural gas and crude oil. They restrict or prevent responsible energy development on most of the Outer Continental Shelf and in many highly prospective areas of Alaska and the Rockies. Government must improve resource access, streamline application and permit processes, eliminate unnecessary delays and reject unjustified opposition to new energy leasing and development.

Commercial Advocacy -- Chevron supports an expanded U.S. government role in advocating for overseas energy development projects of U.S. companies. This helps them compete with non-U.S. companies that have historically benefited from fiscal support and high-level advocacy by their national governments (details on this principle as an appendix).

Strategic Petroleum Reserves -- We support a Strategic Petroleum Reserve of crude oil that is owned and controlled by the federal government to deal only with national emergencies. The funding of the reserve should be through general revenues, and not through a requirement that oil importers set aside a percentage of their imports or the monetary equivalent. We oppose the creation of regional product reserves because they would interfere with the efficiencies of the market and ultimately increase costs to consumers.
D. Scientific Advancement — The federal government has a fundamental role in advancing basic scientific research, while the private sector is best suited to the commercial implementation of new energy-related technologies. Specifically:

- The government should fund basic scientific research and support university education in science and technology.

- The government should fund research in the fundamental science of climate. Additional research by government, university and other scientific organizations is needed to improve our understanding of the global climate.

- The government should fund applied research, technology development and demonstration projects in energy only in partnership with the private sector. Such programs can be an important complement to private sector R&D investments. Examples would include programs to improve energy efficiency and to identify cost-effective climate change mitigation strategies and technologies.

Attachment: Chevron Recommendations for U.S. Energy Policy:
International Energy Policy Component
Chevron’s Recommendations for U.S. Energy Policy
International Energy Policy Component

The United States currently imports 56% of its petroleum resources and imports are forecasted to reach 64% by 2020. The U.S.’s dependence on imports reinforces the need for a long-term energy strategy that will ensure that energy supplies are sufficient to support economic growth. From an international perspective, a comprehensive energy policy should encompass the following objectives:

- Ensure secure access to a broad array of energy resources. This includes multiple sources of supplies from a number of geographies, and from a variety of energy sources (e.g. crude oil, LNG) and markets (e.g. OPEC vs. non-OPEC);
- Foster open access to international markets;
- Recognize that international market conditions are best fostered under rule of law and transparent applications;
- Create a level playing field for U.S. companies operating in the international marketplace;
- Acknowledge that policies of engagement are more effective than forcing a result or imposing punishment through unilateral sanctions;
- Encourage the U.S. Government to facilitate resource expansion by providing innovative technical mentoring and financial support, particularly for those objectives best achieved through governmental channels.

A. Normalize Trade Relationships

The U.S. Government should develop open trading relations with all countries in order to increase the security and diversity of energy supplies. Positive U.S. economic engagement is also the most effective means of promoting the values of responsible economic and social development. Although there are many policy issues that must be addressed with those countries with which we do not enjoy a normal trade relationship, the government should continue to pursue trade policies that allow U.S. businesses to invest and compete in countries where our overseas competitors are investing.

U.S. trade policy should take specific steps as suggested by the following examples to normalize trade relationships in recognition that sustained U.S. economic growth is dependent on strong international relations:

- Continue bilateral consultative commissions which are effective in establishing dialogues and improving economic and social engagement (recent examples of this include the U.S.-Angola Bilateral Consultative Commission, U.S.-Nigeria Joint Partnership for Economic Cooperation, the U.S.-China Oil and Gas Forum, and the U.S.-Kazakhstan Joint Commission);
- Ratify the U.S.-Vietnam Bilateral Trade Agreement;
- Accelerate the process of reviewing export control applications.
B. Engagement vs. Unilateral Sanctions

The U.S. Government should recognize that policies of engagement are a more effective means of promoting economic prosperity, introducing international business practices and fostering democratic principles. Unilateral sanctions are ineffective and have restricted U.S. companies from doing business in markets that are open to our foreign competitors. Unilateral sanctions result in reduced opportunities for U.S. construction, supply, and service companies, which reduces jobs for U.S. citizens, as well as reduced tax revenues for the United States. As an important step in moving away from a policy of unilateral sanctions, the government should enact the Sanctions Policy Reform Act (the Crane-Lugar bills) to require a more deliberative process to assess the full impact of sanctions before it can invoke unilateral sanctions. In addition, the following actions need to be taken to encourage economic engagement by U.S. companies:

- Rescind the Executive Orders banning oil-related investments in Iran, Libya and Cuba.
- Repeal Section 907 of the Freedom Support Act, which currently limits U.S. Government assistance programming to the government of Azerbaijan.

C. Encourage Good Governance Initiatives

The U.S. Government should assist transitioning economies to develop the institutions and systems of good governance and support the rule of law. Assistance in support of the rule of law provides an appropriate environment for ensuring the protection of investments, provisions for worker safety and security, and the environmentally sound development of energy resources. The government should be particularly supportive of those sustained initiatives which have public/private sector participation and cooperation as they are perhaps the most effective method of delivering such assistance. Participation by host country or regions, along with practical programming with measurable targets, is critical to the success of these initiatives.

U.S. trade policy should undertake the following specific actions to continue to encourage Good Governance and further increase energy supplies:

- Continue funding for the Office of Transition Initiatives as a rapid response organization for Nigeria and other targeted countries;
- Partner with non-OECD countries to foster understanding and adoption of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions;
- Fully fund U.S. obligation to pay U.N. dues arrearages to allow continued U.N. programs in support of Good Governance initiatives.

D. Expand U.S. Government Advocacy Role

U.S. government should expand its role as an advocate in securing new international energy development projects involving U.S. companies, as well as in the resolution of issues that arise during ongoing projects. U.S. companies are operating at a disadvantage to their foreign competitors who enjoy the support of their own governments in providing
fiscal and high-level direct government advocacy on their behalf. A coordinated, interagency process that leverages the strengths of individual government agencies to partner with U.S. companies can provide maximum support for U.S. commercial projects. Advocacy efforts would also provide an opportunity to recognize the impact of U.S. companies on sustainable development for transitioning economies.

U.S. Government advocacy could provide assistance and expand U.S. energy resources through:

- Continued Congressional appropriations supporting U.S. Government agencies and offices engaged in international advocacy, especially the:
  - U.S. Department of Commerce: Advocacy Center, Foreign Commercial Service offices;
  - U.S. Department of Energy: Office of International Affairs;
  - U.S. Department of State: Regional bureaus, USAID-OTI, U.S. Embassies;
  - U.S. Trade and Development Agency;
  - Overseas Private Investment Corporation (OPIC);
  - U.S. Small Business Administration (supporting businesses in developing countries);
  - U.S. Export-Import Bank
- Mediation and demonstration of successful resolution of border disputes would open new sources for exploration and development (examples include the Thailand/Cambodia overlapping zone);
- Sustained support for diversified export routes that promote regional cooperation through commercially viable projects (the Caspian Pipeline is an example);
- Technical mentoring in regulatory reform assistance (the West Africa Gas Pipeline is an example);
- Support for initiatives encouraging the use of environmentally friendly fuels to meet growing power demand in developing countries;
- Expansion of the Black Sea Oil Spill Response Program to the Caspian Basin;
- Reinvigoration of a working group to set significant goals for the APEC Natural Gas Initiative.
CALIFORNIA'S ELECTRICITY MARKET: A PATH FORWARD  
(1/12/00)

EXECUTIVE SUMMARY

California faces complex policy issues as it grapples with tight electricity supplies and volatile prices. Chevron believes the state should not retreat from its goal of letting an open competitive market provide a lasting solution. Markets are the most effective means of assuring adequate supplies to meet consumers' needs as well as maintaining a robust economy. Accordingly, the state's long-term plan to remedy the situation should include measures to:

- Increase new power generation and associated infrastructure.
- Improve the siting process for power facilities.
- Rely on transparent price signals, not price controls or caps.
- Encourage wise use of energy.
- Maintain assistance for low-income consumers.

The state's near-term efforts to address the current crisis should include measures that:

- Dampen demand through voluntary measures wherever possible.
- Address and, if possible, avoid "price shock" to consumers. Existing price controls should be removed at the first opportunity.
- Do not jeopardize or discourage investment in, or operation of, existing or future cogeneration. Unless they have contractual obligations to deliver power, cogeneration facilities that are integral to an industrial process should be encouraged, not mandated, to deliver power to the grid. The state's need for electricity must not be allowed to jeopardize generating facility equipment or the associated manufacturing process, or violate permit requirements.
- Support the financial health of the utilities while ensuring utility shareholders and consumers are treated equitably. Any rate increases should allow for the review, audit and proper allocation of cost within an appropriate time period.
- Allow conformance with RECLAIM and other environmental requirements in ways that do not jeopardize electricity supplies.

The Federal Energy Regulatory Commission (FERC) should not impose cost-based wholesale rate regulation for generation sold in the western states. In addition, the state should not force consumers to pay all of the undercollected wholesale costs that have accrued in utility accounts.

There are several key issues for Chevron which arise from its various roles:

- As a self-generator with significant investment in cogeneration facilities that serve the majority of our electric load, we must prevent attempts by regulatory bodies and utilities to use our facilities as if they were power plants designed to operate for the benefit of the electric grid. We must also oppose regulatory measures requiring our facilities to deliver power to the grid if they would
cause damage to our cogeneration, producing or refining equipment, or cause violations of warranties or permits.

- As a self-generator that sells excess power into the grid under regulated conditions, we must ensure the prices paid for our surplus electricity adequately compensate for the costs to generate.
- As a consumer, Chevron can maximize its contribution to reducing demand for electricity by expanding participation in load shedding programs, conservation and exploring alternative power generation at our facilities.
- As a provider of energy management services to other energy users, Chevron offers services to help others in reducing their impact on the electric grid and lowering operating costs.
- As an employer, Chevron can urge its employees to do their part to use electricity wisely both at the office and in the home.

BACKGROUND/HISTORY

Throughout the early and mid 1990's, California struggled with low economic growth. Much attention was focused on reducing the cost of doing business in California. The sky-high electricity rates (50% higher than the national average) coupled with the lack of competition in suppliers (regulated utilities with prescribed service areas) led to political discussion of electric utility deregulation. Business customers demanded "direct access" to competing suppliers, residential customers wanted rate decreases, and utilities demanded to be compensated for generating assets that they perceived would be "economically stranded" if customers could access lower-cost supplies.

With a 25% surplus of generating capacity in the West and low natural gas prices fostering the belief that new efficient gas-fired generation could produce less expensive electricity than the existing utility nuclear and coal-fired plants, political leaders fashioned legislation to achieve all these objectives (AB 1890), and the various constituent groups (including Chevron) lined up in support. As enacted, AB 1890:

- Mandated collection as a surcharge on utility rates of "competition transition charges" - CTC - to allow the utilities to recover investment in their "stranded" assets;
- Protected existing consumer cogeneration investments by not imposing charges for CTC on the load serviced by those facilities;
- Provided residential and small commercial consumers with a 10% rate reduction, and established a "freeze" on retail rates until each utility collected its generation-related CTC or until 3/1/2002, whichever came first;
- Established two entities (California Power Exchange - CaPX - and the California Independent System Operator - ISO), the former to manage the wholesale market for electricity bought and sold in California and the latter to manage statewide transmission of that electricity in real time.

Unfortunately, the electricity supply/demand model envisioned at the time AB 1890 passed did not materialize. The power surplus in the West was consumed by rapid
economic and population growth in the region—demand soared, and once the surplus was exhausted, wholesale power prices escalated quickly. New generating plants were not built as siting problems arose (particularly local opposition to California plants) and natural gas prices rose to levels which called into question the competitiveness of gas-fired generation. In addition, deficiencies in implementation of AB 1890 such as the rules for forward contracting exacerbated rather than helped the situation.

In the summer of 1999, San Diego Gas & Electric announced it had collected its CTC and emerged from under the rate freeze. For the first time in California, customers began to get bills based on this new market reality as SDG&E passed through higher wholesale prices to the retail consumer. The state’s other utilities (PG&E and SCE), still operating under their rate freezes, have been caught in the conflict between higher wholesale prices and an inability to pass through those costs.

It seems clear that the market mechanisms constructed by AB 1890 and implemented by the CPUC, CaPX, and the ISO to “manage” an electricity market where costs and prices were predicted to fall cannot respond to the current market—a market with tight supplies where costs and prices are rising. A good part of the problem is that the market was not deregulated but “managed” and that both legislative and regulatory policies need to be re-examined in today’s market conditions and altered to move California toward an open market for electricity. Today’s problems suggest that a transition period of several years may be necessary to overcome the market distortions of the past few years and bring supply and demand into balance at lower price levels.

While Governor Davis criticized wholesalers during the last few months of 2000, his most comprehensive response was part of his 2001 State of the State Message. Calling deregulation a dangerous failure, he proposed a series of short-term measures ranging from allowing the utilities to contract forward to new criminal penalties for withholding power from the grid. He also proposed additional steps such as exploring a State Power Authority to build and/or acquire generating plants. His strongest remarks criticized out-of-state generators. Saying the state had surrendered control, he went on to assert California must regain control over the power generated within the state and use it for the public good. And that would include using his powers of eminent domain if necessary. Finally, it is noteworthy that one of his most concrete proposals was to expand conservation programs to help avoid short-term supply shortfalls.

CHEVRON POSITION

The state should not retreat from its goal of letting an open competitive market provide a lasting solution. Markets are the most effective means of meeting consumers’ needs and maintaining a robust economy. The role of California’s government and other stakeholders should be to identify and remove impediments to an efficiently functioning marketplace for electricity. More retail and wholesale competition is needed, not less. The state should strive for an open marketplace where multiple purchasers are vying to
buy power from multiple generators/suppliers in competition with each other. It must also strive for an economic climate that encourages new energy investment of all types.

There are long and short term measures that need to be pursued to achieve the benefits of fully competitive markets. We believe the following elements should be part of the state's long-term plan to remedy the situation:

- **Increase power generation and associated infrastructure.** There is no question that new generation and infrastructure are essential. At the same time California is part of a regional energy system. Therefore, it must participate with the other western states in addressing what is really a regional power shortage. California need not be self-sufficient in electric generation. But it must expand or construct new generation and transmission facilities and do so in locations that will support the stability of the entire state and regional grid. This does not mean just constructing new power plants. Alternatives such as cogeneration and distributed generation should also be supported for their fuel efficiency and reliability benefits. In addition, both the state and region must have new and upgraded infrastructure to ensure the West has integrated delivery systems capable of getting fuel to the generator and electricity to consumers. This means new or expanded natural gas pipelines and electric transmission/distribution facilities.

  As new generation and infrastructure are added, the market should determine the source and use of various fuels, and govern the introduction of new technologies. The state’s policies should be fuel neutral and should not mandate or subsidize specific types of fuels or generating resources. Regulations should allow all contenders to compete on a level playing field, provided they meet environmental performance requirements

- **Improve the siting process.** Environmental and land use constraints with “NIMBY” pose significant hurdles and delays for proposed projects. Procedures for permitting new and/or expanded generation and transmission need to be streamlined to expedite decision-making. Recent cases where local authorities have blocked the siting of generation facilities point to the need for a better funded and more engaged centralized authority for siting energy and infrastructure projects needed by the state and region. The state authority should balance the state’s needs for power with its commitment to environmental values and local decision-making. The state also needs to work actively with federally-chartered regional organizations in facilitating siting of interstate infrastructure projects.

- **Rely on transparent price signals.** Price signals must be transparent to all market participants. If the market is functioning freely, those signals will elicit the appropriate responses to bring supply and demand into balance. Increasing prices will induce consumers to reduce or alter their consumption as well as attract new generation investment. The resulting drop in demand and increase in supply should then serve to lower prices. Government should not impose price caps because they hide the market signals and lead to distorted responses. For example, price caps will
discourage investment in new supplies because it may not be possible to realize the needed return of, and on, those investments.

- **Encourage wise use of energy.** Businesses and citizens should be encouraged to use energy in the most efficient manner possible, while relying on the price mechanism to send the appropriate market signals. Government should support expanding the information available to consumers concerning the energy consumption of products so they can make more informed decisions.

- **Maintain assistance for low-income consumers.** The various safety net provisions (e.g., lifeline rates) should be reviewed and updated as necessary to avoid significant undue hardship for low-income or other customer classes. This applies to the near-term situation as well. Some form of rate “stabilization” program by the local distribution companies may be required for this group.

We recognize the state is facing a crisis demanding immediate actions as well. Finding ways to reduce consumption of electricity will be the most effective near term response to shortages and reliability problems. Overall, we believe the following elements should be part of the state’s near-term efforts to address the current crisis:

- **Dampen demand through voluntary measures wherever possible.** Until more generation supplies are brought on-line, voluntarily reducing energy demand will provide relief to the system and help in avoiding blackouts. This starts by educating the public about the situation and the need for conservation. Every effort should be made to get the public, government agencies, and the business community “on board” a voluntary conservation effort over and above those measures dictated by price. There are also opportunities to improve the ability of business to participate in “demand relief” or load-shedding programs with the IOUs and the ISO. For example, Chevron has been precluded from using standby generation to participate in those programs by a regional air quality management district rule. Better coordination among government agencies is needed to improve the effectiveness of demand relief programs in the transition period.

- **Address and, if possible, avoid “price shock” to consumers.** Consumers have not yet been conditioned to respond to price signals by adjusting their consumption. In fact, their conditioning has been delayed by shielding them from price signals under the AB 1890 rate freeze. Consumers should receive market price signals as soon as possible, but not in a way that creates a “price shock” that could trigger a revolt or severe economic contraction.
  - **Wholesale price controls.** Various officials have called for state and regional caps on wholesale prices for electricity and natural gas. Price caps encourage generators and traders to sell their power elsewhere to avoid the cap. Caps also discourage investment in the new generation and associated infrastructure that the state and region need. History shows that such regulatory price controls do not solve supply shortage problems. The current “soft” cap implemented by FERC for California appears to avoid restricting term...
contracts or prohibiting wholesale generators from receiving spot prices above a specified level. Nonetheless, FERC must be vigilant in monitoring the effects of the soft cap and should remove it at the first opportunity. In the long term, we do not support a cap.

- **Retail prices.** The CPUC has implemented higher interim retail rates for PG&E and SCE consumers in an attempt to support the financial integrity of the utilities. Such retail rates should be replaced with true retail market prices at the first opportunity. It may be necessary to structure the transition to true retail market prices over a transition period corresponding to the period that new power supplies come on-line. This should be done in such a way that consumers are shielded from extreme price volatility as they move to true market retail prices.

- **Cost shifting.** The ISO and CPUC will be tempted to minimize the burden to residential consumers by arbitrarily shifting costs onto industrial and self-generation customers. They must resist that temptation. The long term impact on California’s economy of such cost shifting could be devastating.

- **Do not jeopardize or discourage investment in, or operation of, existing or future cogeneration.** All market participants must direct their efforts toward maximizing generation supply. Unfortunately, proposed ISO policies would impose new costs on customer-owned QF\(^1\) generation. Additional proposals by the ISO and other agencies would call upon QFs to generate power based on the needs of the electric grid rather than the needs of the industrial process linked to the QF. These policies could lead to disconnection from the grid and should be rejected. Calls upon QF resources in system emergencies must not jeopardize their operations that are integral to manufacturing processes. This means QFs should not be required to deliver power if there is a risk of damaging their generating equipment, compromising the associated industrial processes, or violating operating permit requirements. The price paid to QFs should not be lower than their reasonable production costs plus a return on investment. A price that does not reflect prevailing market prices or conditions will create discriminatory prices that will distort investment and market signals.

- **Maintain the financial integrity of the utilities.** Having reliable power infrastructure is important to the state. Introducing the complexities of a bankruptcy filing and proceedings for the two largest state utilities will divert resources from seeking meaningful solutions and prolong the period of financial uncertainty. Steps should be taken to support the financial health of the utilities while ensuring both utility shareholders and consumers are treated equitably. Any rate increases should allow for the review, audit and proper allocation of cost within an appropriate period of time.

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\(^1\) **QF** = Qualifying Facility. A Qualifying Facility is an electric generating facility meeting certain performance and operating criteria under the Public Utility Regulatory Policies Act of 1978 (PURPA). Cogeneration is the most common form of QF generation. QFs generally receive payment for the electricity they sell from the local utility. The payments are based on the utility's alternative cost of providing that power, the so-called "avoided cost."
• Allow conformance with RECLAIM and other environmental requirements in ways that do not jeopardize electricity supplies. This year’s extraordinary power demands have resulted in several generating stations in the South Coast district and elsewhere exceeding their NOx emission allowances or caps under RECLAIM or similar programs. As a result, several units were shutdown late in the year during stage 3 energy emergencies. New procedures need to be put in place to allow these units to access emission credits quickly and maintain operations during system energy emergencies. Credits could be obtained by such means as short term loans, interpollutant exchanges, forward purchases, or allowing these units to otherwise mitigate excess air emissions.

AB 970 was enacted last year to expedite permitting for generation dedicated to the grid. The provisions of this law should be expanded to expedite the approval/interconnection of customer-owned projects such as cogeneration and distributed generation. Key agencies such as the CEC, CPUC, CARB, and ISO (and the Legislature if necessary) also need to build upon AB 970 to develop reasonable rules for expediting temporary generation projects. These projects include reactivating idle plants, adding peaking plants, and bringing in temporary generation.

• Improve procedural practices and governance of the California Independent System operator (ISO). There is widespread recognition that the board of the ISO needs to be reconstituted. In addition, the ISO continues to advocate and implement counterproductive policies (see above comments on QF generation) without an appropriate system of checks and balances. The ISO needs to be restructured to ensure it is efficient, fiscally responsible and provides meaningful opportunities for public review and due process.

Several extreme measures are being proposed which would be exceedingly harmful to the state’s business environment and greatly hinder efforts to reach a solution. For example, some officials have proposed establishing a state public power authority to own and operate generation, transmission and distribution. Some consumer groups have proposed “windfall profits” taxes. We oppose those proposals as well as measures which would:

• Establish cost-based wholesale rate regulation. Re-regulation would stall the development of needed generation resources and infrastructure. It would divert industry resources from efforts to improve the existing market structure consistent with the state’s long-term vision of a competitive electricity market. It would also frustrate the expectations of investors in divested or new generation, and create an administratively unmanageable regulatory structure. Cost-based regulation should be rejected.

• Force consumers to pay all of the undercollected wholesale costs that have accrued in the Transition Revenue Accounts (TRA). The total cost incurred by the utilities for energy purchases from the PX has exceeded the revenues received from their customers through frozen rates for energy. Under AB 1890, investor-owned utilities are not entitled to recover “excess energy purchase” costs incurred
during the rate freeze period. While a situation of the present magnitude was not envisioned at the time of passage and some recovery of these costs is essential, the utilities clearly accepted some degree of market risk in return for the long-term benefits offered under AB 1890. Forcing consumers to pay the full amount of accrued power procurement costs effectively transfers all the market risk to consumers and holds the utility shareholders harmless. While the financial integrity of the utilities needs to be maintained, consumers should not be forced to bear the full burden of the accrued costs, either retroactively or at some time in the future.

CHEVRON ACTIONS/ISSUES

As the electricity debate continues in California, there are several key issues for Chevron which arise from our positions as a significant self-generator, as a consumer of electricity at facilities ranging in size from service stations to refineries, as a provider of energy management services for other users, and as a major employer.

- As a self-generator, Chevron has two areas of significant concern:
  - We have made major investments to take the majority of our electricity load off the utility system. Thus, we must prevent attempts by regulatory bodies and utilities to use those facilities as a source of revenue as if those facilities were part of the electricity grid. In addition, attempts by regulated entities or agencies to divert power generated by a cogeneration facility integral to a manufacturing process must be deflected to avoid damage to equipment or violations of warranties or permits.
  - Each of Chevron’s cogeneration facilities is certified as a “Qualifying Facility” under federal statute and regulations. Chevron has contracts under which it has the ability to sell surplus electricity to regulated local utilities. We must ensure that prices paid for our surplus electricity adequately compensate for the costs to generate. The prices determined under the contracts and regulations must reflect prevailing wholesale market prices to avoid discriminatory pricing that discourages generating surplus.

- As a consumer, Chevron can maximize its contribution to reducing demand for electricity during the shortage period by:
  - Seeking changes in regulations that will allow our operations to participate more fully in “load-shedding” or “demand relief” programs offered by the utilities and/or the ISO. For example, there are air district rules precluding us from using standby generation in load-shedding programs.
  - Pursuing further conservation efforts at our operations. It is unlikely that the market will be allowed to send appropriate price signals during the transition period, so we may have to conserve more than prices would suggest if we are to assist the state in avoiding draconian measures triggered by Stage 3 emergencies.
  - Explore other alternatives to generate power at our facilities through distributed generation, for example – and continue pursuing integrated distributed generation solutions for other businesses and institutions.
• As a provider of energy conservation/efficiency/management services to businesses and institutions, Chevron can continue offering other energy users opportunities to reduce their impact on the electric grid while lowering their operating costs.

• As an employer, Chevron can urge its employees to do their part to use electricity wisely both at the office and in the home. Chevron's current list of recommendations for conserving energy at the office can be enhanced and expanded to include tips for conserving energy at home. then actively communicated to employees.