COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE CALIFORNIA AIR RESOURCES BOARD ON INCLUDING IMPORTED ELECTRICITY IN A CALIFORNIA CAP-AND-TRADE PROGRAM

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I.

INTRODUCTION

Southern California Edison Company ("SCE") welcomes this opportunity to provide its comments on the California Air Resource Board ("CARB") staff's workshop on "Including Imported Electricity in a California Cap-and-Trade Program," presented on June 5, 2009, where CARB staff raised a number of questions. SCE discusses its answers below.

II.

CARB SHOULD ADOPT THE COMMON BOUNDARY APPROACH FOR ELECTRICITY IMPORT COMPLIANCE OBLIGATIONS

A. Are the potential market impacts significant? What mechanisms could be used to diminish any potential market impacts? Are there ways state and federal agencies could lessen potential impacts on wholesale markets?

CARB staff have adopted a Deliverer Approach for dealing with electricity imports, and are considering two Western Climate Initiative ("WCI") recommendations for a First Jurisdictional Deliverer Approach. SCE prefers the "common boundary approach," which has been described at the WCI as a "clean hub" approach. Under this approach, each WCI partner jurisdiction regulates emissions sources within its jurisdiction. Imports are regulated only if they come from a non-WCI partner state or province. Accordingly, once a compliance entity retires its greenhouse gas ("GHG") allowances for the regulated electricity, it is considered "clean" thereafter, regardless of subsequent deliveries.

The alternative "individual boundary approach" requires each WCI partner jurisdiction to regulate sources within its jurisdiction as well as all imported electricity that crosses its boundaries. Participants in the electricity markets would be continually demonstrating to each jurisdictional regulator whether or not the imported power had already been assessed a carbon penalty. This approach creates unnecessary market complexities and uncertainty.

III.

CARB SHOULD USE NERC E-TAGS FOR IDENTIFYING OBLIGATED ENTITIES AND SOURCES OF IMPORTED POWER

A. Which approach for including imports best lends itself to cap-and-trade? Are there other options that staff should consider for identifying obligated entities, and what criteria should we consider in determining the best approach? What criteria should ARB use in selecting a tracking method for imported power? If ARB develops an attribute tracking system, would non-WCI generators participate?

SCE cautions that a GHG tracking system would need to cover the entire Western Electricity Coordinating Council area in order to be meaningful. Even if CARB were to create such a system, it would be virtually impossible to assign emissions from each source to each electricity transaction in addition to the resulting energy consumed in various jurisdictions by various entities.

Instead, CARB should rely primarily on NERC E-tag data, supplemented by contracts and settlements data. NERC E-tags should be used to identify the quantity of electricity that crosses various balancing authority boundaries, as well as to identify the purchasing or selling entity when the electricity first crosses the boundary (i.e., the First Jurisdictional Deliverer). Although an E-tag can identify the source of electricity and hence its carbon footprint, SCE supports a framework where compliance entities are given an opportunity to claim that, given contractual arrangements and contract settlement information, the carbon footprint of the underlying electricity should differ from the data shown on the E-tag.

IV.

CARB SHOULD ADOPT A MARGINAL RESOURCE-BASED METHOLODOGY TO DETERMINE EMISSION FACTORS FOR UNSPECIFIED POWER

A. Is there enough of a locational difference in the resource mix in non-WCI imported power to warrant multiple default emission factors? If so, how could "contract shuffling" be prevented? Are there additional approaches to consider in setting emissions factors to calculate unspecified power? Should a reporting threshold apply to imported power? If so, why? What criteria should be used in determining a default emissions factor?

SCE strongly opposes a coal-fired facility-based emissions factor. Coal is typically not a marginal resource in the electricity system and therefore plays a relatively small role in wholesale electricity market transactions. The majority of coal-fired electricity is delivered to the owners of coal-fired power plants in proportion to their ownership share. Given the baseloaded nature of coal-fired power plants, the owners typically use that electricity to serve native load. A coal-fired facility-based emissions factor will inappropriately penalize wholesale electricity import transactions, which are generally based on gas-fired dispatchable resources. SCE suggests that CARB adopt a marginal resource-based methodology to develop the default emissions factor. Furthermore, SCE recommends that CARB develop default values to take into account regional variations such as the differences between the Pacific Northwest and the Desert Southwest. This is especially critical in a California-only cap-and-trade program should regional or federal cap-and-trade systems fail to develop.

V.

CARB SHOULD NOT ASSIGN A LOSS FACTOR TO ALL IMPORTS

CARB's reporting rules require specified electricity imports to be reported as measured at the "busbar" of the underlying specified source. Unspecified electricity must be reported as measured at the point of delivery. The default emissions factor for unspecified electricity factor

should take into account the transmission losses incurred in delivering the electricity to California. Thus, rather than gross-up the quantity of imported electricity, line losses should be accounted for in calculating the default emissions factor. In addition, for specified electricity imports, there is no need for a transmission loss adjustment as long as the electricity is measured and reported at the busbar. In the limited and rare instances where a specified electricity import is not reportable at the busbar because the underlying transaction was based on the delivery point, CARB can assign a default transmission loss factor based on the system of origin. For example, based on typical line losses, CARB can adopt a transmission line loss factor of 3.5% for any delivery from the Desert Southwest to the Southern California border.

VI.

CONCLUSION

SCE appreciates this opportunity to comment on including imported electricity in a California cap-and-trade program. SCE urges CARB to adopt regulations which are in line with the principles SCE sets forth herein.

Respectfully submitted,

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