COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE CALIFORNIA AIR RESOURCES BOARD ON REPORTING AND VERIFICATION IN A CAP-AND-TRADE PROGRAM

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I.

INTRODUCTION

Southern California Edison Company ("SCE") welcomes this opportunity to comment on the California Air Resource Board's ("CARB") June 5, 2009 workshop on "Reporting and Verification Requirements for California's Cap-and-Trade Program." SCE appreciates the efforts of CARB staff in soliciting stakeholder input on the implementation of Assembly Bill 32.

II.

CARB SHOULD MAINTAIN ITS CURRENT REPORTING THRESHOLD AND LOWER THE THRESHOLD FOR INCLUSION IN A CAP-AND-TRADE PROGRAM

Currently, CARB's mandatory reporting rules require power plants greater than or equal to 1 MW and with emissions greater than or equal to 2,500 MT CO_2e per year to report their emissions. The Western Climate Initiative ("WCI") requires reporting only for facilities with emissions greater than or equal to 10,000 MT CO_2e per year. Both WCI and CARB require an electric generation facility to be a part of their respective cap-and-trade programs only if that facility's annual emissions are greater than or equal to 25,000 MT CO_2e. At the June 5th workshop, CARB staff proposed raising CARB's minimum reporting threshold to 10,000 MT CO_2e per year, consistent with the WCI reporting requirements. SCE recommends that CARB instead maintain its current reporting rules, and simply lower the cap-and-trade threshold in the electricity sector to make it consistent with the reporting requirement. In other words, an electricity generating facility with at least 1 MW of capacity and emissions greater than or equal to 2,500 MT CO_2e per year should be a part of CARB's cap-and-trade program.

Under CARB's proposed threshold of 25,000 MT CO_2e per year, power plants such as peaking units and similar small generators would fall short of this threshold and initially be exempt from the cap-and-trade program. CARB has also proposed that such facilities would not be regulated "upstream" until 2015, possibly through the natural gas local distribution companies

("LDCs") and interstate pipelines. This scheme creates unnecessary complications and raises a number of difficult questions.

First, from a practical standpoint, small power plants will be restricted in their operations during the first compliance period (from 2012 to 2014). By staying under the 25,000 MT CO_2e threshold, small power plants would have no GHG allowances costs. The next incremental MWh production bringing emissions above 25,000 MT CO_2e would carry an enormous price tag – namely, 25,000 MT CO_2e multiplied by the price of a GHG allowance. For example, assuming a $10 per ton price for GHG allowances and an emissions rate of 0.5 ton per MWh, the incremental GHG-related cost would be $125,000 per MWh. In addition, if an entity such as the California Independent Systems Operator ("CAISO") forced this resource to run and exceed the threshold, the CAISO would have to take on the cost and pass it on to its customers.

Second, this approach also presents an unfortunate incentive for a small power plant to run the plant beyond its optimal economic dispatch until it reaches the 25,000 MT CO2e threshold. Although another power plant already planning on incurring GHG allowance costs might be more fuel-efficient, the lack of GHG costs for the smaller plant would enable it to clear the market at a lower price.

Third, if small power plants are regulated "upstream" via gas LDCs, the LDCs would have to monitor each individual plant's fuel use and/or reported emissions. At the end of each year, the LDCs would have to determine who was responsible for compliance, based on whether the plant crossed the 25,000 MT CO_2e threshold. While LDCs meter the amount of fuel delivered to each end user, including power plants, they do not track emissions. This raises a number of questions. Under this scheme, would an LDC have to wait until the power plant reports its emissions to CARB before knowing where the compliance obligation rests? If so, would the LDC be allowed to hedge its GHG allowance exposure? If allowances are to be allocated, how will this uncertainty be taken into account?

Fourth, even at a hypothetical $10 per ton, the compliance obligation for a power plant that emits 25,000 MT CO_2e would be $250,000. While it might make sense for CARB to insist

that small residential customers with relatively small compliance obligations based on their natural gas use be regulated via their fuel provider, CARB should not insist that entities with annual compliance obligations of at least a quarter of a million dollars be aggregated and regulated via their fuel providers.

Finally, if some other entity is responsible for compliance and is simply going to try to pass those costs to a power plant end-user, how would that power plant accurately factor in the incremental costs of GHG allowances in its dispatch equation? CARB can avoid most of these issues by simply lowering the threshold so all but the smallest power plants are covered in a cap-and-trade program.

III.

CARB SHOULD BE CONSISTENT IN ITS TREATMENT OF IMPORTED ELECTRICITY AND IN-STATE SOURCES

Currently, CARB has no minimum reporting threshold for emissions related to imported electricity, or for including imported electricity in a cap-and-trade program. In other words, all electricity import transactions must be reported. This is true regardless of the magnitude of the transactions or whether the underlying out-of-state specified source would not have been otherwise reportable (and/or covered under a cap-and-trade program) if it was located in California. Thus, CARB is treating in-state and out-of-state generation sources differently. For example, a generation source located in California with emissions below 25,000 MT CO_2e per year would not incur any compliance obligation or costs related to its production during the first compliance period. However, a similar, out-of-state source will be assessed a carbon penalty, regardless of whether its emissions are below California's threshold for in-state sources.

SCE believes it would be unduly complicated to establish appropriate emissions thresholds and create a framework similar to that for in-state sources. For example, would such a threshold apply to each imported electricity "transaction"? If so, then very few, if any, transactions would likely be reportable. Or should the threshold be applicable to each

compliance entity by aggregating its import transactions over the year? If so, how would the State prevent multiple sham corporate entities from being created just to stay underneath the threshold? SCE believes that CARB can largely avoid such in-state vs. out-of-state comparisons by lowering the in-state threshold to exempt only sources with de minimus emissions.

IV.

CARB SHOULD CHANGE THE REPORTING REQUIREMENTS IF THERE IS A WCI-WIDE OR FEDERAL CAP-AND-TRADE SYSTEM

In the event of a WCI or a federal cap-and-trade program, CARB should reevaluate the reporting requirements for electricity imports. With a WCI or federal cap-and-trade program, the imports from a capped region would already be regulated at the source and should therefore be considered "clean." For purposes of complying with AB 32, CARB should assign all imported electricity a zero-carbon footprint if and only if the electricity was imported from another capped region such as a WCI-partner state, or any U.S. state under a national cap-and-trade program.

V.

CARB SHOULD MODIFY ITS REPORTING REQUIREMENTS FOR RETAIL PROVIDERS

Under the proposed WCI cap-and-trade program, the point of regulation for the electricity sector has been determined to be the First Deliverer or First Jurisdictional Deliverer. Given this development, CARB should no longer require retail providers to report their GHG emissions. Currently, GHG emissions are reported by (a) the sources, (b) importers of electricity, and (c) retail providers, all of whom also report electricity purchases from the wholesale market. CARB does not require retail provider information for the cap-and-trade program. Thus, unless CARB finds it necessary to collect retail provider information for some other purpose (such as forming a basis for allowance allocation), CARB should no longer require retail providers to report GHG emissions based on purchases from wholesale markets.

VI.

CARB NEEDS TO CAREFULLY CONSIDER THE CONSEQUENCES BEFORE CHANGING THE REPORTING RULES REQUIRING COGENERATION FACILITIES TO DISTRIBUTE GHG EMISSIONS BETWEEN INDUSTRIAL USE AND ELECTRICITY PRODUCTION

CARB's current mandatory reporting rules require cogeneration facilities to divide their reporting of GHG emissions between electricity production and industrial production. The WCI has not yet decided whether it will require cogeneration facilities to similarly divide their emissions or simply report them by single source. CARB staff has indicated that CARB may modify its rules to allow cogeneration facilities to report their total emissions rather than attributing them to the electricity and industrial productions. Before CARB adopts this policy position, CARB should carefully consider possible consequences, such whether this decision will give the appearance that industrial customers are subsidizing electricity sales. Regardless, CARB should ensure that the total emissions at the source are reported in their entirety even if all of those emissions are now attributed to the industrial process and none to electricity production.

VII.

CARB SHOULD CLARIFY ITS DISPUTE RESOLUTION PROCESS FOR DISAGREEMENTS BETWEEN THE REPORTING ENTITY AND ITS INDEPENDENT VERIFIER

It is currently unclear what would happen if there is a disagreement between the reporting entity and CARB’s independent verifier. Because the cap-and-trade process is largely dependent on mandatory reporting and verification, CARB should clearly articulate a dispute resolution process that would allow for smooth functioning of the cap-and-trade process.

VIII.

CONCLUSION

SCE thanks CARB and its staff for their diligent efforts in attempting to address the various issues raised by the implementation of AB 32 and the Scoping Plan. SCE urges CARB to adopt regulations which are in line with the principles SCE set forth herein.

Respectfully submitted,

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