COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE CALIFORNIA AIR RESOURCES BOARD ON CAP SETTING AND DATA REVIEW: ESTABLISHING SURRENDER OBLIGATION AND EXAMINING HISTORICAL GHG DATA TRENDS

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I.

<u>INTRODUCTION</u>

Southern California Edison Company ("SCE") welcomes this opportunity to comment on the California Air Resources Board's ("CARB") public meeting on Cap Setting and Data Review: Establishing Surrender Obligations and Examining Historical GHG Data Trends, held on November 16, 2009. SCE appreciates the time and effort put forth by CARB staff in organizing these public meetings and in seeking stakeholder input.

II.

<u>CARB SHOULD REVISIT AB 32 SCOPING PLAN TARGETS BASED ON ITS NEW BUSINESS-AS-USUAL EMISSION ESTIMATES</u>

At the public meeting, CARB staff indicated that they plan to revisit the Scoping Plan's "Business-As-Usual" emission estimates which predated the current economic downturn. SCE fully supports this effort. The economic downturn is having a profound impact on all sectors targeted by the Scoping Plan to achieve the reductions in greenhouse gas ("GHG") emissions pursuant to Assembly Bill ("AB") 32. Other State agencies such as the California Energy Commission have now revised their forecasts of growth in statewide electricity consumption. These new forecasts appear to be significantly lower than those prepared before the economic downturn. SCE believes that CARB's updated analysis will likewise conclude that its business-as-usual projection of GHG emissions during 2012-2020 needs to be revised significantly downwards.

If CARB revises its business-as-usual projection below the Scoping Plan's assumptions, CARB should revise its Scoping Plan in two important areas.

First, the current version of the Scoping Plan assumes that "reducing greenhouse gas emissions to 1990 levels means cutting approximately 30 percent from business-as-usual emission levels projected for 2020, or about 15 percent from today's levels."[1] Further, the Scoping Plan notes that "the 2020 target of 427 $MMTCO_2e$ requires the reduction of 169 $MMTCO_2e$, or approximately 30 percent, from the state's projected 2020 emissions of 596 $MMTCO_2e$ (business-as-usual) and the reduction of 42 $MMTCO_2e$, or almost 10 percent, from 2002-2004 average emissions." [2] The $MMTCO_2e$ CO2e of GHG emissions reductions needed to achieve the AB 32 target, and the corresponding percentages, will change if the business-as-usual projection for 2020 is lowered. This in turn should affect the recommended reduction measures in the Scoping Plan because total reductions needed would also be reduced. CARB should then adjust downwards the expected $MMTCO_2e$ GHG reductions from each individual reduction measure, either proportionately or based on some other algorithm.

Second, CARB should also revisit the estimated emissions reduction from each proposed reduction measure. A lowered electricity consumption forecast could affect the forecasted effectiveness and achievable reductions associated with programmatic measures such as the energy efficiency ("EE"), additional combined heat and power ("CHP") resources, and the Renewable Electricity Standard ("RES"). The forecasted reductions associated with each of these measures should be re-examined in a transparent stakeholder process which takes into account recent developments in EE, CHP, and RES as well as the economic downturn.

Indeed, as SCE has noted in previous comments,[3] any use of business-as-usual forecasts, especially with regards to cap setting, allowance and offset determinations, should not be based upon a "fixed" reference point. Rather, the reference points need to be updated when and if more current information becomes available.

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[1] *Climate Change Scoping Plan*, California Air Resources Board (December 2008), Executive Summary, ES-1.
[2] *Id.* at 12.
[3] Comments of Southern California Edison Company to the California Air Resources Board on Cap Setting and Data Review: Introductory Discussion, filed May 29, 2009 at 9.

III.

CARB SHOULD ALLOW STAKEHOLDERS THE OPPORTUNITY TO COMMENT ON PECHAN'S "BEST ESTIMATES" ANALYSIS

In establishing the 2012 budget level for California allowances, CARB staff plan to utilize data being developed for the Western Climate Initiative ("WCI") by Pechan, identifying Pechan's "best estimates" of the 2012 and 2015 emissions of WCI jurisdictions. CARB should clarify how the Pechan data, commissioned by the WCI, will be used by CARB in establishing California allowance numbers. In addition, CARB should provide stakeholders an opportunity to comment on Pechan's "best estimates" projections before adopting them for setting either its 2012 or 2015 goals, or for setting the declining allowance budgets during the first compliance period.

IV.

THE QUANTITATIVE OFFSET LIMIT SHOULD BE BASED ON REDUCTION FROM BUSINESS-AS-USUAL ESTIMATES

During the presentation, CARB staff indicated that they plan to implement a quantitative offset limit, which will be implemented as a "usage limit" based on a percentage of an entity's allowance surrender obligation. CARB staff further clarified that in the California cap-and-trade system, the maximum number of offsets will be limited to 49% of "cumulative reductions from initial cap levels."[4] Accordingly, based on the total number of offsets allowed pursuant to this methodology, CARB staff indicated that the usage limit for each compliance entity will equal approximately 4% of the entity's total surrender obligation.

SCE has previously stated its reservations regarding CARB's and WCI's approaches to quantitative limits on offsets. SCE is particularly concerned that CARB is basing its offset limit on reductions from an initial cap level in 2012, and that therefore CARB is implicitly assuming

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[4] CARB Staff Presentation, "Cap Setting and Data Review: Establishing Surrender Obligation and Examining Historical GHG Data Trends," presented November 16, 2009, slide 19.

that reductions in each subsequent year need to happen only from this arbitrarily-set 2012 cap level.

First, the initial cap level in 2012 will be based on CARB's best estimate of actual emissions in 2012. Given the current economic downturn, this 2012 emissions estimate will likely reflect reduced electricity demand and comparatively subdued economic activity. In addition, the estimate may not represent accurate business-as-usual projections in subsequent compliance periods, especially as 2020 approaches. Second, to reach the cap, compliance entities will necessarily need to reduce their emissions in each compliance period from the business-as-usual projections, not from an arbitrary comparison to the initial cap level. Thus, it makes more sense for CARB to base its maximum 49% offsets limit on the amount of projected reductions that would be necessary from business-as-usual emissions in each of the compliance periods to stay within the cap. This approach is more reasonable than basing it on the difference between the initial cap level – which is a static number calculated based on an estimate of 2012 emissions – and that year's cap. SCE's suggested method for measuring reductions is consistent with CARB's Scoping Plan, which provides:

> The limit on the use of offsets and allowances …assures that a majority of the emissions reductions required from 2012 to 2020 occur at entities and facilities covered by the cap and trade program. Consequently, the use of offsets and allowances from other systems are limited to no more than 49 percent of the *required reduction of emissions* (emphasis added). This quantitative limit will help provide balance between the need to achieve meaningful emissions reductions from capped sources with the need to provide sources within capped sectors the opportunity for low-cost reduction opportunities that offsets can provide.[5]

If CARB adopts SCE's method of calculating the maximum offsets allowed in the system, then CARB will also need to revisit whether the compliance entity-specific usage limit should remain at 4% of an entity's surrender obligation.

[5] *Climate Change Scoping Plan*, California Air Resources Board (December 2008), 37.

V.

THE INITIAL 2012 CAP LEVELS SHOULD BE ADJUSTED UPWARDS TO REFLECT EARLY EMISSION REDUCTION EFFORTS

During its public meeting, CARB staff suggested that emission reductions as a result of any early actions would reduce the need to acquire emissions allowances under the cap-and-trade program, and consequently CARB might not explicitly recognize and reward voluntary early actions. SCE disagrees with this premise. At least since the passage of AB 32, stakeholders have been taking concrete and quantifiable steps to reduce their emissions. Yet, a business-as-usual projection of estimated actual emissions in 2012 would likely include these emission reductions from these early actions as part of the reference or base case. Should CARB rely on such a projection to set the 2012 cap, the cap would be set below what it would have been had the voluntary early reductions not occurred. In an *actual* business-as-usual scenario, not only would the cap and the allowance allocation be greater, but the compliance entities could have fully monetized their reductions. By not acknowledging these early actions, CARB is actually penalizing those who decided not to wait for the cap-and-trade program to be implemented and preemptively reduced its GHG emissions. This is inconsistent with AB 32's requirement that CARB "[e]nsure that entities that have voluntarily reduced their greenhouse gas emissions prior to the implementation of this section receive appropriate credit for early voluntary reductions."[6] While CARB should determine its best estimate of actual emissions in 2012, it should also adjust the 2012 cap upward by the amount of GHG reductions due to voluntary early actions. In addition, CARB should acknowledge these voluntary reductions in any allowance allocation mechanism.

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[6] Cal. Health & Safety Code § 38562(b)(3).

VI.

CONCLUSION

SCE appreciates the opportunity to comment on CARB's Cap Setting workshop and urges CARB to adopt regulations in line with the recommendations contained herein.

Respectfully submitted,

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