

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY ON THE
CALIFORNIA AIR RESOURCES BOARD STAFF'S DISCUSSION OF EMISSIONS
LEAKAGE AND COMPETITIVENESS ISSUES IN CAP-AND-TRADE

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I.

INTRODUCTION

Southern California Edison Company (“SCE”) welcomes this opportunity to submit comments on the California Air Resources Board (“CARB”) staff’s discussion of leakage and competitiveness issues in a cap-and-trade program. SCE appreciates the time and effort from CARB staff in presenting workshops and soliciting stakeholder input on the design of the State’s cap-and-trade system.

CARB staff’s April 13, 2009 presentation on emissions leakage and competitiveness issues included a discussion of the definition of emissions leakage, an outline of those industries that may be most vulnerable to competitiveness challenges, and a brief summary of mechanisms that have been adopted in other cap-and-trade regimes to address competitiveness concerns. CARB is concerned with both emissions leakage, occurring when production is transferred to jurisdictions outside of the cap-and-trade program, and competitiveness issues, dealing with the extent to which a producer can raise the price of goods without facing loss of demand.

The electric sector was not specifically referenced in this presentation, either as a burdened industry or as a means by which the economic burden imposed by Assembly Bill (“AB”) 32 on other sectors may be minimized. In these comments, SCE offers cap-and-trade design suggestions that may reduce competitiveness and leakage issues in the electric sector and other sectors impacted by AB 32 regulation.

II.

TO ADDRESS COMPETITIVENESS CHALLENGES, CARB SHOULD ALLOCATE ALLOWANCES TO MINIMIZE ECONOMIC HARM

SCE supports CARB’s efforts to minimize the burden imposed by AB 32 on the California economy. Given that the cost of electricity is a critical factor impacting the costs of many industrial processes in California, CARB can minimize the economic burden of AB 32

regulation on California industry, and thus reduce potential harm to to the competitiveness of California businesses and potential leakage, by reducing the impact the State’s greenhouse gas (“GHG”) reduction program will have on electricity bills. Although this could be accomplished through flexible compliance tools such as offsets, CARB can best address competitiveness challenges by designing the implementing cap-and-trade regulations to ease the economic burden in the first instance.

AB 32 requires CARB to distribute emission allowances “in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California, and encourages early action to reduce greenhouse gas emissions.”¹ In order to most effectively achieve these goals, SCE has consistently advocated that allowances should be administratively allocated based on mitigating economic harm to those entities that experience harm due to the implementation of the State’s AB 32 program. By identifying entities suffering economic harm and allocating allowances to such harmed entities, California can adopt a cap-and-trade approach that produces emissions reductions at the lowest possible cost, thus minimizing the economic burden on California’s economy, including California electric utility customers and industry that may face competitiveness challenges, and minimizing the extent to which additional direct competitiveness assistance is required.

III.

CARB MUST PROTECT THE INTEGRITY OF THE CARBON PRICE

Appropriate carbon pricing is critical to a properly functioning cap-and-trade program. If the price of allowances is distorted, obligated entities will not receive the appropriate price signal to reduce their emissions. This could jeopardize the State’s achievement of its AB 32 goals. Accordingly, should CARB consider any special funding mechanisms to assist those industries most vulnerable to competitiveness challenges, CARB must be careful that such special funding

¹ Cal. Health & Safety Code § 38562(b)(1).

mechanisms maintain the integrity of the carbon price. When designing assistance mechanisms, the cost of carbon must be included in a variable product price – i.e., the programs must provide assistance in a manner that is not related to ongoing carbon production. For example, in the electric sector, a direct allocation of allowances could mitigate the impact of GHG regulation on customer bills via a fixed value, while the per-kWh energy price would still include the cost of carbon, maintaining the appropriate price signal to reduce emissions. Any instrument that reduces the ongoing variable cost of carbon defeats the purpose of a cap-and-trade program.

IV.

CARB SHOULD INCLUDE A PROCESS FOR MERGING A CALIFORNIA CAP-AND-TRADE PROGRAM INTO A NATIONAL PROGRAM

California has a long history of leadership where environmental protection is concerned. Climate change is no different. However, a national cap-and-trade program will decrease leakage as compared to a California-only program. As climate change becomes a greater concern on the federal level, CARB should begin to develop contingency plans for coordinating, and eventually merging, California's program into a federal cap-and-trade program. This includes creating processes for ramping down California's cap-and-trade program as well as developing a plan for merging the California program into the federal program. While competitive challenges may be considered the price California is willing to pay for its position of leadership, once a federal program is developed, California must protect its economy through coordination with the federal regulatory authorities.

V.

OFFSETS ARE A CRITICAL COMPONENT OF COMPLIANCE WITH AB 32

CARB staff has initially indicated its intent to restrict the quantity of offsets that may be used for purposes of compliance with AB 32. SCE strongly supports the use of offsets for compliance, and urges CARB staff to reconsider their proposal for a quantity limit. Offsets are a critically important element in achieving real emission reductions at the lowest possible cost, and

must be included in any efforts to minimize anti-competitive consequences inherent in implementing AB 32.

VI.
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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