

September 3, 2009

Dr. Alan Lloyd  
Chair, Economic and Technology Advancement Advisory Committee  
California Environmental Protection Agency  
1001 I Street  
Sacramento CA, 95814

Re: Southern California Edison Company's Comments on the Economic and Technology Advancement Advisory Committee Draft Update to the California Air Resources Board

Dear Dr. Lloyd,

Southern California Edison Company (SCE) appreciates the opportunity to submit comments regarding the Economic and Technology Advancement Advisory Committee's (ETAAC) draft update report to the California Air Resources Board (CARB). SCE recognizes the role that technological development must play to reach the State's greenhouse gas (GHG) emission reduction goals. SCE has consistently encouraged California to develop a market-based approach, such as a cap-and-trade program, noting that such a program will reward efficient and effective technological solutions. Additionally, it is important for California to design its policies with a full understanding of how these policies will interact with a potential federal cap-and-trade program. These comments are focused on the interaction between California's emission reduction efforts and any federal cap-and-trade program.

**California Should Develop a Plan to Integrate With a Federal Cap-and-Trade Program.**

As noted at the last ETAAC meeting, the current version of the American Clean Energy and Security Act (Waxman-Markey Bill) includes a moratorium on sub-federal cap-and-trade programs from 2012 through 2017. Since the CARB Scoping Plan anticipates that 34 million metric tons (MMT) of CO<sub>2</sub> equivalent emission reductions will come from California's cap-and-trade program, if a Waxman-Markey type law passes, California must develop an alternative approach to demonstrate Assembly Bill (AB) 32 compliance. Alternative approaches to achieving these emission reductions include creating additional direct measures or developing a method to calculate California's share of the emission reductions achieved under the federal cap-and-trade program.

*CARB should develop a method of calculating California's contribution to the GHG emission reductions achieved under a federal cap-and-trade program.*

A broad national cap-and-trade program, such as that introduced by the Waxman-Markey Bill, facilitates an efficient approach to reducing national emissions by encouraging regulated entities

to seek out the lowest cost abatement opportunities available. The GHG emissions from all capped sources, including those in California, would be included in such a program. Under a federal cap-and-trade program, California regulated entities, either directly or indirectly, will create emission reduction activity that will contribute to meeting the state and national emission reduction goals. As a result, if California's cap-and-trade program is preempted (even temporarily as in the W-M proposed moratorium) by a federal program, it will not be necessary to impose additional direct measures to create the reductions attributed to the California-only cap-and-trade program. Under a federal cap-and-trade program, California's first step toward AB 32 compliance should be to calculate California's share of the emission reductions achieved under a national cap.

*Reductions mandated by California from sectors covered by a federal cap-and-trade program will not result in reduced federal GHG emissions.*

A federal cap-and-trade program implements a national cap and issues a number of allowances to match the emissions allowed under the federal cap. Regulated entities must retire allowances to match their emissions. Every ton of reduced emissions increases the number of allowances available for other regulated entities under the cap. As a result, a CARB regulation that imposes direct reductions on California entities that are also regulated by the federal cap-and-trade program will increase the number of allowances available for other regulated entities under the federal cap. By freeing up allowances that would otherwise be used by California entities, direct regulations imposed on California entities will simply transfer emissions from California to other states, but will not reduce national emissions. In effect, additional California-specific rules will only serve to increase the cost of compliance for the California economy while freeing up allowances for use by regulated entities in other states.

While national emissions would remain constant despite direct measures imposed on California entities, the relative cost and competitive balance between California and other states would change. By increasing the supply of allowances available to regulated entities outside California, the price for allowances will be lower than the price in a scenario in which California entities had demanded a greater quantity of allowances. This would only serve to reduce the cost of compliance for outside regulated entities that are not subject to the California-specific measures.

**SCE Agrees With ETAAC's Conclusion that in a Cap-and-Trade Program, Competitiveness Issues Should Be Addressed Through Allowance Allocation.**

Under the Waxman-Markey Bill, regulated utilities receive allowances on behalf of their customers. In California, the disposition of the allowances allocated to investor-owned utilities (IOUs) will be determined through a California Public Utilities Commission (CPUC) regulatory process. However, the clear intent in the Waxman-Markey Bill is to reduce the adverse economic impact of imposing a cap-and-trade program by initially allocating some share of allowances to provide bill relief for retail customers. A recommendation that directs the allowance value for any other preferred activity essentially ignores the intent of the federal bill.

SCE supports the Waxman-Markey Bill and is particularly sensitive to the economic burden that electricity customers could realize under an allocation scheme that would extract allowance value from regulated parties. SCE's commercial customers would be exposed to a competitive disadvantage if forced to purchase allowances that would be allocated to their competitors in other states or overseas. In earlier comments to CARB, SCE noted that by allocating allowances to IOUs for the benefit of customers, rather than auctioning the allowances, the electric sector can help to mitigate the initial bill impact of implementing a cap-and-trade program.

**A Cap-and-Trade Program Without Geographic Preferences Will Provide the Optimal Structure for Developing New Technology.**

A broad, multi-sector, national cap-and-trade program will allow abatement resources to be directed to those reduction activities that offer the most efficient abatement opportunities. SCE urges regulators to exercise caution in recommending regulations that would restrict the extent to which a market-based solution such as a cap-and-trade program, can help promote the most efficient abatement opportunities possible. For example, offsets can provide real emission reductions and efficiently encourage technology. Indeed, both the Scoping Plan and the report of CARB's Market Advisory Committee support the use of offsets without geographic restrictions.

SCE encourages the ETAAC to look to policies that will encourage the most efficient abatement technology possible, regardless of the geographic region in which the abatement activities occur.

**ETAAC Should Continue to Press for an Updated, High-Quality Economic Analysis of the Cost of Implementing AB 32.**

SCE appreciates that the ETAAC is closely monitoring and participating in the activities of the Economic Allocation Advisory Committee (EAAC). The EAAC can act to provide the type of high-quality economic analysis and recommendations that will help California implement AB 32 at the lowest possible cost to the State. The economic analyses that drove CARB's Scoping Plan have recently been questioned; effective and efficient implementation of AB 32 requires the highest quality, most accurate economic analysis.<sup>1</sup> Where the EAAC can provide updated and improved economic analysis, SCE encourages the ETAAC to incorporate the improved analysis in its recommendations.

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<sup>1</sup> *Peer Review of the Economic Modeling Analysis of the AB 32 Draft Scoping Plan, Major Peer Review Comments and Air Resource Board Staff Responses*, November 2008.

Dr. Alan Lloyd  
Page 4  
September 3, 2009

SCE appreciates the opportunity to comment on the current activities of the ETAAC and looks forward to being able to work collaboratively with the ETAAC, California regulators, and other stakeholders to implement AB 32 in the most effective and efficient manner possible.

Best Regards,



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