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

Re: SCE Comments on the Economic and Technology Advancement Advisory Committee Draft to the California Air Resources Board

Dear Dr. Lloyd,

Southern California Edison (SCE) appreciates the opportunity to submit preliminary comments regarding the Economic and Technology Advancement Advisory Committee's (ETAAC) draft report to the California Air Resources Board (CARB), "*Economic and Technology Advancements for California Climate Solutions*" (Draft Report). SCE is providing these general comments for the November 29th ETAAC meeting and will provide specific comments on the Draft Report's technological suggestions in advance of the December ETAAC meeting.

In Assembly Bill (AB) 32, California established an aggressive goal of reducing statewide greenhouse gas (GHG) emissions. SCE is committed to working with the CARB, ETAAC, other state agencies and stakeholders to achieve that goal. SCE recognizes the challenges and effort of the members of the ETAAC to provide recommendations to CARB and commends the ETAAC for its well designed and thorough Draft Report.

Role of Regulation in Investment and Innovation

The Draft Report suggests various financial incentives as well as programmatic approaches to promote specific technical innovations to help reduce greenhouse gas (GHG) emissions. SCE has a long, demonstrated history of supporting the development of efficient environmentally friendly energy solutions. GHG emission reduction presents a unique opportunity because the atmosphere does not benefit more from a ton of reduced emissions sourced in one region or sector over a ton of emissions reduced in any other region or sector. Combined with the dynamic and broad set of potential solutions available to reduce emissions, SCE looks forward to supporting the most efficient technical solutions for reducing emissions. Since the emissions benefit is measured in tons of reduced emissions and this metric does not vary across technologies, regions, or sectors, evaluating potential technical solutions should be a straightforward and objective process in which solutions are advanced by order of cost-effectiveness.

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SCE supports a market-based approach to emission reduction within a cap-and-trade framework in which emission allowances and emission offsets act to direct GHG reduction expenditures in the most economically efficient manner. As such, SCE suggests that the most effective regulatory approach to reducing GHG is to implement a cap-and-trade structure that will present California entities with a strong financial incentive to find the most effective and efficient solutions to reducing GHG emissions. SCE cautions the ETAAC to avoid providing specific technologies preferred status through targeted programs that may exclude other viable and potentially more efficient technologies.

California's Role in Emission Reductions

California has a long and proud history of environmental protection, of which GHG emission reduction is another chapter. However, due to the widespread challenge of reducing emissions, it is clear that California cannot successfully address the world's GHG challenge alone. While California is once again taking a strong leadership position in addressing GHG emissions, a national program is needed. Regulatory and programmatic approaches developed within California must be designed so that they can be coordinated with a broader regional or national program. SCE encourages the ETAAC to consider how best to design programmatic approaches which do not prejudge a national approach. California's economy cannot afford to "pay twice" for GHG reductions. Given the potential for a national GHG emissions reduction program, ETAAC must avoid imposing an unnecessary financial burden on California citizens.

Carbon Trust Fund

The Draft Report recommends the creation of a California Carbon Trust Fund to oversee green technology innovation and investment. As stated above, such a programmatic approach should not prejudge an anticipated national approach. Additionally, because a market-based approach provides an incentive to develop technology in an effective and efficient manner, SCE cautions the ETAAC and CARB against developing a program that may create a preferred technology list at the expense of alternative effective and efficient technological innovation. SCE is also concerned that the funding for such a program anticipates other regulatory decisions. Specifically, SCE has suggested that under a cap-and-trade program, allowances should be allocated in such a manner to mitigate the economic displacement from the development of the emissions cap. This includes allocating allowance value to offset the increased costs to ratepayers and other harmed entities. Such an allocation will mitigate the economic harm to ratepayers and will also provide needed assurances to the investment community that California promotes continued infrastructure investment. SCE is concerned that ETAAC is anticipating the allowance allocation decision by suggesting how proceeds from a state auction could be spent. Allocating allowances is an important process and policy decisions regarding allocations must be made independent of other regulatory discussions. SCE encourages ETAAC to not prejudge an allocation decision by suggesting how proceeds from a potential allowance auction be spent.

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ETAAC Comments on the California Market Advisory Committee Report to CARB

ETAAC was asked to comment on the Report of the California Market Advisory Committee "*Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California*" (CMAC Report). While SCE provided comments on the CMAC Report directly to CARB in July, we welcome the opportunity to offer the following specific comments to the ETAAC.

Comments on the CMAC Report

The CMAC Report endorses a market-based approach to achieve AB 32 compliance. The CMAC Report recognizes the significant cost savings realized from a cap-and-trade approach compared to command-and-control alternatives. SCE agrees with the CMAC Report's finding that a market-based approach provides an opportunity for real, sustained emissions reductions at a lower cost to California ratepayers and the California economy as a whole. SCE agrees with the CMAC Report's recommendation that a First Seller structure will enable California to incorporate emissions from imported energy into the emissions cap along with emissions from in-state generation. Additionally, a First Seller approach can facilitate more transparent and straightforward reporting and measurement of emissions from in-state generation. SCE agrees with the Draft Opinion of the California Independent System Operator's Market Surveillance Committee (MSC) that a load-based approach is clearly inferior to either a source based or First Seller approach. Specifically, a load-based approach will not coordinate well with the smooth functioning of electricity markets. By contrast, a First Seller approach can more easily be constructively coordinated with the operations of electricity markets in California.

Offsets

The CMAC Report endorses the use of offsets without geographic or quantitative restrictions. Offsets present California with an important tool for developing real, verifiable, and additional emission reductions at a lower cost. Therefore, for any given level of economic sacrifice, California will be able to accomplish larger reductions in GHG emissions if broad-based offsets are allowed. Geographic flexibility in developing offsets is particularly important for California. California has a strong history of supporting renewable and environmentally friendly energy sources. Additionally, through various local and statewide regulations and initiatives, California has become a leader in environmental protection. Because California has done so much, many of the most cost-effective projects to reduce emissions can be found outside of California. Because offsets are such an environmentally valuable tool, any rule that would restrict the quantity of emission reductions that may be obtained via offsets will unnecessarily increase the cost of compliance with AB 32 and hinder the continued growth of the California economy.

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Additionally, offsets, along with allowance trading, present an opportunity to develop technology and promote innovation in GHG emission reductions in an effective and efficient manner. Offsets additionally allow California to support emission reductions beyond the regulated sectors in California. SCE agrees with the CMAC Report's finding that high-quality eligible offsets should not be subject to quantity or geographic restrictions.

Allowance Allocation

Because emission allowances will be required for all GHG emissions, the cost of allowances could dwarf the cost of reducing emissions, resulting in much higher costs for California consumers. SCE recommends that emission allowances be allocated in a way that mitigates economic displacement and harm to ratepayers, as well as carbon-regulated companies and their employees. The CMAC Report correctly notes that LSEs cannot capture economic rents from freely allocated allowances. SCE agrees with the CMAC Report's conclusion that allocation to LSEs would be an effective way to mitigate the cost of AB 32 compliance to ratepayers. However, the ability of a carbon-regulated entity to pass along its GHG mitigation costs to customers will vary across industries. As a result, it is important to allocate allowances in a manner which will mitigate economic harm to all carbon-regulated entities and mitigate severe economic displacements.

Additionally, SCE encourages ETAAC to recognize the potentially chilling effect that alternative allocation mechanisms could have on continued innovation and investment in California. Any allocation mechanism that does not consider economic harm (such as a state auction) risks reducing the economic benefit of investment in California infrastructure and innovation. As stated above, SCE suggests that ETAAC fully evaluate the potential for unintended consequences from an auction which may actually present unnecessary challenges to continued investment and innovation in environmentally friendly technology.

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Flexible Compliance

The CMAC does not endorse an allowance price cap in its Report. SCE agrees with the ETAAC that cost control measures provide an important protection for ratepayers. There are forms of flexible compliance which can protect consumers from excess volatility without undermining the goals of AB 32. Whenever the supply of a good is restricted, policy-makers must address the potential exercise of market power. SCE remains concerned about the possibility that innovative policy and electricity markets could adversely interact in unforeseen ways. California experienced such an event during the 2000-2001 electricity crisis, when the price of RECLAIM trading credits increased dramatically, forcing a temporary suspension of this program. A similar course of events in the emissions allowance market could erode public support for AB 32 and would needlessly risk the economic stability of the California energy market. Thus, SCE recommends that the CMAC reconsider its recommendation and explore compliance options that allow temporal flexibility.

Thank you again for the opportunity to submit these comments. SCE looks forward to working with the ETAAC, CARB, other state agencies and stakeholders to achieve the emission reduction goals established in AB 32.

Best Regards,

Frank W. Harris, PhD
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