

**COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE
CALIFORNIA AIR RESOURCES BOARD ON POTENTIAL AMENDMENTS TO THE
REGULATION FOR MANDATORY REPORTING OF GREENHOUSE GAS
EMISSIONS**

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I.

INTRODUCTION AND EXECUTIVE SUMMARY

Southern California Edison Company (“SCE”) respectfully submits its comments to the California Air Resources Board (“ARB”) on the Potential Amendments to the Regulation for Mandatory Reporting of Greenhouse Gas Emissions (“Potential Amendments”). SCE appreciates the opportunity to comment on the Potential Amendments. SCE’s comments focus on four topics: (1) the proposed addition of emission factors for system power imports; (2) the addition of language relating to the Energy Imbalance Market (“EIM”) proposal; (3) the proposed modification to the ARB’s definition of imported electricity from specified facilities or units to address specified source electricity that was resold; and (4) the verification deadline.

II.

THE ARB SHOULD NOT CREATE EMISSION FACTORS FOR SYSTEM POWER IMPORTS ABOVE THE DEFAULT EMISSION FACTOR

The ARB’s proposed addition of emission factors for system power imports (or “System Power”) above the default emission factor for unspecified electricity imports¹ represents a significant change in ARB’s methodology for accounting for emissions from electricity imports. For several reasons, the ARB should not adopt this proposal. First, carving out System Power will result in many localized emission factors rather than a single WECC-wide regional emission factor. Second, by creating specified emission factors specifically for electricity originating from systems with high-emitting resources based on the first point of receipt on the North American Electric Reliability Corporation (NERC) e-tag, the ARB is significantly deviating from its current approach for assessing emissions from imported electricity, which assigns a specified

¹ ARB, Potential Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions, § 95111(b) (5) (Jul. 17, 2013), available at <http://www.arb.ca.gov/cc/reporting/ghg-rep/revision-2013/July-discussion-draft-MRR.pdf>.

emission factor to electricity imports only when the import is designated as a specified source at the time of the transaction. Lastly, the ARB has not fleshed out details that should be refined before such a fundamental change to the emissions reporting structure is made. The changes in the accounting of electricity imports caused by the addition of System Power emission factors would have substantial downstream effects, some of which are discussed herein. All of the potentially beneficial and detrimental effects of implementing System Power emission factors in the Cap-and-Trade Program should be carefully considered by the ARB and its stakeholders before implementing such a significant change.

A. The ARB Should Choose Either a WECC-Wide Unspecified Methodology or a Localized System Power Methodology, Not Both

The addition of System Power emission factors diverges from the existing methodology of having a single unspecified WECC-wide regional emission factor instead of many localized system emission factors. Although using a localized system-based accounting methodology alone is not inherently problematic, implementing the proposed dual methodology of assessing imported electricity using localized system emission factors in certain cases (i.e., when the system has an emission factor higher than the default), but using a regional unspecified emission factor in other cases (i.e., when the electricity is not from a high-emitting system) is flawed. It is not appropriate to increase high-emitting systems' emission factors and thus increase total reported emissions without a corresponding decrease in the default emission factor to account for the reduced emission intensity of the remaining electricity.

The unspecified emission factor of 0.428 metric tons per megawatt-hour (MT/MWh) was calculated as the average emission factor of the WECC.² If the ARB removes high-emissions System Power from the unspecified pool of WECC power, then it should lower the unspecified

² Western Climate Initiative, Final Default Emission Factor Calculator 2008 Data (Sept. 13, 2010), available at <http://www.westernclimateinitiative.org/component/remository/Electricity-Team-Documents/Default-Emission-Factor-Calculators/>; see also ARB, Mandatory Reporting Rule, Final Statement of Reasons (Oct 28,2011), available at <http://www.arb.ca.gov/regact/2010/ghg2010/mrrfsor.pdf>.

emission factor for all remaining unspecified power below 0.428 MT/MWh. Of course, since System Power is defined by the ARB as “above the default emission factor for unspecified electricity imports,”³ after the unspecified emission factor is lowered, more new systems may now be above the default rate, and thus, they might be assigned System Power emission factors. Logically, all systems will eventually be assigned System Power emission factors and the unspecified emission factor will decrease to zero. For example, if all systems above 0.428 MT/MWh are removed from the unspecified average, then the new non-System unspecified emission factor may be 0.3 MT/MWh. Subsequently, any Systems above 0.3 MT/MWh will be assigned System Power emission factors because they are “above the default emission factor for unspecified.”⁴ Then, the remaining non-System power may have an unspecified emission factor of 0.2 MT/MWh, which would require new System emission factors. This cycle repeats until all WECC power is assigned System Power emission factors and the unspecified emission factor is at zero MT/MWh. The dual methodology of System Imports and unspecified electricity inevitably deteriorates into a localized-system methodology alone.

The ARB should choose either a WECC-wide unspecified methodology or a localized system methodology, but not both. If the ARB would like to contemplate using a system-based approach, it should look back to the localized system-based design that was considered during discussions on the Cap-and-Trade Program design. At the time, the ARB said that “a single emission factor was considered a better mechanism to account for GHG emissions from unspecified sources than region-specific factors.”⁵ The rationale that supported the initial methodology choice of a single WECC-wide emission factor should be useful for informing current thinking on the topic. The ARB and its stakeholders should very thoroughly consider the

³ Potential Amendments, *supra* note 1, at 14.

⁴ Per the Potential Amendments, all systems “above the default emission factor for unspecified” receive a System Power Imports emission factor. *Id.*

⁵ Mandatory Reporting Rule, Final Statement of Reasons at 303 (Oct. 28, 2011), available at <http://www.arb.ca.gov/regact/2010/ghg2010/mrrfsor.pdf>.

pros and cons of changing the methodology for accounting for emissions from imported electricity before such a decision can be made.

B. Basing Emissions Intensity on E-Tags for System Power Imports is Inconsistent with Current Practices, Will Have Detrimental Impacts on Market Liquidity, and Will Not Achieve the ARB’s Primary Purpose

Given the ARB’s current rules, the emissions intensity associated with all imports of electricity – specified, unspecified, and Asset Controlling Supplier – is determined based on the emissions intensity identified (or not identified in the case of unspecified power) at the time of the transaction. System Power diverges from the ARB’s existing principle of calculating emissions intensity based on the agreement (for specified source or unspecified power) at the time of the transaction, and instead bases emissions intensity on the system listed on e-tags.

This new e-tag-based methodology for determining emissions intensity will reduce electricity market liquidity, which the unspecified emission factor was created to preserve. The unspecified emission factor allows electricity to be easily traded throughout the WECC by creating a standard commodity that can be transacted without lengthy deal-specific contract terms. If, however, System Power emission factors are created, then every transaction of electricity will require deal-specific terms to identify the system’s emission factor that will be associated with the transaction. Without bilateral individual deal-specific terms to specify the e-tag source, a purchaser of electricity could end up with System Power from a high-emissions system, which would have a much higher cost to import into California than the purchaser may have anticipated. Consequently, every time a transaction of electricity occurs, a purchaser would have to determine from which system the electricity would be tagged, if any. This added complexity will further fracture electricity markets, which are already experiencing declining liquidity.⁶

⁶ Fed. Energy Reg. Comm’n, 2012 State of the Markets Report, at 58, Figure 4-2, available at <https://www.ferc.gov/market-oversight/reports-analyses/st-mkt-ovr/2012-som-final.pdf>.

Additionally, the intended purpose for the imposition of System Power emission factors – to account for electricity coming from higher-emissions systems – would likely be negated through altered tagging behavior. Given the disincentive to tag power as from a specific high-emitting system, Scheduling Coordinators would simply tag power as coming from a certain resource instead. The Scheduling Coordinators could sell the power tagged to a certain resource as unspecified electricity by not specifying the resource at the time of the transaction and, consequently, avoid the higher System Power emission factor. For example, assume that a hypothetical high-emissions “Wyoming Balancing Authority (BA)” currently tags the electricity it sells on exchanges as “Wyoming BA System” power. However, if tagging the electricity as “system” would cause the electricity to incur the high System Power emission factor, Wyoming BA will simply tag the same electricity as coming from “Wyoming Coal Plant X.” Because the electricity is purchased on an exchange without a specified resource, the electricity tagged from Wyoming Coal Plant X will receive the unspecified emission factor rather than the higher Wyoming BA System Power emission factor or specified emission factor. Thus, if the ARB adds the proposed System Power language to its regulation, the amendment would not only fail to achieve its primary purpose of accounting for emissions from high-emissions systems, but it would also have adverse secondary effects such as decreased electricity market liquidity.

C. The ARB Should Offer Additional Details before Making a Fundamental Change to the System Power Imports Accounting Methodology

The ARB proposed System Power emission factors in its recently released regulatory amendments without offering many necessary details. Foremost, the ARB has not discussed how it would transition into the new accounting methodology. System Power emission factors should not be applied retroactively to past imports of electricity that occurred in 2013 because many transactions of unspecified electricity that were economic given ARB rules at the time would be uneconomic if a higher System Power emission factor was applied. Thus, the ARB would have to create a future “start date” on which System Power emission factors would take

effect. To prevent disadvantaging those who entered into longer-term deals before the implementation of System Power emission factors, the ARB should explicitly exempt all transactions that were made before the specified start date, even if the electricity associated with those deals flows after the start date. Furthermore, the ARB should define the term “systems” and elaborate on which data will be used to calculate System Power emission factors. These details should be worked out as part of the larger conversation with stakeholders to determine if and how to add System Power emission factors to the Cap-and-Trade Program.

The addition of System Power emission factors to the Cap-and-Trade Program is a substantial change in the Program’s design for accounting for imports of electricity. Changes of this magnitude introduce uncertainty into power and emissions markets, and have substantial impacts on power market transactions. Accordingly, such changes should not be made frequently or without due consideration, especially given that the Cap-and-Trade Program is underway. If the ARB intends to move forward with a system-based approach for assigning emissions intensity, it should allow ample time for discussion with stakeholders. Given that the ARB anticipates releasing its 45-day Proposed Amendments on September 9,⁷ which is just over a month away, there is not enough time to have a thorough discussion on System Power before the Proposed Amendments are released. SCE urges the ARB to defer the inclusion of System Power emission factors to a subsequent proceeding so that the implications of such a fundamental change to the treatment of imported electricity can be fully vetted before enactment.

⁷ ARB Mandatory Reporting Workshop Presentation at 3 (July 23, 2013), available at http://www.arb.ca.gov/cc/reporting/ghg-rep/revision-2013/EPE_Webinar_2013-07-23_final_1per_pg.pdf.

III.

THE ARB SHOULD NOT ADD DIRECT OR INDIRECT LANGUAGE RELATING TO THE EIM UNTIL THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR FINALIZES ITS EIM PROPOSAL

As previously stated,⁸ SCE believes it is premature to incorporate regulations addressing the California Independent System Operator's ("CAISO") EIM proposal until after the EIM design is complete.⁹ Accordingly, SCE appreciates that ARB did not directly modify the Mandatory Reporting Rule ("MRR") to address the EIM in its recently proposed MRR amendments. However, the ARB indicated at its July 23 Workshop that the addition of System Power emission factors, in part, was intended to address the EIM indirectly. The ARB should reconsider the addition of System Power emission factors if it was intended to accommodate the EIM, because System Power emission factors will not assist in the accounting of GHG obligations for the EIM.

The current EIM proposal does not require the inclusion of a System Power emission factor because CAISO's proposed "export allocations," which identify GHG compliance obligation for the Cap-and-Trade Program, will all be assigned directly to specific resources. There will not be any "system" or unspecified power imported from EIM entities to California because the CAISO will identify specified imports of electricity as coming from individual resources.¹⁰ Thus, SCE believes that neither direct nor indirect regulatory changes addressing the EIM are necessary or warranted at this point in time.

⁸ SCE, Comments to the ARB on the Workshop to Discuss Potential Revisions to the Regulation for Mandatory Reporting of Greenhouse Gas Emissions at 4 (July 10, 2013) ("SCE Comments").

⁹ The EIM proposal and its solution for dealing with GHGs are still in flux, with several iterations of the proposal expected before finalization in early 2014.

¹⁰ "The ISO will report the portion of the 15-minute energy schedule and the portion of 5-minute energy dispatch that is associated with energy imports to ISO for all EIM Participating Resources as part of the real-time market results publication. The relevant EIM Participating Resource Scheduling Coordinators will be responsible for aggregating and reporting these energy imports to CARB after each calendar year in accordance with CARB regulations." CAISO, Energy Imbalance Market 2nd Revised Proposal at 77 (July 2, 2013), available at http://www.caiso.com/Documents/SecondRevisedStrawProposal-EnergyImbalanceMarket-Jul2_2013.pdf.

IV.

SCE SUPPORTS THE ARB’S PROPOSED MODIFICATION TO ITS DEFINITION OF IMPORTED ELECTRICITY FROM SPECIFIED FACILITIES OR UNITS TO ADDRESS SPECIFIED SOURCE ELECTRICITY THAT WAS RESOLD; THE ARB SHOULD CLARIFY THE VERIFICATION REQUIREMENTS FOR IMPORTERS OF RESOLD SPECIFIED SOURCE ELECTRICITY

The ARB proposes adding the following language to Section 95911(a) (4):

“The sale or resale of specified source electricity is permitted among entities on the e-tag market path insofar as each sale or resale is for specified source electricity in which sellers have purchased and sold specified source electricity, such that each seller warrants the sale of specified source electricity from the source through the market path.”

SCE supports the ARB’s attempt to clarify the regulations governing the resale of specified source electricity. However the ARB should amend the regulation to clarify that the electricity importer of any “resold” specified source electricity (i.e., contracts to purchase specified source electricity from entities that are not the generation-providing entity of the source) will only be required to provide a proof of contract from its direct seller that warrants to the sale of specified source electricity from the facility.

V.

SCE AGREES WITH THE ARB’S DECISION NOT TO SHORTEN THE VERIFICATION PROCESS BY SETTING AN EARLIER REPORTING DEADLINE

At its June 26, 2013 workshop, ARB proposed a new verification deadline for emissions data reports of August 15, two weeks earlier than the current September 1 deadline. SCE commented that this new deadline is undesirable for the ARB, covered entities, and verifiers, as it would add additional pressure on an already complex and labor-intensive verification process

that would not benefit from being rushed.¹¹ In light of this, and in keeping with its previous comments, SCE is pleased that the ARB has decided to maintain the original reporting deadline.

VI.

CONCLUSION

SCE's comments have articulated four themes: (1) the ARB should not add emission factors for system power imports; (2) the ARB should not add language describing the future EIM at this time since its final form has yet to be determined; (3) SCE supports the proposed modification to the definition of imported electricity from specified facilities or units to address specified source electricity that was resold, and suggests that the ARB clarify the verification requirements for importers of resold specified source electricity; and (4) an earlier verification reporting deadline is not desirable for covered entities, verifiers, or the ARB.

SCE appreciates this opportunity to comment on the Potential Amendments and urges the ARB to make changes in accordance with the recommendations contained herein.

Respectfully submitted,
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¹¹ SCE Comments, *supra* note 8, at 6.