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February 29, 2008

Mr. Chuck Shulock
California Air Resources Board
1001 I Street
Sacramento CA, 95814

***Re: Southern California Edison Company Comments on Scoping Plan***

Dear Mr. Shulock:

Southern California Edison Company (SCE) appreciates the efforts of the California Air Resources Board (CARB) to develop and implement a Scoping Plan pursuant to Assembly Bill (AB) 32. As you are aware, SCE has been an active participant in various climate change workshops, conversations, and meetings before CARB, its staff, as well as in other regulatory forums such as the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC). By this letter, SCE hopes to reiterate some of the positions it has set forth in the various forums, as well as in its January 10, 2008 meeting with CARB's staff. Specifically, SCE recommends that CARB consider the following guidelines when developing the Scoping Plan:

- CARB should implement a comprehensive market approach, including the transportation, and other major emitting sectors.

- Each sector of the economy should be held financially responsible and accountable for its proportionate share of greenhouse gas (GHG) emission reductions. This will ensure that all emissions sources receive appropriate regulatory cost burdens and price signals. Such signals will most effectively allow sources to fulfill their GHG emission reduction responsibilities. When considering the responsibility of each sector, it is critical that CARB develop accounting rules/protocols to cover reductions resulting from electrification. The electric sector must be held harmless as entities pursue overall GHG reductions through electrification. Additionally, CARB should consider providing incentives to the electric sector to encourage its active engagement in seeking new cost-effective electrification opportunities to accelerate the reduction of GHG emissions.

- As required by AB 32, and prior to adopting implementation rules, CARB should analyze and compare the cost-effectiveness of specific reduction measures and market approaches in terms of costs per unit of reduced emissions of GHG adjusted for its global warming potential (i.e., \$/mt $CO_2e$).

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- CARB should provide for the extended use of offsets, including those that are regional and national in origin. Offsets will allow California entities to choose the most cost-effective GHG emission reductions, as well as combat the global nature of the climate change problem.

- All electricity providers, including investor-owned utilities, municipalities, irrigation districts, community choice aggregators and electric service providers should be subject equally to the same rules, regulations, requirements and programs in reducing GHG emissions.

- CARB should take action to encourage aggressive pursuit of Voluntary Early Actions.

**CARB should implement a comprehensive market approach, which includes the transportation sector, as well as other major emitting sectors.**

CARB indicates it is considering a market-based approach for achievement of the goals set out in AB 32. While SCE appreciates CARB's work in this area, SCE urges CARB to investigate a comprehensive market approach that includes the transportation sector, along with other higher emitting sectors.

The transportation sector could be included under a market-based approach if CARB implemented an upstream cap. The GHG emissions potential of transportation fuels supplied in the state would be capped at the point of wholesale distribution. Such a cap has the administrative benefit of regulating emissions from the transportation sector without having to regulate at the point of consumption. Including the transportation sector in the market has the additional benefit of regulating emissions from transportation without the potential jurisdictional conflicts that have accompanied California's attempt to regulate directly under AB 1493. Finally, including transportation emissions, the largest single sector, within the market, enhances the likelihood that overall cost savings will be maximized.

**Each sector of the economy should be held financially responsible and accountable for its proportionate share of its greenhouse gas emissions.**

SCE strongly encourages CARB to adopt regulations that require each sector to be held responsible for its share of emissions in order for appropriate regulatory and price signals to reach the sources of GHG emissions and result in decreased emissions. This principle follows a long history of "polluter pays" fairness doctrine in California and U.S. environmental law.

SCE recognizes that emission reductions may take place more effectively in the electric sector since electricity offers the benefit of flexibility both in the sources of generation and possibilities for end-use conservation that may not exist in other sectors. However, it is fundamentally unfair to load the cost of those reductions on electric consumers if the emissions originate in another sector. SCE urges CARB to consider the need for electrification accounting rules/protocols when determining how to best allocate responsibility for emissions reductions. Such rules and protocols will allow the

electric sector to be held harmless, and possibly benefit from proactive actions, from any GHG reduction that is achieved through electrification.

**CARB should compare the cost-effectiveness of specific reduction measures and market approaches in terms of costs per unit of reduced emissions of GHG adjusted for its global warming potential (i.e., $/mt $CO_2e$).**

AB 32 charges CARB with the responsibility of finding GHG emissions reductions that meet the "return to 1990 by 2020" target and timetable through "maximum technologically feasible and cost-effective" means. The phrase appears multiple times in the statute, indicating the importance the Legislature placed on the balance between aggressive emission reductions while assuring those reductions are cost-effective.[1] While "maximum technologically feasible" is not defined, the phrase "cost-effective or cost-effectiveness" is defined in Cal. Health and Safety Code Section 38505(d) as "the cost per unit of reduced emissions of greenhouse gases adjusted for its global warming potential."

With this in mind, SCE suggests the best way for CARB to implement this requirement is to analyze both specific reduction measures (e.g., discrete early actions) and market approaches, so that the cost per unit of reduced emissions of GHG, adjusted for its global warming potential, can be compared. While SCE recognizes CARB may choose to implement rules that do not follow a cost-effectiveness ranking, it believes the law requires CARB to perform and publish a cost-effectiveness analysis prior to its adoption of specific, or market-based, reduction measures.

**Extended use of offsets must be part of any program to implement AB 32 to achieve cost effective reductions.**

A reduction in GHG emissions is beneficial regardless of where emissions reductions take place because GHG emissions disperse rapidly around the globe. This scientific fact makes offsets based on reductions in GHG emissions, wherever they can be found, beneficial for reduction of emissions at the individual, state, regional, national or global level. Obtaining validated emission reductions wherever the opportunity affords itself will allow California to transfer its leadership on renewables and energy efficiency issues to others and lead the way toward a global solution to climate change. Moreover, adopting a policy that recognizes valid offsets is the only practical solution to the global nature of the climate change problem. The majority of emissions on a worldwide basis occur in the developing nations. The governments of these countries have shown a repeated and deep-seated resistance to committing to real emissions reductions under a cap and trade program. A sound offset policy offers the opportunity to achieve meaningful reductions in parts of the world that are not likely to easily be included in an international cap and trade system. Finally, a high quality offset program offers the opportunity to obtain valid reductions in GHG emissions quickly and at a cost likely to be lower than direct reductions inside California. Accordingly, it is imperative that CARB consider adoption of regulations allowing for the use of real, permanent, quantifiable, verifiable and enforceable offsets, without geographic restriction.

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[1] *See, e.g.*, Cal. Health and Safety Code §§38560, 38560(c), 38561(a), (h), and 38562.

**The principle of equity needs to be addressed with respect to reductions required of each sector of the economy and within each sector, such as the electric sector.**

In Part 4, "Greenhouse Gas Emissions Reductions," AB 32 repeatedly directs CARB to develop its scoping plan and then adopt implementation regulations in a manner that achieves "maximum technologically feasible and cost-effective" reductions. The statute directs CARB to "Design the regulations, including distribution of emissions allowances where appropriate, in a manner that is equitable, [and] seeks to minimize costs and maximize the total benefits to California."[2] The only way the letter and spirit of the law can be implemented effectively is to assure that all significant sources of emissions bear their fair share of the cost of meeting the overall reduction target and timetable. Unless all significant sources receive an accurate price signal for the cost of achieving the overall AB 32 goal, behaviors that have led to California's current GHG emissions profile will at a minimum continue, and at a maximum, be accelerated through further distortions. For example, California's electric sector GHG emissions profile is roughly half that as the nation as a whole and half that of the global average. Electricity represents 25% of the state's GHG inventory while transportation represents 38%. If the responsibility (i.e., the full cost) of meeting AB 32 goals is placed disproportionately on further reductions in the carbon intensity of the electric sector the price signal to Californians will be to cut back further on low GHG emitting electricity while continuing to consume petroleum as they drive their cars more and more. SCE therefore urges CARB to assure that each sector be held financially accountable for its share of the emissions inventory.

The same principle should apply within sectors. Within the transportation sector, for example, passenger and light duty travel accounts for nearly three quarters of the total GHG emissions. Within the electric sector, high GHG emitting generation (approaching the national carbon intensity of 0.60 metric tons $CO_2$ per megawatt hour) is found largely in the publicly-owned systems. If the responsibility for reductions is spread equitably within these sectors, then the most important sources of GHG emissions will receive a price signal to reduce. SCE therefore recommends that all electricity providers, including investor owned utilities, municipalities, irrigation districts, community choice aggregators, and electric service providers be subject to the same rules, regulations, requirements, and programs for reducing GHG emissions.

**CARB should encourage the aggressive pursuit Voluntary Early Actions (VEA).**

Finally, SCE commends CARB for the February 28 adoption of its VEA policy. It is in everyone's interest to proceed with a process that gives entities as much certainty as possible that their VEAs will receive GHG credit in a future regulatory scheme which reduces GHG emissions. The policy statement made at the February 28 meeting clearly states CARB's policy is to achieve that objective. SCE has identified a number of projects that it intends to apply for ratepayer funding through the CPUC early in 2008. SCE welcomes the opportunity to continue to work with CARB to achieve a mutual objective of demonstrating how to develop and implement VEA programs.

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2 Cal. Health and Safety Code §38562(b)(1).

SCE appreciates the opportunity to make these comments and looks forward to working closely with CARB in pursuit of implementation of AB 32 within California. Please do not hesitate to contact me if you have any questions regarding the foregoing issues.

Very truly yours,

Michael Hertel (CAK)

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LAW#1472053