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November 30, 2018

Rajinder Sahota
Chief, Climate Change Program Evaluation Branch
California Air Resources Board
1001 I Street – P.O. Box 2815
Sacramento, CA 95812

Re: San Diego Gas & Electric Comments on the November 15, 2018 Cap-and-Trade Regulation Amendments – 15-Day language

Dear Ms. Sahota:

These comments are respectfully submitted on behalf of the San Diego Gas & Electric Company (SDG&E), which currently delivers roughly 45% renewable energy to its customers and is a proud partner of the State in working to achieve California's ambitious clean energy and climate goals. SDG&E continues to support a well-designed Cap-and-Trade Program and appreciates this opportunity to comment on the California Air Resources Board's (CARB) *Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation*. SDG&E provides comments below on the following topics in the 15-day language:

1) Energy Imbalance Market and Allowance Allocation
2) Eligible Uses of Allowance Proceeds

Energy Imbalance Market and Allowance Allocation

SDG&E reiterates its support for a simple and transparent method for assessing individual compliance obligations for secondary emissions associated with participation in the California Independent System Operator (CASIO) Energy Imbalance Market (EIM). SDG&E supports the changes in the 15-day language indicating that EIM emissions will be calculated using annual data for all time periods and that the calculation of EIM Purchaser emissions will be based on annual retail sales for each EIM Purchaser (defined as electric distribution utilities, or EDUs, that serve California load with EIM purchases and that also receive a free allocation of allowances).

SDG&E is in agreement that, as updated in the 15-day language, retiring EIM allowances from the free allowance allocation that EDUs receive under the Cap-and-Trade Program is an uncomplicated way of accounting for additional emissions associated with the EIM. However, given that EDUs will be retiring allowances on behalf of their entire service territory, CARB should adjust the allocation methodology to increase the allowance allocation to EDUs to cover this additional burden. CARB should also update the unspecified emissions factor, which has not been re-calculated since the Cap-and-Trade program began.

SDG&E also reiterates it's support for contrasting any EIM outstanding emissions against the GHG benefits of California's renewable energy exports in the EIM. The benefits of balancing supply and demand of renewable energy across the Market include reduced curtailment and support for the continued development of renewable resources to serve the regional market.

Eligible Uses of Allowance Proceeds

SDG&E appreciates Staff's inclusion of education and outreach activities as allowable costs; however, we would reiterate that added requirements for GHG calculations, including for educational outreach programs, could hamper utilities' use of allowance proceeds for programs that require this additional justification. Specifically, the utilities are mandated to make $100,000,000 or 10% of annual allowance proceeds available for the Solar on Multifamily Affordable Housing (SOMAH) program as directed by Assembly Bill 693 (Stats of 2015, Ch. 582). As such, utilities should not have to justify the use of the proceeds for this purpose, nor the GHG reductions associated with this utilization. Depending on the program, estimates of GHG emissions reductions could be difficult to calculate or obtain, such as SOMAH and education and outreach. For non-mandated programs, this additional burden will likely deter investments. Thus, SDG&E urges CARB to remove the additional requirements in Section 95892(e)(4)(B) and 95893(e)(4)(B), or at the very least carve-out education and mandated uses such as SOMAH.

Additionally, given the potential to reduce GHG emissions further by bringing renewable natural gas (RNG) into the natural gas system, SDG&E continues to support the position of the Gas Utility Group in advocating for its explicit inclusion under allowable uses of allowance proceeds.

Conclusion

SDG&E believes that the viability and health of the post-2020 Cap-and-Trade Program can be strengthened by the appropriate application of the modifications directed by AB 398 and Board Resolution 17-21.

In the last two months, the United Nations Intergovernmental Panel on Climate Change (IPCC)[1] and the federal government of the United States[2] have released reports urging an acceleration

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[1] United National Intergovernmental Panel on Climate Change. Special Report – Global Warming of 1.5°C. 8 October 2018: http://www.ipcc.ch/report/sr15/

[2] U.S. Global Change Research Program. Fourth Nation Climate Assessment, Volume II: Impacts, Risks, and Adaption in the United States. November 2018: https://nca2018.globalchange.gov/

of efforts to address global climate change to avoid grave consequences. The findings of these reports have spurred new pressure to incentivize innovation in additional emissions reductions, including recommendations to increase pricing in the Cap-and-Trade program. Drastic increases in the price of Cap-and-Trade allowances would have destabilizing political and economic effects on the Program, including market uncertainty and economic leakage. Given that California is only responsible for approximately 1% of all global GHG emissions, the path to meaningful *global* reductions in GHG emissions is exporting the Cap-and-Trade Program to other jurisdictions. To achieve this, the program must be attractive to other governments and stakeholders, which can be accomplished by ensuring a well-designed, stable and sustainable Cap-and-Trade Program.

SDG&E thanks CARB for this opportunity to comment on the 15-day language, and we look forward to additional dialogue. Please contact us if you have any questions or concerns about these comments.

Sincerely,

/s/ Tim Carmichael

Tim Carmichael
State Agency Relations Manager