January 20, 2016

Richard Corey
Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95812-2828

RE: Southern California Edison Comments on the Cap-and-Trade 15-Day Modifications

Mr. Corey,

Southern California Edison ("SCE ") respectfully submits this letter, on behalf of customer interests, to the California Air Resources Board ("ARB") regarding staff's methods for post-2020 allowance allocation to electric distribution utilities (EDUs) as presented in the 15-Day Modifications posted December 21, 2016. SCE appreciates staff's availability for continued dialogue on the proposed changes to the Cap-and-Trade Program post-2020, and views the proposals in this letter as a step in that iterative process.

In addition to this letter, SCE has signed on to two additional joint-letters regarding the changes proposed in this regulatory package – a Joint-Utility Group (JUG) letter on allowance allocation, and another letter authored by a subset of the JUG on methods for addressing the RPS Adjustment.

SCE supports a well-designed Cap-and-Trade program to help the state achieve its post-2020 goals. A well-designed Cap-and-Trade Program can help keep total program costs down while achieving environmental goals. SCE also supports ARB's post-2030 annual economy-wide cap-setting methodology.

Comments on the Electrical Distribution Utility Post-2020 Allowance Allocation Proposal

SCE supports key changes made in these 15-day Modifications. SCE supports the amendments in the 15-day language that ensure the Renewables Portfolio Standard (RPS) component of the allowance allocation computation is applied to retail sales and not 'load including losses', which is consistent with the way compliance is calculated for the RPS Program. SCE also supports ARB's proposal in the 15-day language that bases the allocation calculation on demand forecasts that do not include additional achievable energy efficiency (AAEE). Finally, SCE commends CARB for ensuring that this proposed EDU allocation methodology will be in effect throughout the 2021-2030 period.

SCE is concerned with the rapid rate of decline in electric utility allocations due to the dual impacts of a significant cap adjustment factor and assumptions about utility compliance in the RPS Program. ARB staff has proposed a significant decrease in allowance allocation for EDUs from 2021-2030, which would directly reduce the biannual Climate Credit returned to customers, at a time when the state's climate policies desire to see an increase in the utilization of electricity as an end-use fuel. The

current proposal entails a precipitous annual reduction in allocation of approximately 7-9% between 2021 and 2030 due to reliance on both a cap adjustment factor (CAF) ***and*** assumptions about a ramp up to a 50 percent RPS. Consequently, the SCE and the Joint-Utility Group recommend that the ramp from 33 to 50 percent RPS be removed from the allocation methodology.

As the JUG noted in the letter sent to Senior CARB officials on December 9th, the assumption that each EDU's compliance burden will be reduced by the ramp up to 50% RPS by 2030 is inappropriate when determining allowance allocations. This is because not all RPS eligible electricity will directly reduce an EDU's carbon obligation under the Cap-and-Trade program. The JUG's December 9th letter described three areas where the RPS program may not result in emission reductions at EDUs:

1) Up to 10 percent of the RPS target can be satisfied using unbundled renewable energy credits (RECs), which does not reduce the EDU's carbon obligation under the Cap-and-Trade program;
2) It is unclear that the RPS Adjustment, which can be claimed by the EDU's to reduce their compliance obligation for the 15%-25% of the RPS that can be met with Portfolio Content Category 2 resources and many grandfathered resources, will be fully available post-2020; and
3) RPS eligible electricity that is directly delivered to a California Balancing Authority area may not reduce an EDU's carbon obligation if the electricity is not delivered all the way to the EDU's service territory.

Additionally, further reducing EDU allocation because of the utilities' required investment in renewable resources is inappropriate given the expected customer cost burden from these resources and the cost of the associated infrastructure necessary to reliably deliver renewable electricity to our customers. These costs should be considered when determining the application of the RPS in the allocation methodology.

Finally, the way that RPS assumptions are applied in the proposed methodology is inconsistent with the manner in which the 2013-2020 EDU allocation was structured. The EDU allocation in this period simply declined by the CAF, so that allocations to EDUs overall remained a consistent proportion representing about 25% of the total allowances as those declined over time. The proposed allocation structure in the 15-day language sharply departs from this, with EDU-sector allocation representing just 17% of all program allowances by 2030. Reducing allocation to EDUs disproportionately to the economy-wide decline in the cap does not recognize the important contributions that the electric sector is expected to make towards the State's overall GHG goals.

ARB should continue to remove disincentives for increased electrification in Transportation and other end-uses through the allowance allocation process. In order to meet the State's emission reduction goals in 2030 and 2050, electrification needs to be cost effective and remain a low cost alternative fuel for transportation and other end uses. SCE strongly supports the state's electrification goals and would like to highlight the need for ARB staff to continue its work with on a methodology for allocating allowances due to increased electrification. As the state continues towards its long-term climate targets, the emissions intensity of delivered electricity will continue to fall, making it an ever more attractive option as an end-use fuel. Electricity's role in powering transportation systems, industrial boilers, and building heating are just a few examples of the applications that may increase the emissions attributable to SCE (due to the nature of ARB's current accounting system) but would result in clear emission reductions from a societal perspective. In addition, electrification of the transportation and other sectors of California will yield substantial net reductions in criteria pollutants that will be needed for attaining ambient air quality standards for ozone and particulate matter under the federal Clean Air Act. SCE looks forward to discussing options to quantify these cross-sectoral effects and determine a reasonable method for delivering allowances to utilities where they are warranted.

Comments on Post-2020 Cap-and-Trade Market Design and Data

Cost containment should be a guiding principle for market design. Cost containment proposals should not just focus on what the state can do in the event of a sudden allowance price spike, but instead should also consider market design choices that could prevent a spike from occurring in the first place. This regulatory package includes several proposals that could result in the tightening of allowance supply and/or proposals that could increase the costs of compliance for regulated entities.

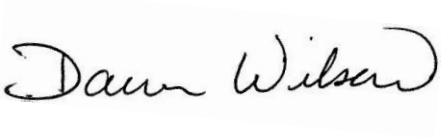
On the treatment of unsold allowances, SCE agrees with other California utilities who believe that removing allowances from the market into the APCR after two years is premature and could have the unintended consequence of significantly increasing the costs of the Cap-and-Trade program. The Cap-and-Trade program has been subject to significant uncertainty due to regulatory, judicial, and legislative controversies. A first-of-its-kind greenhouse gas market could be expected to face such challenges, and is still clearly feeling the effects of lingering uncertainty. SCE and JUG members suggest that ARB should continue monitoring market performance and allow current rule challenges to be settled to understand how demand may bounce back after additional certainty appears in the market. The mechanism to hold unsold allowances out of the market for a time should be structured to return them to the market at prices lower than the proposed APCR $60 plus premium over the floor price. Otherwise, if unsold allowances are removed from circulation into the APCR, prices could spike higher on a rebound than they would if unsold allowances were allowed to continue in circulation in some fashion.

ARB should refine the CAISO EIM GHG accounting proposal to consider the offsetting effects of renewable exports and inter-temporal netting. A recent focus on 'secondary emission effects' that result from the California Independent System Operator (CAISO) EIM optimization has led the ARB to propose a solution that does not properly weigh the GHG benefits of the EIM. On August 26, CAISO released a study demonstrating that the EIM dispatch actually displaced emitting generation for a net benefit to the atmosphere in the first half of 2016[1]. In light of this information, Southern California Edison does not support the current method proposed in the regulation to quantify the scale of 'secondary emissions', as it would not take into account the emission reductions attributable to renewable exports. Netting the GHG benefits of EIM exports and imports would recognize the significant investment that California has made in renewable resources within the state, which when exported can reduce emissions outside of the state. Allowing netting over a reasonable period of time such as a year will allow EIM benefits to continue to accumulate at their maximum potential as they do today. While the SCE believes the proposed regulatory amendments to retire allowances to cover any 'secondary emissions' can be workable, we strongly believe the total compliance obligation should recognize the GHG benefits of renewable exports.

[1] http://www.caiso.com/Documents/ISO-EIMBenefitsReportQ3_2016.pdf

In conclusion, all of the proposals contained in this letter can help control the costs borne by utility customers while enabling Cap-and-Trade to deliver the emission reductions necessary to achieve the state's long-term climate goals. SCE believes cost containment can increase the effectiveness of California's Cap-and-Trade program and demonstrate leadership to jurisdictions considering their own climate policies. Thank you for your time, and consideration of the comments presented in this letter.

Sincerely,



Dawn Wilson
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