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November 4, 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 Workshop - 10/21/2016

Mr. Corey,

Southern California Edison (SCE) respectfully submits these informal comments to the California Air Resources Board (ARB) on the Proposed Regulatory Order addressing changes to the Cap-and-Trade regulation. These comments are meant to be read in addition to the California Joint-Utility Group (JUG) comments which will be submitted during this regulatory proceeding.

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. However, a review process should be put into place to program costs and feasibility going forward. This is particularly appropriate considering the large degree of uncertainty that exists when considering California's multi-decade effort to reduce greenhouse gases.

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

SCE agrees with ARB staff that alleviating customer cost burden is the right guiding principle for post-2020 allocation in the electric sector. However, SCE also agrees with JUG comments that seek to expand the definition of what should count as 'cost burden'. Please refer to JUG comments for a fuller treatment of the utilities' list of reasonable costs that should be covered through ARB's allowance allocation methodology. But in summary, SCE and the JUG recommend that ARB's cost burden principle should be expanded to include:

- Recognition of continued investment in EE programs, as in the previous allocation.
- Recognition of load growth due to fuel switching and increased electrification
- Continued recognition of Qualifying Facilities contracts

SCE is concerned with the reduction in electric sector allocation between 2020 and 2021, and 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 2020-2030, 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. As California seeks to encourage fuel switching in sectors and across technologies that have traditionally relied on fossil fuels, the state should ensure that electricity remains as price competitive as possible. ARB staff should work with stakeholders to determine ways the electric sector can continue to help achieve the state's 2030 goals, while smoothing out the transition in pre- and post- 2020 allocation methodologies.

SCE agrees with other California utilities that call for changes in the way our State's RPS program is represented in the post-2020 allowance allocation calculations. The denominator used to calculate compliance with the State's RPS program is retail sales and not load (at the generation level). [1] Accordingly, ARB staff should calculate RPS generation levels based on retail sales and not based on load.

The post-2020 Allowance allocation is most reasonably calculated using loads without additional achievable energy efficiency (AAEE). As the California Energy Commission (CEC) notes, AAEE savings are associated with programs that are neither finalized nor funded, even if the CEC believes they are reasonably expected to occur. [2] SCE agrees with other California utilities that this uncertainty should be removed from allocation calculation.

ARB should continue to remove disincentives for increased electrification in Transportation and other end-uses through the allowance allocation process. SCE would like to highlight the need for ARB staff to continue its work with stakeholders to understand 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. 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 continue to be a key element of 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.

[1] See: http://www.cpuc.ca.gov/rps_homepage/
[2] See: http://www.energy.ca.gov/2013publications/CEC-200-2013-005/CEC-200-2013-005-SD.pdf

SCE calls on ARB to encourage offset supply, ensure the ability to use offsets up to the quantitative usage limit, and to pursue reasonable linkage opportunities with other jurisdictions. All of these proposals will 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 and JUG members believe cost containment can increase the effectiveness of California's Cap-and-Trade program and demonstrate leadership to jurisdictions considering their own climate policies – this is especially true in the case of offset policy.

ARB should postpone the CAISO EIM GHG accounting proposal until stakeholders have more time to analyze potential market impacts and offsetting effects through the ongoing CAISO stakeholder process. 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 is one-sided. 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. In light of this information, Southern California Edison and JUG members do not support the current method proposed in the regulation for addressing the secondary emissions issue, as it would not take into account the emission reductions attributable to renewable exports. SCE agrees with JUG members in suggesting that additional opportunities for public input and discussions with all relevant agencies on this issue should be held after the first Board hearing of these amendments and before the release of 15-day language. ARB's proposal could set a precedent for future market expansion that could erode the environmental and cost benefits of that very expansion. SCE has reiterated these comments with CAISO. [3]

SCE makes two requests in regard to market data transparency. In the GHG auction notices, ARB should describe explicitly how many unsold allowances there are, who they are owned by, and how long they have been unsold for. Also in the GHG auction notices, ARB should make it explicit what the source is for previous vintage allowances that are being reintroduced to auction due to penalty, violation or accounting error.

Thank you for your time, and consideration of the comments presented in this letter.
Sincerely,

Dawn Wilson

Dawn Wilson

Director, Environmental Affairs and Sustainability

[3] http://www.caiso.com/Documents/SCEComments-RegionalIntegrationCaliforniaGreenhouseGasCompliance-TechnicalWorkshop.pdf