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Ms. Rajinder Sahota
Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Sempra Energy Utilities', Southern California Gas Company and San Diego Gas & Electric Company, Comments on Slides Presented During the October 2, 2015 Discussion Workshop Regarding the Scope and Schedule for Potential 2016 Amendments to the Cap-and-Trade Regulation

Dear Ms. Sahota:

The Sempra Energy Utilities ("SEU"), comprised of Southern California Gas Company and San Diego Gas & Electric Company, appreciate the opportunity to submit these comments with respect to the proposed scope and schedule for potential 2016 amendments to the cap-and-trade rules, presented by the Air Resources Board ("ARB") at a discussion workshop conducted on October 2, 2015. Although only a rough outline was presented during the workshop, SEU applauds ARB's overall objective of extending the cap-and-trade program, and making the program more efficient while maintaining environmental and market integrity.

ARB's presentation at the October 2nd workshop addressed the following topics:

1. Climate change policy update
2. Cap-and-trade regulation update
3. Scope and schedule for cap-and-trade regulation amendments
4. Schedule for climate change scoping plan update
5. USEPA's clean power plan
6. ARB's plan for compliance with this plan
7. Opportunities for streamlining cap-and-trade program efficiency
8. Cost containment
9. Market data publication

Please note that, given the lack of detail and specificity in ARB's slide presentation, SEU's comments below are tentative or preliminary in nature. Consequently, SEU reserves its right to later develop, modify, or supplement its comments as ARB releases in the following months more substance and detail regarding its proposed changes to the cap-and-trade rules.

1. Use the first compliance period event as a learning opportunity. The cap-and-trade program's first compliance period ("CP1") ended on December 31, 2014. According to slide #5 in ARB's morning slide presentation, on November 2, 2015, the entities participating in CP1 must surrender enough compliance instruments to cover the sum total of their GHGs emitted during CP1. SEU submits that this unprecedented event would likely yield substantial compliance information regarding entities participating in CP1 that could cause ARB to either keep, delete, rethink, or revise certain cap-and-trade requirements. Therefore, we encourage ARB to wait until enough CP1 compliance information has been accumulated, sifted through, and thoroughly reviewed, thereby yielding the data necessary for amending or updating the cap-and-trade rules.
2. Avoid jumping to conclusions regarding localized impacts. On slide #6 of the morning presentation, ARB discusses the need to monitor adverse localized air quality impacts resulting from the cap-and-trade program, and to develop ways to address such impacts. While SEU understands and agrees with ARB's need to identify and evaluate these localized adverse impacts, we urge ARB to carefully study these impacts and determine whether these are causally related to the cap-and-trade program, or are just correlated.
3. Carefully consider the imposition of additional requirements. On slide #7 of the morning presentation, ARB states that it wants to streamline regulations and remove unnecessary requirements as it seeks to make the cap-and-trade program more efficient, while also maintaining the program's environmental and market integrity. SEU commends ARB highly for taking such a step forward. SEU, however, also cautions ARB not to impose new requirements in its quest to maintain the program's integrity, unless such requirements have been fully vetted to ensure against undermining ARB's efficiency and streamlining goals.
4. Take into account the other AB32 GHG reduction measures when setting the caps. On slide #10 of the morning presentation, ARB discusses the 2030 statewide GHG reduction target, as well as what portion of that target should be placed on the shoulders of the cap-and-trade program. While the cap-and-trade program has so far proven to be a very efficient and effective tool for reducing GHG emissions in the state, SEU suggests that ARB first evaluate the success and effectiveness of the other GHG reduction measures such as the low-carbon fuel standards or the advance clean cars program, among many others. Such an assessment would help ARB better determine how to set the 2021 and 2030 caps for the cap-and-trade program, in light of the GHG reductions already achieved or achievable by such measures.
5. Better ensure the integrity of offsets in addition to streamlining their issuance. On slides ##14-20 of the morning presentation, ARB asked for stakeholder input with regard to streamlining the offset issuance process in terms of shortening the time for issuing offset credits as well as infusing more predictability into the process. SEU greatly appreciates ARB's forward thinking in this regard and, in due time, will provide ARB with feedback as well as input on possible streamlining measures. SEU would also suggest that ARB address in this streamlining

process the need to better ensure the integrity of offsets, given that offset end-users ultimately bear the compliance liability if the offsets they purchased either get entirely or substantially invalidated after they have been issued.

Furthermore, SEU would like to point out how Early Action Offsets that are awaiting review currently have no issuance deadline set forth in the regulation. As a result, these offsets which have been in the review queue for some time are routinely brushed aside while Compliance Offsets are processed in a timely manner in order to meet their respective regulatory deadline. SEU urges that ARB create an issuance deadline for Early Action Offsets as part of its streamlining efforts. In addition, ARB may want to change the invalidation period of an Early Action Offset such that it does not necessarily begin on the day of the offset's issuance. Rather, the invalidation period should begin either on January 1, 2012 (the start of the program), or on the start date of the offset, whichever is later.

6. Continue to find ways to streamline auctions. On slide #22, ARB lists a number of ways for streamlining the allowance auction process, all of which SEU supports and endorses. SEU also recognizes the challenges ARB faces in streamlining auctions, but encourages ARB to work closely with stakeholders who, as auction participants, have many ideas for improving the auction process without undermining the policy behind these auction rules. SEU suggests, for example, reducing the number of days between the date of an auction and the deadlines for several pre-auction submittals. We would also suggest creating alternatives to the cash option when providing bid guarantees, since some auction participants may have cash management restrictions that could severely limit their ability to participate in a given auction. Finally, we urge ARB to consider relaxing the number of Accounts Viewing Agents in CITSS, which would be helpful to auction participants and, therefore, further streamline the auction process.

7. When streamlining the information management process, please find more ways to reduce legal complexity, as well as burdensome administrative paperwork and submittals. On slides #26-35 of the morning presentation, ARB discusses a key area for streamlining and implementing more efficient and less burdensome procedures, namely, information management. Much of the frustration participants encounter with the cap-and-trade program involves the complexities and nuances in the rules governing the information management process. Not only are these rules amended frequently, but a significant amount of written guidance is often issued by ARB alongside these rules, practically making compliance with these information management rules an extremely "attorney-intensive" exercise, i.e., making sure submittals that comply with ARB's written guidance, for example, also comply with the applicable rule as written.

Indeed, on a few occasions, SEU attorneys have had to communicate directly with ARB attorneys in order to better understand – and, therefore, better comply with – certain information management rules. For example, during one such telephone conversation, ARB attorneys confirmed for us that one of the exemptions to the non-disclosure rule, as set forth in 17 CCR §95914(c)(2)(D), would also apply to disclosures required by other government agencies in addition to the CPUC. SEU hopes that during this amendment process, ARB revises the language in 17 CCR §95914(c)(2)(D) so that it more clearly states its intent and purpose.

Much of the information required by the cap-and-trade rules can also be provided less frequently. For example, the requirement to submit to ARB within 30 days any changes to the

names, titles, and addresses of a participant's officers and board of directors, can be adjusted to once a quarter, as part of the auction registration process. Furthermore, while most submittals or reports can be done online or electronically, there are still some reports or submittals that are being made via hard copy, such as, for example, the officers and board of directors 30-day report discussed above, as well as the Auction Application Attestation form. SEU is sure that these hard copy submittals can be converted into online or electronic submittals without compromising the cap-and-trade program's integrity or making the program easier to "game."

SEU would like to raise one further point regarding information management that is not addressed in the slides, namely, the prohibition against disclosure of certain allowance auction information. In particular, many participants find it awkward, if not unwieldy, to respond to questions regarding participation in a past auction, by referring the questioner to the ARB auction website where the answer can eventually be divined. It is unclear to SEU exactly how such a requirement mitigates against "gaming" or prevents fraud or undermines the state's GHG reduction goals.

Thank you, again, for the opportunity to provide some preliminary comments on ARB's slide presentation on potential amendments to the cap-and-trade rules. SEU looks forward to working closely with ARB and its staff as it further develops and refines these proposed amendments. Please do not hesitate to contact me should you have any comments or questions regarding the above.

Sincerely,

Tamara Rasberry