

**COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE
CALIFORNIA AIR RESOURCES BOARD ON THE THIRD NOTICE OF PUBLIC
AVAILABILITY OF MODIFIED TEXT FOR AMENDMENTS TO THE CALIFORNIA
CAP-AND-TRADE PROGRAM TO ALLOW FOR LINKAGE**

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Dated: **April 5, 2013**

I.

INTRODUCTION AND EXECUTIVE SUMMARY

Pursuant to the Third Notice of Public Availability of Modified Text, released March 22, 2013, Southern California Edison Company (“SCE”) respectfully submits its comments to the California Air Resources Board (“ARB”) on the Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms to Allow for the Use of Compliance Instruments Issued by Linked Jurisdictions (“Third Linkage Amendments”).

The Proposed Modification Regulation Order contains the third set of modifications issued by the ARB regarding linkage to the cap-and-trade programs of other jurisdictions. The first set of proposed linkage modifications was released in May of 2012. After the passage of Senate Bill (“SB”) 1018, which was codified in Section 12894 of the Government Code, linkage was delayed for the Governor to make four findings regarding linkage that were outlined in the legislation.¹ In June 2012, the ARB passed a modification regulation order that did not include linkage, but directed the Executive Officer to make the requisite findings. The second 15-day modification language, released in January 2013, again considered linkage, which would be effective only after the Governor makes the required findings. In the Third Linkage Amendments, the ARB proposes January 1, 2014 as an effective date for linkage with Québec, meaning that as of that date, compliance instruments from that jurisdiction can be used for compliance purposes by California’s covered and opt-in entities. The proposed effective date, which creates a concrete start time for linkage, highlights the need for the ARB to address all of the concerns expressed in SCE’s earlier-filed comments, which SCE summarizes below.

SCE has historically supported broad regional or national markets in order to ensure effective carbon reductions. In keeping with that position, SCE continues to support a broad and

¹ See California Air Resources Board, Discussion of Findings Required by Government Code Section 12894, January 2013, available at <http://www.arb.ca.gov/regact/2012/capandtrade12/2nd15dayatta6.pdf>.

efficient cap-and-trade market to achieve the goals of Assembly Bill (“AB”) 32. However, SCE’s support has always included the caution that linkage should not be attempted until California’s program has been shown to be functional and that the carbon market is robust. ARB should heed the advice of its own Emissions Market Assessment Committee (“EMAC”) and many of its stakeholders, and postpone a linkage decision, as well as an *effective date*, until the beginning of the second compliance period.

While SCE supports and encourages linkage in principle, SCE urges the ARB to:

- Postpone linkage until all jurisdictions have demonstrated well-functioning markets;
- Develop reasonable regulatory language addressing the possibility of future “de-linking”; and
- Keep linkage as simple as possible by maintaining separate auctions and compliance instruments for each jurisdiction, and simply allowing all compliance instruments to be accepted across linked jurisdictions.

II.

THE ARB SHOULD COLLABORATE WITH STAKEHOLDERS AND THE EMAC TO CRAFT SUCCESS METRICS TO DETERMINE READINESS FOR LINKAGE AND DETERMINE POSSIBLE COSTS AND BENEFITS OF LINKAGE

Given the ARB’s responsibility to carefully design a cap-and-trade program and establish a fair and transparent market, the ARB should monitor the success of the market it has created, before trying to expand it. The EMAC has concluded that linkage with Québec should not move forward until the California cap-and-trade market is deemed well-functioning.² SCE strongly agrees and urges the ARB to develop, in conjunction with stakeholders and the EMAC, success

² Elizabeth M. Bailey, Severin Borenstein, James Bushnell and Frank A. Wolak, Emissions Market Assessment Committee for AB 32 Compliance Mechanisms, “Issue Analysis: Linkage with Quebec in California’s Greenhouse Gas Emissions Cap-and-Trade Market,” September 20, 2012, at 2 (“We [the EMAC] believe that linking with well-functioning GHG C&T markets in other jurisdictions should be pursued once the California market can be deemed to be well-functioning”).

metrics for determining when and if the California market is ready for linkage with other jurisdictions.³

Additionally, SCE recommends that the ARB develop a set of criteria to assess any potential linkages to ensure that the economic and environmental impacts of such partnerships are in line with California's cap-and-trade goals. Identifying the possible costs and benefits of linking with another jurisdiction on a case-by-case basis will allow the ARB to make informed decisions and avoid harmful future linkages.

Further discussion of these issues can be found in SCE's comments to the ARB on linkage with Québec submitted January 23, 2013.⁴

III.

THE ARB MUST PREPARE FOR THE POSSIBILITY OF DE-LINKING

De-linking could cause significant economic harm to California and impact California's ability to meet its AB 32 emissions reduction goal. The ARB should plan how it would maintain the environmental integrity of its cap-and-trade program and prevent significant economic harm to California before linking with another jurisdiction. In its draft linkage agreement, the ARB proposes a brief "Withdrawal Procedure"⁵ for a de-linking scenario, but this procedure is not sufficient. The Withdrawal Procedure is merely guidance for *when* jurisdictions would de-link rather than *how* jurisdictions would de-link. The ARB has yet to offer any details on what would

³ The EMAC has proposed potential metrics: "While it is beyond the scope of this memorandum, possible metrics for deeming the California GHG C&T market to be well functioning include GHG allowance prices that are tied to abatement costs, convergence in allowance prices (subject to transaction costs) across trading venues, evidence of allowance trading activity taking place, and price volatility reflective of changes in the cost of abatement, not market manipulation)." *Id.* at n.4.

⁴ See Comments of Southern California Edison Company to the California Air Resources Board on 15-day changes to the California Cap-and-Trade Program to Allow for Linkage ("SCE January Comments"), January 23, 2013, at 3 (*available at* http://www.arb.ca.gov/lists/capandtradelinkage12/22-2013-01-23_comments_on_15-day_changes_to_california_cap-and-trade_program_to_allow_for_linkage.pdf).

⁵ See Article 16, "Withdraw Procedure," Discussion Proposals Concerning the Harmonization and Integration of State and Provincial Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions, California Air Resources Board, at 10, *available at* <http://www.arb.ca.gov/cc/capandtrade/linkage/discussion-proposal-state-provincial-cap-trade.pdf>.

happen to the surplus of compliance instruments in the program, and how economic and environmental impacts will be assuaged. SCE is convinced that de-linkage poses a serious threat and that market participants should be informed of how this process might unfold.

Additional comments on de-linking can be found in SCE's January 23, 2013 comments.⁶

IV.

MODIFYING THE CURRENT LINKAGE STRUCTURE WOULD ALLOW FOR SIMPLER DE-LINKING

All that is needed to form a linked program is the acceptance of compliance instruments amongst jurisdictions. Rather than the single joint auction with allowances that are indistinguishable by jurisdiction (as proposed in Section 95911(a)(5) of the Proposed Modified Regulation Order⁷), each jurisdiction should have its own auction and issue its own identifiable compliance instruments. A multi-jurisdictional program could be then maintained by trading in the secondary market. This will minimize the organizational and accounting complexity that comes with holding a joint auction and better maintain the environmental and economic integrity of the linked programs.

Additionally, creating allowances that can be distinguished between jurisdictions would allow jurisdictions to de-link more easily. Separating allowances at the beginning would allow market participants to make informed decisions about where to purchase allowances based on policy risk in either jurisdiction. If, as the ARB envisions, a well-functioning program with consistent rules develops, then prices should converge across linked programs. Conversely, if the linked markets do not run as smoothly as expected, the ARB and other market participants will be better positioned to cope with possible de-linking.

⁶ SCE January Comments at 6.

⁷ Proposed Modified Regulation Order, § 95911(a), at 5.

Further treatment of this subject can be found in SCE's January 23, 2013 comments to the ARB.⁸

V.

CONCLUSION

Linkage to cap-and-trade programs in other jurisdictions must be carefully executed with complete consideration to the legal and policy concerns surrounding such a decision. SCE urges the ARB to follow the recommendations of its EMAC and evaluate a California-only program through at least the first compliance period before officially linking to any other jurisdictions and then to initiate linkage in the simplest form possible. In order to ensure that California's example of a cap-and-trade program is a positive one, the ARB must address these outstanding concerns before linking with other jurisdictions to dispel unnecessary and damaging market uncertainties. SCE appreciates the opportunity to respond to the ARB's third set of 15-day changes to the Proposed Modified Regulation Order.

⁸ SCE January Comments at 10.

Respectfully submitted,

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