



September 14, 2016

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

RE: Southern California Edison Comments on Cap-and-Trade Proposed Regulation Order

Mr. Corey,

Southern California Edison (SCE) respectfully submits these 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. Southern California Edison also supports ARB's post-2030 annual cap-setting methodology. However, a review process should be put into place to monitor 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.

SCE agrees with ARB staff that alleviating customer cost burden is the right guiding principle for post-2020 allocation. 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, the 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

ARB should continue to remove disincentives for increased electrification in Transportation and other end-uses. 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 in order to implement Section 3 of SB 350.¹ 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

¹ Which added Health and Safety Code Section 44258.5

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.

ARB should postpone the CAISO EIM GHG accounting proposal in this regulation order until stakeholders have more time to analyze potential market impacts and offsetting effects. 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 seeks to ensure that 'one-way linkages' include protections for our customers and all Californians. New forms of linkage have been proposed in this regulatory order, allowing for one-way allowance flows into (or out of) CA. These two new forms of linkage would not require the same level of operational integration as the California-Québec style linkage. The first type would allow entities in California to retire compliance instruments issued by another GHG ETS to be used to meet their compliance obligation in California. The second would allow entities registered in a non-California GHG Program to retire California compliance instruments to meet obligations in their own program. While SCE supports CARB's exploration of further linkages, we urge the ARB to ensure California has in place methods of controlling the impact that one-way linkages could have on the compliance costs borne by Californians, specifically electricity ratepayers.

SCE supports ARB plans to use the Cap and Trade Program to comply with the Federal Clean Power Plan. ARB Staff is proposing to use the post-2020 Program as the compliance demonstration mechanism for CPP. The proposed amendments would allow compliance with the Cap-and-Trade Regulation (as amended by this package) to allow electric generating units in the state to be in compliance with CPP as well. SCE supports this effort, and encourages the state's show other states that a Cap & Trade program like the one operating in California can satisfy EPA requirements and demonstrate equivalency with federal standards – hopefully spurring other states to follow California's lead.

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

Sincerely,

A handwritten signature in cursive script that reads "Dawn Wilson".

Dawn Wilson

Director, Environmental Policy and Affairs