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EDISON

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Mr. Doug Thompson
Manager of the Climate Change Reporting Section
California Air Resources Board
1001 I Street
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Sacramento, California 95812

Subject: Southern California Edison Company Comments Regarding Staff Report and Proposed Regulation Order Regarding the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions dated October 19, 2007

Dear Mr. Thompson:

Southern California Edison Company ("SCE") thanks the California Air Resources Board ("ARB") for this opportunity to submit comments on the Staff Report and Proposed Regulation Order Regarding the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions dated October 19, 2007. SCE's comments are generally focused on a few specific issues related to the reporting requirements for the electricity sector.

The ARB Should Revisit Its Regulation After The State Selects A Point Of Regulation For The Electricity Sector

As the Staff Report acknowledges, the nature of the regulatory program and the point of regulation to achieve greenhouse gas ("GHG") emissions reductions from the electricity sector has not yet been determined. Potential approaches under consideration include a "source-based" approach, a "first seller" approach and a "load-based" approach; and the information that the ARB will need from the electricity sector will vary depending on the regulatory approach that is ultimately chosen. Consequently, under the ARB's current proposed regulation, "[t]he information collected from the electricity sector under the mandatory reporting system has been designed to provide a sufficient foundation for any of the three regulatory schemes described above."¹ This results in duplicative reporting of GHG emissions associated with the same electricity. For example, the same emissions may be reported by a generating facility, a marketer and a retail provider.

Given the time limits imposed on the ARB's actions by Assembly Bill ("AB") 32, it may be reasonable to adopt interim reporting regulations that require duplicative reporting from the electricity sector until a point of regulation is determined. However, in compliance with AB 32's directive to "[m]inimize the administrative burden,"² SCE urges the ARB to explicitly recognize that its current regulation requires more reporting from the electricity sector than will be necessary

¹ Staff Report at 31.

² Cal. Health & Safety Code § 38562(b)(7).

when the point of regulation is determined. SCE further requests that the ARB expressly state that it will revisit its reporting requirements for the electricity sector once a point of regulation is selected in order to streamline and simplify the requirements to correspond to the regulatory approach that is adopted. The California Public Utilities Commission ("CPUC") and the California Energy Commission ("CEC") recommended such a reconsideration when they made the recommendations for electricity sector reporting that have been included as part of the ARB's proposed regulation.³

The ARB Should Not Require Retail Providers' Wholesale Sales To Be Reported As Exports

The ARB's proposed regulation provides that retail providers "shall designate wholesale sales as inside California only if those sales go to other retail providers or to marketers who provide documentation that the sale went to the California region."⁴ The regulation further states that if "the retail provider cannot document the region of destination for any wholesale sale, the region of destination shall be designated as unknown."⁵ Such wholesale sales designated with unknown destinations are required to be reported as exports under sections 9511(b)(2)(D-E) of the proposed regulation.⁶

SCE urges the ARB to reconsider this proposed regulation. The requirement to document and verify the region of destination for wholesale sales is extremely difficult in the complex electricity markets that exist today, and it will be impossible to comply with the requirement for transactions made through the California Independent System Operator ("CAISO") upon implementation of its Market Redesign and Technology Update ("MRTU") in 2008.

This is because, under current market conditions, there is no incentive for the purchasing party to provide documentation that a sale remained in California unless that sale is attributed a GHG emission profile lower than the default profile for the region. In other words, a buyer would simply refuse to designate the destination. By doing so, the buyer will be free to choose from its portfolio those resources that minimize their GHG impact in California. At the same time, the seller will be required to designate the destination as unknown; and thus, rather than attributing the GHG emissions to the buyer, the seller must instead account for the GHG emissions as if they were exported out-of-state.

Under MRTU, the circumstances are even more dire as sellers will be selling into a clearing market and buyers will be buying from a clearing market. The product will be cleared through the market and both the sellers and buyers will "settle" via the market and not directly with each other. Thus, sellers will not even know who purchased the electricity they sell, let alone the region of destination. Accordingly, because retail providers will often be unable to document the region of destination for their wholesale sales, many of such sales will be erroneously designated as exports, even if such sales are actually used to serve California load. The result will be less accurate reporting of GHG emissions.

³ CPUC/CEC Decision 07-09-017 at 3-4, 55-56 (Sept. 6, 2007).

⁴ Proposed Regulation Order § 95111(b)(3)(I).

⁵ *Id.*

⁶ *Id.*

For the reasons stated above, the ARB should remove its requirement that wholesale sales can only be identified as inside California if the seller can document and verify that the sale went to the California region.

All Exported Electricity Should Not Be Attributed To The Retail Provider

SCE suggests that the ARB should allow retail providers to affirmatively argue on a case-by-case basis why their exported power should not be attributed to them. For example, historically, California utilities have entered into exchange agreements with out-of-state utilities in the Pacific Northwest, whereby the Pacific Northwest utilities provide hydro energy from their systems during high hydro availability seasons and the California utilities provide equivalent energy during other times of the year. Since such arrangements generally do not specify a resource, despite the fact that the energy deliveries from the Pacific Northwest are made during periods typically characterized by excess hydro conditions, the ARB will attribute the default emission factor to such energy deliveries. If the ARB makes a California retail provider responsible for the GHG emissions related to such inter-utility agreement-related exports, and then also attributes a default emission factor of 1,100 lbs CO₂/MWh value to the imported power, the ARB will be penalizing the California retail provider unnecessarily. This type of arbitrary accounting treatment could fundamentally threaten efficient use of renewable resources in the Western Electricity Coordinating Council ("WECC"). The ARB should permit retail providers to affirmatively demonstrate that specific exports (such as the exports described above) should not be attributed to them on a case-by-case basis.

The ARB Should Not Apply A 7.5% Transmission Loss Factor To All Imports From The Pacific Northwest, Southwest And Unknown Regions

The Staff Report explains that AB 32 requires GHG emissions from all electricity consumed in California be accounted for, including transmission and distribution line losses.⁷ The Staff Report further explains that since line losses associated with power imported from unspecified sources cannot be determined and those contracts are measured from the first point of receipt inside California, the emission factor used with unspecified sources will be adjusted upward to reflect out-of-state upstream transmission losses consistent with the ARB emissions inventory.⁸ In addition, the Staff Report states that the emission factors for the Pacific Northwest ("PNW"), the Southwest ("SW") and unknown regions will be increased by 7.5% in order to reflect the amount of power associated with transmission line losses.⁹

The practical effect of this upward adjustment is that all unspecified source transactions¹⁰ within California as well as transactions via the CAISO markets are attributed a default emission factor of 1,100 lbs CO₂/MWh, whereas imported power from the PNW, the SW and unknown regions are attributed a default emission factor of 1,182.50 lbs CO₂/MWh.

⁷ Staff Report at 38.

⁸ *Id.*

⁹ *Id.*, Attachment C at C-6.

¹⁰ As SCE has pointed out previously, retail providers typically sell electricity from their entire portfolio and not from specific generating stations. As a result, a very large number of transactions are likely to be classified as originating from unspecified sources.

SCE believes that the attribution of a default emission factor for unspecified source transactions may already incorporate line losses. Indeed, in the CPUC and CEC process that led to the final default emission factors, a number of values were proposed. Ultimately, a single default emission factor of 1,100 lbs CO₂/MWh was established for each region. There is no reason to believe that this default emission factor accurately portrays the actual system emission factors of each region. Nor is it fair to assume that this default emission factor implicitly or explicitly excludes losses. Given that the default emission factors will be reviewed in time, SCE recommends that no incremental loss factor be applied at this time.

The ARB Needs to Clarify How To Calculate And Report Ownership Share Differential for Out-Of-State Facilities

The ARB's proposed regulation requires retail providers to report "ownership share differential" for certain facilities that are fully or partially owned by the retail provider. SCE requests that the ARB clarify whether the ownership share differential calculation is to be applied to a retail provider's fully or partially owned facilities located outside of California. In doing so, the ARB should first clarify whether it wants a retail provider's fully or partially owned facilities located outside of California to be reported as "sources" or as "source specific imports." If the ARB indicates that all out-of-state resources should be reported as "imports," then the ARB should clarify whether the ownership share differential calculation should be applied to all source-specific imports, *e.g.*, regardless of whether such sources are "owned" by the retail provider or are under long-term contracts with the retail provider.

It should be noted that California retail providers such as SCE frequently sell output from their owned or contractual resources located in-state or out-of-state for a variety of reasons such as transmission congestion, transmission unavailability, overall system conditions, including hydro run-off conditions, and off-peak demand, and that it is extremely burdensome to record and keep track of the underlying reason why a specific sale transaction occurred.

The ARB Should Revisit Its Definitions Of The Pacific Northwest And Southwest Regions

The ARB's proposed regulation defines the "Pacific Northwest" as Washington, Oregon, Idaho, Montana and British Columbia; and the "Southwest" as Arizona, Nevada, Utah, Colorado and western New Mexico.¹¹ SCE suggests that the ARB revisit the definitions for these regions because the current definitions leave out Wyoming, the Canadian Province of Alberta and Mexico, all of which are in the WECC and electrically interconnected to California. It appears that small sections of Texas, Nebraska and South Dakota are also in the WECC, and these states too have not been mentioned in the definitions.

The ARB Should Implement Annual Verification By Random Sampling

SCE recommends that as a part of the ARB's sampling plan, the ARB should adopt a provision to allow verification of retail providers' reporting of emissions related to electricity transactions based on random sampling. Large investor-owned utility ("IOU") retail providers such as SCE typically

¹¹ Proposed Regulation Order §§ 95102(a)(129), (a)(165).

enter into thousands of wholesale electricity market transactions every year. SCE believes that it would be an unproductive use of both IOU and third party verifier resources to review all of these transactions in order to verify compliance with the ARB's reporting requirements. Random sampling would allow for verification of retail provider reports without an unduly burdensome and unnecessary review of thousands of wholesale electricity market transactions.

The ARB Should Clarify Language Regarding The Western Area Power Administration ("WAPA") Reporting Requirements

SCE requests that ARB clarify the language in section 95111(b)(1)(F) of its proposed regulation to read as follows:

(F) Western Area Power Administration (WAPA).

The Western Area Power Administration shall include information required of retail providers in this article as applicable to serving end use California customers and reporting fugitive SF6. In particular, WAPA shall include electricity transactions related to sources of electricity located in California that are used to serve {insert WAPA's} end-use California customers, power imported to California to serve {insert WAPA's} end-use customers including transactions from facilities owned by the Bureau of Reclamation on the Lower Colorado River, and power exported from California.

This clarification will make clear that WAPA's reporting relates to power used to serve WAPA's end-use customers in California.

The ARB Should Be Able To Obtain North American Electric Reliability Council ("NERC") E-tag Data

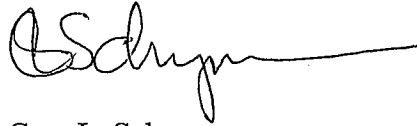
During the October 31, 2007 workshop, it was noted by some participants that NERC E-tag information is confidential and can only be made available to those entities that are identified as a part of the transaction on the E-tag. SCE agrees that NERC E-tags are confidential; however, SCE does not see a problem in providing this information to the ARB or to a third-party verifier subject to appropriate confidentiality protections.

SCE Already Makes Energy Consumption Information Available Electronically

At the October 31, 2007 workshop, there was also some discussion as to whether the electric utilities provide customer-specific electricity use information that some customers may use for GHG reporting purposes electronically via their websites. At present, energy consumption and demand information is made available directly to SCE's customers through SCE's website. Each customer can set up a unique PIN number to access their customer account. In the case of meter data or account data aggregation, SCE provides this option to our major customers for free. Therefore, SCE believes that the ARB does not need to order the electric utilities to electronically provide any customer energy consumption information.

SCE respectfully requests that the ARB revise its Regulation for the Mandatory Reporting of Greenhouse Gas Emissions to address SCE's comments before the Regulation is presented for approval by the Board during December 6-7, 2007 meeting. If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Schoonyan", with a long horizontal flourish extending to the right.

Gary L. Schoonyan