

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE  
CALIFORNIA AIR RESOURCES BOARD ON THE  
UPDATED AB 32 ECONOMIC ANALYSIS

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## I.

### INTRODUCTION

Southern California Edison Company (“SCE”) appreciates the opportunity to submit comments to the California Air Resources Board (“CARB”) regarding CARB’s Updated AB 32 Economic Analysis (“Updated Analysis”). Objective and high-quality economic analysis should play a critical role in identifying the most efficient and effective approach to achieving the State’s emission reduction goals. Because it is vital for California to design its policies to facilitate compliance at the lowest possible cost, SCE applauds CARB for its initiative and efforts to improve and update the economic analysis used to develop the program recommendations presented in the Scoping Plan. SCE supports continued economic analysis with the goal of formulating an optimal policy package to achieve the State’s Assembly Bill (“AB”) 32 objectives. With this goal in mind, SCE offers the following comments on CARB’s Updated Analysis.

## II.

### CARB SHOULD IDENTIFY HOW THE RESULTS OF THE UPDATED ANALYSIS WILL BE UTILIZED IN DESIGNING AND IMPLEMENTING AB 32 EMISSION REDUCTION MEASURES

At the recent November 16, 2009 workshop dedicated to the Updated Analysis, CARB staff discussed many of the details of the updated modeling. In addition, CARB staff outlined the administrative processes guiding the Updated Analysis and presented the results. However, CARB staff has yet to explain how they will use the results of the Updated Analysis to revise the Scoping Plan. Implicit in an updated analysis is the assumption that new and improved results will prompt a change in existing policy design where appropriate. For example, the Updated Analysis might demonstrate that a different share of reductions should come from market-based measures. Or, the analysis may indicate that the reductions anticipated from specific

programmatic measures are no longer expected. Given the potential for more accurate policy evaluations, CARB should develop a mechanism to amend and update the Scoping Plan.

### **III.**

#### **IF CARB USES ALLOWANCE ALLOCATION TO RELIEVE BURDENS ON DISADVANTAGED COMMUNITIES, THE UPDATED ANALYSIS SHOULD CLEARLY IDENTIFY THE IMPACTS BY SECTOR**

CARB will soon be making critical decisions relating to allowance allocation. One proposal would use the allowance allocation process to mitigate potential adverse impacts of a cap-and-trade program on disadvantaged communities. In other words, this proposal would grant allowance value to traditionally disadvantaged communities to alleviate any additional harm, such as increased local pollution, that might result from a cap-and-trade program. Some sectors will be responsible for a greater share of the potential harm to disadvantaged communities. If such a proposal were to be implemented, equity mandates that the allowances should be drawn from these sectors in proportion to their impact. It would be inequitable to reduce the allocation for one sector in order to compensate a locally disadvantaged community if that specific sector did not contribute to the burden. In order to facilitate a truly equitable distribution of allowances, if this proposal is implemented, the Updated Analysis should identify the proportion of the burden by sector.

### **IV.**

#### **CARB SHOULD CONSIDER EXPANDING ITS UPDATED ANALYSIS TO INCLUDE ADDITIONAL SCENARIOS**

Currently, the Updated Analysis focuses primarily on scenarios that stay within the bounds of the current Scoping Plan recommendations. In order to identify the optimal policy recommendations, CARB should consider other model inputs, including expanded offset

opportunities and market-based policy options. Further, the Updated Analysis should have the flexibility to solve for the optimal quantities of energy efficiency and renewable energy.

**A. The Updated Analysis Should Evaluate Expanded Offset Opportunities.**

In running the Updated Analysis, CARB staff did not consider any scenarios that allowed a compliance entity to use offsets to fulfill more than four percent of a compliance entity's obligations under the cap-and-trade program. As SCE has consistently advocated, offsets can provide a valuable tool to reduce emissions and as such an arbitrary quantitative limit should not be imposed. If the intent of the Updated Analysis is to illuminate the opportunities for the most efficient and effective abatement opportunities, then the model should allow for a greater quantity of indirect emission reductions via offsets. Ideally, the model should provide the optimal quantity of indirect emission reductions as an output. While CARB may continue to restrict the quantity of offsets, such a policy decision must be made with a full understanding of the costs. By allowing the model to solve for the optimal quantity of offsets, stakeholders can truly understand the cost of restricting offsets, giving policy-makers the opportunity to make an informed choice.

**B. The Updated Analysis Should Examine Expanded Market-Based Policy Options.**

In order to identify the most cost-effective and efficient method of implementing AB 32, the Updated Analysis should consider scenarios that include a broad set of policy options. Specifically, CARB should analyze scenarios that allow for complete compliance with AB 32 goals via market-based solutions. This would allow CARB to fully understand the cost of restricting market-based compliance to any specific share of emission reductions. Thus, should CARB decide to implement command-and-control measures, it would be a fully informed decision based on analytic results.

**C. The Updated Analysis Should Enable Endogenous Model Selection of Model Parameters Such as Energy Efficiency and Renewable Energy.**

In addition to modeling scenarios based on CPUC-ordered goals, CARB should allow the Updated Analysis to solve for the optimal quantity of energy efficiency and renewable energy rather than providing these values as input assumptions. In order to effectively and efficiently determine the optimal quantity of energy efficiency to reduce emissions, the model should identify this value as an output of the model, instead of simply using scenarios based on an assumed result.

V.

CONCLUSION

SCE appreciates the opportunity to comment on CARB's Updated Analysis and urges CARB to adopt regulations in line with the recommendations contained herein.

Respectfully submitted,

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