

September 30, 2008

VIA ELECTRONIC FILING

Ms. Mary Nichols, Chairman  
CALIFORNIA AIR RESOURCES BOARD  
1001 I Street  
Sacramento, CA 95812-2828

**Re: Joint Investor Owned Utilities' Comments on the AB 32 Draft Scoping Plan**

Dear Chairman Nichols:

Pacific Gas and Electric Company ("PG&E"), Sempra Energy ("Sempra"), and Southern California Edison ("SCE") (collectively, the "joint IOUs") appreciated meeting with ARB staff to provide our feedback on the *June 2008 Draft AB 32 Scoping Plan*. As staff emphasized and we agree, we are at the beginning of a long road to create the processes to achieve AB 32's emissions reduction goal. While we do intend to comment on the next version of the Scoping Plan, the joint IOUs would like to highlight some issues of shared interest among us that we hope you will incorporate into the draft before its next release.

During our August 14, 2008 meeting, staff reassured us that the Scoping Plan is meant to provide a general policy direction to staff and that individual program targets are expected to change during the rulemaking process. As the joint IOUs have noted in prior ARB meetings, workshops, and comments, there is substantial uncertainty and debate about the numerical targets and assumptions for the electricity sector programs, including energy efficiency above what is embedded in the load forecast, the 33% renewable portfolio standard by 2020 goal, and efficient combined heat and power (CHP) potential. For example, not all CHP is efficient. ARB must identify minimum efficiency, design, and on-going performance standards for CHP systems if the State is to achieve the projected reductions in GHG emissions. To be consistent with what staff has conveyed orally, we suggest that the Scoping Plan also should state that the ARB is listing the goals or targets subject to further analyses during the regulatory processes for cost effectiveness and technological feasibility.

As much of the analysis on cost effectiveness and technological feasibility will occur after the adoption of the Scoping Plan, the ARB should propose in the Scoping Plan a thorough and transparent process and a schedule for comparing cost effectiveness across the different measures, including cap and trade. This process should incorporate appropriate and supportable assumptions regarding RPS, CEE, and CHP from the CPUC and CEC with additional

independent verification and stakeholder review. Without such a cross-measure comparison process during the regulatory phase of AB 32 implementation, California may end-up paying more than necessary to meet AB 32's emissions reduction goals. Additionally, we believe the Scoping Plan should provide that individual measures will be reconsidered if new information indicates that they are not cost-effective on a cost per ton basis or are not technologically feasible.

Given the challenge and uncertainties in developing estimates of GHG reductions from individual measures, the joint IOUs recommend strongly that the Scoping Plan point to ranges of possible emission reductions from measures. We believe that the estimates used in the draft Scoping Plan are at the high ends of these ranges. By including realistic ranges of reductions for the individual measures, the cap and-trade system's assigned reductions will also be a range, starting at the low end of the currently included 35 MMT but ending at a much higher figure. While such a change does not diminish the importance of the individual measures, we feel that ranges offer a more realistic perspective on the emission reduction potential associated with individual measures.

In keeping with the theme of preserving flexibility in the Scoping Plan, the joint IOUs also urge the ARB not to limit the use of offsets at this time, either geographically or quantitatively. The ARB's economic analysis on various GHG reduction options is just starting. We do not yet understand the assumptions and inputs of costs and benefits for the various measures, and the Supplemental Analysis does not contain a detailed examination of these figures. More information is needed before determining whether a limit on offsets is appropriate or would place overall success in meeting AB32 targets at risk.

Finally, the joint IOUs request that the Scoping Plan state the ARB's intent to commit to and create processes to address inter-sectoral equity and equity among all load-serving entities in the electricity sector. California utility ratepayers should not bear more than their fair share of the costs of emissions reductions, nor should ratepayers of utilities that have already taken significant action on renewables, energy efficiency and other measures to address climate change.

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PG&E, Sempra, and SCE are committed to achieving cost-effective and technologically feasible emissions reductions. We look forward to continuing to work with the ARB on the Scoping Plan and the AB 32 regulatory process.

/s/

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/s/

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/s/

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