December 15, 2023

Hon. Steven S. Cliff, Ph.D.
Executive Officer
California Air Resources Board
1001 "I" Street
Sacramento, California 95814

RE: Joint California-Québec Public Workshop: Potential Amendments to the Cap-and-Trade Regulation.

Dear Dr. Cliff,

Southern California Edison (SCE) appreciates the opportunity to provide comments on the Joint California-Québec Public Workshop: Potential Amendments to the Cap-and-Trade Regulation (Workshop), held on November 16, 2023, by the California Air Resources Board (CARB) and the *Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs du Québec (Quebec)*.

SCE strongly supports the state's goals of achieving carbon neutrality by 2045 using the Cap-and-trade Program as a key tool of California's portfolio approach to achieve the greenhouse gas (GHG) emission reduction targets. We look forward to working with CARB and stakeholders in the upcoming public process to design modifications to the Cap-and-Trade Program to help achieve California's ambitious climate goals while providing critical funding for equity programs and climate investments and minimizing impacts to California residents and the economy.

I. Potential Impacts of the Presented Models on the cost of allowances

SCE appreciates CARB and Quebec's efforts to show the impact of how the Cap-and-Trade program could evolve and the associated effects on the cost of allowances. SCE requests that CARB and Quebec explore the drivers of the allowance price differences between the two models presented in the November workshop and incorporate the impact of emission reductions in non-fuel use, such as carbon capture and sequestration or CCS; and direct air capture or DAC:

- In the scenario modeled for Quebec, on slide 44, the additional removal of allowances had a minor impact on prices. For example, the removal of 265 MMT in Scenario 2 resulted in an increase of $16 per metric ton (Canadian dollars) in 2030, equivalent to an increase of about $12 per metric ton in US dollars. However, a similar removal of 265 MMT of allowances in Bushnell's Net Demand and Supply for 2030 (slide 28) would push the allowance price to about $75 per metric ton from the floor of about $30 metric ton, an increase of $45 per metric ton. Further explanation of the modeling result differences and the drivers of those differences would help stakeholders further understand the impact of proposed changes to the Cap-and-Trade program on allowance prices.
- In addition, SCE recommends that CARB include the impact of non-fuel emission reductions in the analysis by the University of California at Davis (UC Davis). Since CARB's 2022 Scoping Plan Update uses non-fuel emission reductions, such as CCS and DAC, to reach decarbonization goals, the incorporation of these emission reductions should be accounted for in the UC Davis allowance price analysis.

II. Cost Containment

SCE supports maintaining the elements in the program that allow flexibility for entities to comply, such as the use of multi-year compliance periods, offset credits, and allowance banking.

Limited use of offset credits:

SCE supports continuing to allow entities to utilize GHG offset credits for compliance in the program. GHG offsets provide some flexibility for entities to acquire compliance instruments needed to meet their compliance obligations while allowing for customer compliance cost savings relative to GHG allowances. In the future, as the annual supply of allowances available reduces, GHG offsets could prove to be a critical source for GHG abatement while continuing to provide compliance entities with the aforementioned compliance flexibility and cost-saving benefits.

Additionally, offset projects are an incentive to generate GHG emission reductions in sectors without an obligation to reduce emissions, such as livestock, mine methane and forestry projects. Nevertheless, SCE advises CARB to address the concerns of environmental groups associated with the quality of carbon credits outside the state's jurisdiction and consider a more stringent validation and verification of the offset projects eligible to be part of the California market.

Multi-year Compliance Periods and Allowance Banking

Multi-year compliance periods and GHG allowance banking are critical to allow entities flexibility in meeting their compliance obligations, as they essentially allow for a longer timeframe in which entities can acquire needed compliance instruments relative to expected portfolio emissions. Practically speaking, it enables entities to calibrate their compliance holdings with updated portfolio data, including final emissions data published by CARB well into the year following the prior emissions compliance year or resolution of contractual GHG settlement issues with third parties.

Allocated Allowances

In addition to a potential adjustment to the cost containment elements described above, SCE understands that CARB is actively seeking ways to reduce the overall number of allowances within the Cap-and-Trade Program. This entails a comprehensive review of all current allowance pools for potential reductions. The revenues from auctions and the value of allowances have been, and continue to be, effective in offsetting costs to electric utility customers. Electric distribution utilities (EDUs) play a substantial role in reducing GHG emissions in the electricity sector and promoting electrification in the transportation and building sectors. However, electricity rates must remain affordable for all Californians to incentivize the switch to electricity from fossil fuels. Since revenue from allowances allocated to EDUs directly benefit customers to reduce cost, SCE strongly encourages CARB to minimize the impact of any changes to EDU allowance allocations that would increase the cost burden on customers, ensuring electricity remains affordable to support California's decarbonization outlined in the 2022 Scoping Plan Update.

III. Market Rules

SCE appreciates the regulating agencies' efforts to ensure that the Cap-and-Trade program works with clear market rules and regulations that assure climate integrity and diminish market manipulation. Although the presentation and the slides provide a good description of the market rules, there is no substantial explanation of why these rules should be altered before the end of the program in 2030. Concerning changes that would create a less restrictive market structure or system, there is a historical basis from the European Union's experience with its Emissions Trading System (EU ETS) for proceeding with caution when lifting restrictions on market activity.

Thus, regardless of the timeframe, either for the 2025-2030 period or eventually for a post-2030 extension of the Cap-and-Trade program, SCE would like to see more concrete evidence that the market is not functioning optimally before CARB considers any changes to the Cap-and-Trade market rules.

Conclusion

SCE thanks CARB for considering the above comments on the Potential Amendments to the Cap-and-Trade Regulation Workshop. We look forward to working with CARB and stakeholders throughout this process. Please do not hesitate to contact me at (626) 302-3297 with any questions or concerns. I am available to discuss these matters further at your convenience.

Sincerely,

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