

California Compliance Offsets: A Regulated Investor-Owned Utility Perspective



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Agenda

- Background
- CARB Cap-and-Trade Limits on Offsets for Covered Entities
- CPUC Restrictions on Investor-Owned Utilities' Procurement of Offsets
- Offset Market Outlook
- Next Steps for SCE

Background on SCE

Southern California Edison (SCE) is one of the nation's largest electric utilities

- Nearly 14 million residents in its service territory
- Over 110,000 miles of distribution and transmission lines



Background on SCE's Involvement with AB 32

Meeting California's AB 32 goals

Renewables Portfolio Standard compliance
(Over 20% of SCE's 2011 portfolio was from renewable resources)

Cap-and-Trade

Low Carbon Fuels Standard

Other AB 32 initiatives

SCE's GHG exposure under cap-and-trade:

Utility-owned
generation

Imported power

Contractual
agreements

Market purchases

CARB Cap-and-Trade Limits on Offsets for Covered Entities

- Quantitative Usage Limit – imposed on all covered entities
 - 8% of compliance obligation applied on a compliance period basis

CPUC Restrictions on Investor-Owned Utilities' Procurement of Offsets

Offsets must be CARB-certified

- Issued offsets
- Forward offsets, if payment after certification and delivery

Offset procurement cannot exceed the Quantitative Usage Limit

Offset procurement must occur through a RFO process

The seller must assume the risk of invalidation and post appropriate collateral

Offset Market Outlook

SCE would like to reduce the cost of compliance with AB 32 programs on ratepayers

Offsets are a key component of cost mitigation

Offsets must be discounted enough relative to allowances to justify risks and administrative costs

Savings from offsets will have to outweigh the inherent risk and administrative effort of procuring offsets over allowances.

Due diligence

Running RFO

Non-standard contracting

Contract management

Credit management

Usage limits

Next Steps for SCE

