



California Municipal Utilities Association

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July 9, 2013

Steven Cliff, Chief
Climate Change Program Evaluation Branch
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on California's Cap & Trade Program June 25, 2013, Workshop on Compliance Retirement, Information Sharing & Cost-Containment

Dear Mr. Cliff:

The California Municipal Utilities Association (CMUA) appreciates the opportunity to submit comments to the Air Resources Board (ARB) on the June 25th Workshop regarding Compliance Retirement, Market-Related Reporting, and Cost-Containment for California's Cap & Trade Program. Many of our members, in coordination with the Joint Utilities, participated in the June 25th workshop and are providing comments directly to ARB staff. CMUA presents a few comments related to the potential effect of some proposals on our Publicly-Owned Electric Utilities (POUs).

As you know, CMUA represents the interests of virtually all of the State's POUs. Our members provide electricity to over one-fourth of California's citizens. Many of our members were allocated free allowances under the Cap & Trade program to use for compliance purposes, or to sell into the auction, for the exclusive benefit of electric ratepayers.

At the June 25th Workshop, ARB staff discussed overall compliance instrument retirement and deadlines, market transparency related to information sharing, and cost-containment. Furthermore, the Joint Utilities provided a brief presentation to ARB on cost-containment options that ARB should consider. CMUA supports the suggestions in the Joint Utility presentation (as posted on ARB's Website); a suite of complementary cost-containment measures should be adopted to avoid delay, or reduce the need to procure additional allowances from the Allowance Containment Reserve.

Our additional comments below reflect two key areas that need to be addressed in the next version of the Cap & Trade Regulation on information sharing, and compliance obligation and timelines.

Information Sharing:

As CMUA mentioned in our February 8, 2013, comment letter to the ARB on Public Information Sharing, CMUA is in favor of a transparent Cap & Trade market. However, CMUA continues to caution that releasing too much sensitive data could result in market manipulation and allow market participants with significant financial resources to take advantage of participants with fewer resources but whose “net-short position” was inadvertently revealed by ARB.

In general, our members are concerned that if the compliance account balances for each utility is revealed on an individual basis, this would potentially make confidential market related data available to the public and increase the potential for market manipulation. For example, small cities are most likely to be price-takers in secondary allowance markets, whereas large participants (some of which will be for-profit, non-utility entities) may be price-makers, and as such would stand to be adversely impacted by the release of any information that would allow a third party to discern their market position or allowance acquisition strategy. As we have stated, publishing information on an aggregated basis would alleviate these concerns.

Compliance Obligation & Timelines:

On the issue of “Order of Compliance Instrument Retirement,” (ARB’s Compliance & Information Requirements, June 25’ 2013, slides 9 through 18) CMUA agrees with the ARB that the oldest allowances should be retired first. However, the POUs may place freely allocated allowances directly into the compliance account, as well as purchased allowances that are transferred from their General Holding Accounts (GHA). Accordingly, in order to avoid the retirement of an allowance for a reason that may violate the provisions of the regulations, free allowances (oldest to newest) should be used first, to the extent possible, since they are less flexible than allowances from the GHA. Furthermore, CMUA members should be able to specify which type of allowance it prefers to retire first, including those that they believe have a higher priority than the allowance vintage year.

Regarding ARB’s proposed change in compliance timeline, CMUA believes the emissions report verification deadline should not be moved to August 15, as this would impose additional difficulties on our members that are already struggling to meet the existing tight reporting deadlines.

We appreciate the ARB considering our comments and look forward to working with the staff on the next round of revisions to the Cap & Trade Regulation for consideration this fall.

Sincerely,

A handwritten signature in black ink that reads "Tony Andreoni". The signature is written in a cursive, slightly slanted style.

Tony Andreoni, P.E.
Director of Regulatory Affairs

cc: Richard Corey, Executive Officer
Edie Chang, Deputy Executive Officer