



Clerk of the Board  
California Air Resources Board  
1001 I Street, Sacramento, California 95814  
Submitted to: <http://www.arb.ca.gov/lispub/comm/bclist.php>

6 April 2013

## **IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S CAP-AND-TRADE LINKING AMENDMENTS**

On behalf of the International Emissions Trading Association (IETA), I appreciate this opportunity to provide comments in response to the California Air Resources Board's (ARB) 22 March 2013 Third Notice of Public Availability of Modified Text on Linkage with Quebec. We thank you for considering IETA's perspectives on the matter.

### **ABOUT IETA**

IETA is dedicated to the establishment of market-based trading systems for greenhouse gas emissions that are demonstrably fair, open, efficient, accountable, and consistent across national boundaries. IETA has been the leading voice of the business community on the subject of emissions trading since 2000. Our 140 member companies include some of North America's, and the world's, largest industrial and financial corporations—including global leaders in oil & gas, mining, power, cement, aluminum, chemical, pulp & paper, and investment banking. IETA also represents a broad range of global leaders from the industries of: data verification and certification; brokering and trading; offset project development; legal and advisory services.

### **IETA'S POSITION ON LINKING**

IETA supports the linking of carbon markets, and we appreciate ARB's ongoing efforts to develop a functional linked carbon market with its Western Climate Initiative (WCI) partner jurisdictions such as Québec. If done effectively, linked markets can drive price discovery, which helps to reduce program costs by broadening the scope of available mitigation opportunities while further sparking competition to innovate and mitigate greenhouse gas emissions. A carefully designed and well-executed linkage, which builds off valuable experiences and lessons learned from other environmental markets, will help maximize these benefits as well as maintain California's international reputation as a climate policy leader.

### **LINKING START DATE**

IETA supports the proposed regulatory modification to add an explicit date (1 January 2014) on which compliance instruments issued by Québec may be used by California covered and opt-in covered entities for compliance purposes, with a first joint auction to follow.

### **PRE-LINKING ACTIVITIES**

IETA supports the pre-linking activities ARB anticipates to take place between the time that the regulation is adopted and 1 January 2014. We thank ARB for taking into consideration IETA's suggestion to hold a practice joint auction between the two jurisdictions, as well as a sufficient technical testing of the current auction platform to ensure that it can allow for a joint auction, which



involves important new features (e.g., setting of an exchange rate and a potential auction reserve price change within an hour of the start of the auction).

## **EXCHANGE RATES AND EFFECT ON AUCTION RESERVE PRICE**

Section 95911(c) of the *Proposed Modified Regulation Order* states the process by which an exchange rate will be established, and an auction reserve price set, across the two jurisdictions before a joint auction. The current proposal uses the most recently available noon daily buying rate for U.S. and Canadian dollars as published by the Bank of Canada to inform the exchange rate. The auction administrator then uses this exchange rate to convert to a common currency the auction reserve prices previously calculated separately in U.S. and Canadian dollars, setting this new auction reserve price to the higher of the two values. This means that an exchange rate and auction reserve price will be provided less than one hour before the auction window begins.

IETA suggests that an exchange rate be set and its effect on the auction reserve price be announced *at least one business day before the auction window opens*.

Within the current California-only auction process, entities have the option to upload bids well in advance of the auction window, knowing far in advance what the auction reserve price will be. If the auction reserve price were to change within an hour before an auction window, as is possible to occur in a joint-auction – even by one cent – an entity’s previously uploaded bids could be ruined.

Providing notice of the exchange rate and auction reserve price at least one business day ahead of an auction allows entities time to adjust pre-submitted bids if necessary, without allowing so much time that the real exchange rate is likely to drastically change before the auction creating arbitrage opportunities.

## **CONCLUDING REMARKS**

Once again, we thank ARB staff for their ongoing efforts in building California’s carbon market. IETA appreciates this opportunity to provide comments on the proposed linking amendments, as well as future related considerations, and we welcome future engagement opportunities regarding the linkage process when and if Governor Brown approves the link in accordance to SB 1018.

If you have any questions, or further clarification is required, please do not hesitate to contact Robin Fraser ([fraser@ieta.org](mailto:fraser@ieta.org)) or Katie Sullivan ([sullivan@ieta.org](mailto:sullivan@ieta.org)).

Sincerely,

A handwritten signature in black ink that reads "Dirk Forrister". The signature is written in a cursive, flowing style.

Dirk Forrister  
President and CEO