

February 8, 2013

E-Filing
ARB's Cap-and-Trade Website

Steven Cliff, Ph.D.
Chief - Climate Change Market Branch
California Air Resources Board
1001 I Street
Sacramento, CA 95812-2828

Re: Pacific Gas and Electric Company's Comments on the Air Resources Board Workshop to Discuss Public Information Sharing from the Cap-and-Trade Program

Dear Dr. Cliff:

Pacific Gas and Electric Company (PG&E) welcomes the opportunity to submit these comments on the Air Resources Board's (ARB) Workshop to Discuss Public Information Sharing from the Cap-and-Trade Program. PG&E supports the Board's desire to support market transparency through making additional information available to the public, but would like to ensure that the data shared helps inform the market, without creating opportunities for market manipulation and volatility. Utilities' compliance obligations are directly tied to consumer demand, preventing them from simply lowering production as a means of meeting compliance obligations. This makes utilities, like PG&E, particularly vulnerable to market manipulation in the cap-and-trade market.

PG&E is supportive of providing the Market Monitor with any and all market information. However, information released to the public should be provided at appropriate levels of aggregation and at times that would not reveal any specific market participant's short or long position. These two principles, full disclosure to the Market Monitor and privacy of market-sensitive information, will minimize the ability to game or manipulate the market by taking advantage of the position of any particular market participant.

I. INTRODUCTION

PG&E's comments on the staff proposals are detailed in Section II below. The following summarizes the key issues:

- **Compliance, LUHA, and Holding Account Balances**
- **Market Monitor**
- **Auction Information**
- **Compliance Obligation Data**

- **Transaction Information**

II. DISCUSSION

A. Compliance, LUHA, and Holding Account Balances

Staff Proposal: Update compliance account balances monthly on ARB website by CITSS account ID.

While compliance account balance information would prove helpful by providing market participants the number of allowances unavailable for trading, the level of specificity proposed by staff is neither needed to offer this value to the market nor required by the regulation. Section 95921(e)(4) merely mentions the release of “the quantity and serial numbers of compliance instruments contained in compliance accounts in a timely manner.” This requirement could be met through a much higher level of data aggregation than proposed by staff.

Listing account balances by Compliance Instrument Tracking System Service (CITSS) account identification (ID) numbers threatens user anonymity, as identities could be deduced if an entity trades in the market and collects counterparty information. Entities could also face position exposure issues if compliance account balances were listed by ID number and made public on a frequent basis (e.g. once a week once automated in CITSS).

PG&E suggests the following alternatives which will both provide valuable information to auction participants and preserve the confidentiality of market-sensitive information:

- Provide aggregate volumes by product type and vintage for each jurisdiction (e.g., California and Quebec)
- Provide aggregate volumes by entity type (e.g., Electric Distribution Utility (EDU), industrials, etc.)
- Release information by CITSS ID annually following the November 1 compliance showing
- Release information frequently (e.g., weekly) if aggregated by entity type

Staff Question to Stakeholders: Should Holding Accounts and/or LUHA balances be made public?

Section 95921(e)(3) currently prohibits the sharing of holding account information: “The Executive Officer will protect confidential information to the extent permitted by law by ensuring that the accounts administrator:(3) Protects as confidential the quantity and serial numbers of compliance instruments contained in holding accounts.” PG&E supports the current regulatory language and does not see the value in amending this language to publicly post

holding account information, as it would expose the market sensitive individual holdings of compliance entities.

Regarding limited-use holding account (LUHA) balances, PG&E recommends only aggregate consignment numbers from each jurisdiction be provided in the auction notice before each auction. Frequently reporting LUHA balances could expose entities' consignment strategy. If ARB must provide individual entity LUHA numbers, PG&E recommends this be shared no more frequently than through an annual report posted on or after the annual compliance showing of November 1.

B. Market Monitor

Regular market monitoring reports provided by a truly independent third party are essential for protecting participants from market manipulation and bolstering the confidence of participants and the public in the allowance market. ARB has yet to post either a proposal for what information will be included in the Market Monitor Reports or a timeline for their release. PG&E is concerned that both the November and February auctions will pass before a Market Monitor report is shared publicly with stakeholders. Additionally, ARB should not alter the Market Monitor reports before posting them online except to aggregate data for confidentiality purposes.

The regular reports published by Potomac Economics on behalf of the Regional Greenhouse Gas Initiative (RGGI) are strong examples from which Monitoring Analytics could develop its own reports. The scope (coverage of auctions and secondary markets), frequency (quarterly and annually) and level of data aggregation in the RGGI reports are aspects which PG&E believes should be adopted. Ideally, the quarterly report would be posted at the end of the auction month or early in the following month (e.g., late Feb-early Mar, late May-early Jun, etc.).

A method similar to the RGGI model for providing market information should be developed immediately and offered to stakeholders for review to allow for the release of a post-February 2013 auction report in a timely manner.

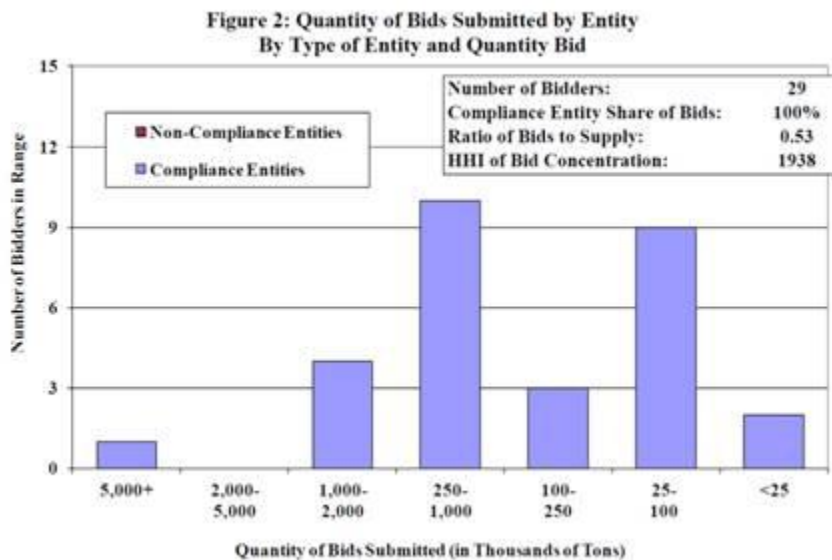
C. Auction Information

Staff Proposal: Public Auction Summary Data: Total Submitted and Qualified Bids Divided by Total Allowances for Sale

PG&E supports ARB's intention to provide auction summary results containing information from both submitted and qualified bids. The comparison of qualified and submitted bids demonstrates how well market participants understand the auction's bidding constraints. If submitted bids far exceed qualified bids, it would suggest market participants may not fully understand their holding limits, auction purchase limits, and/or bid guarantee implications. The

allowance market will operate most efficiently when participants understand their constraints. Likewise, a large number of disqualified bids would suggest the need for further participant education and outreach by ARB. This may prove particularly relevant as new entities begin to enter the market and linkage with Quebec and other jurisdictions occurs.

In addition, PG&E recommends ARB map out the number of bidders by bid quantity because it provides a more detailed view of market concentration than the Herfindahl-Hirschman Index alone, similar to information that is released by RGGI [see below].



D. Compliance Obligation Data

Staff Proposal: Post annually compliance obligation by CITSS entity on ARB website

PG&E supports the release of compliance obligation information arranged by CITSS entity and suggests this occur simultaneously with or soon after the release of Mandatory Reporting Regulation (MRR) data and the annual compliance showing. Posting compliance obligation information and MRR data prior to the annual compliance showing could dramatically influence allowance prices depending on whether entities are long or short. If compliance obligation information must be released prior to the posting of public MRR data, it should be aggregated by sector (with a 5 entity minimum) for each participating jurisdiction.

E. Transaction Information

Staff Question: What transfer information is useful for an efficient and transparent market?

- All transactions without account names or numbers?

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- All aggregate volume and price information?
- Only information on “spot” trades (volume and price)?
- Value in volumes related to “zero” price?

PG&E prefers frequent (e.g., daily) and more aggregated data for each jurisdiction such as maximum and minimum prices and volume as this could provide valuable insight into trends or reveal anomalies which might be cause for further investigation. Spikes in price or volume would be much more apparent under this regular data release than if all trades were averaged on a monthly basis. Any requests for investigation by ARB’s Market Monitor could also be made immediately after the event occurs.

The ability to view trading trends displayed by covered versus non-covered entities could facilitate the comparison of participant behavior in the two venues and provide participants more information about the market without revealing the behaviors of individual firms. While this information may be skewed by entities which are both covered and marketers, ARB could use the same formula as it uses to calculate the compliance-entity share for the auction to alleviate this issue. The volume of trades occurring at zero price would also be useful to the market.

F. Miscellaneous

PG&E is pleased that ARB intends to post the same data from Quebec entities at the same time information from California entities is released. PG&E also supports staff’s work to develop a calendar of what information will be posted when.

III. CONCLUSION

Thank you for the opportunity to submit these comments. PG&E urges ARB to carefully review these suggestions and make the recommended changes before pursuing further action. We look forward to continuing our work with ARB and other stakeholders to ensure the successful implementation of Assembly Bill 32.

Very truly yours,

/s/

Claire E. Halbrook

cc: Sean Donovan, via email
Ray Olsson, via email
Rajinder Sahota, via email
Stout, via email