



# CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

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DAVID L. MODISETTE, EXECUTIVE DIRECTOR

June 26, 2012

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Mary Nichols, Chair  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

## Re: Comments on the Proposed Cap & Trade Program Amendments

Dear Chair Nichols:

Thank you for the opportunity to submit our comments on the proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms regulation (Cap & Trade Program). The California Municipal Utilities Association (CMUA) appreciates many of the proposed changes, specifically new section 95833 (a)(5) that allows publicly-owned electric utilities (POUs) to have consolidated accounts between California generation facilities and electricity imports. However, CMUA has a major concern with the proposed Know-Your-Customer (KYC) requirements in section 95834.

As you know, CMUA represents the interests of virtually all (over 40) of the State's POUs. Our members provide electricity to over one-fourth of California's citizens. POUs are local government entities, and as such have no profit motive. They have governing boards that are either elected, like a city council, or appointed by elected officials. Decisions of the governing boards are made in public, as required by law, with opportunity for public comment.

CMUA understands that the Air Resources Board (ARB) wants to be able to confirm the identity of individuals to avoid the problems with fraud and market manipulation that have occurred in the European emissions trading system. However, the KYC requirements are intrusive. It would be difficult for a POU to require their staff to provide this personal information to the ARB. Furthermore, any breach of security within ARB's records would pose significant liability.

An organization for the protection of municipally owned utilities.  
CMUA members provide utility service to more than 70% of the people of California.

Chair Mary Nichols

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June 26, 2012

Page 2

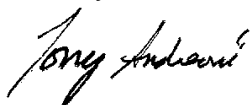
A more reasonable alternative would be to require account representatives and account viewing agents to disclose only the type of information required under the U.S. EPA's Acid Rain program. This program requires agents to answer several questions known only by the agent – similar to what many online vendors currently require when a customer is logging in to their account. After completing this process, the individual agent would receive a password to enable access to the tracking system while enabling the system to track individuals accessing the system. Furthermore, if the password has a 90-day life for example, additional security could be embedded in the system to force the user to change their password, requiring the person to answer key security questions already on file.

If a model similar to the U.S. EPA Acid Rain program is not satisfactory to the ARB, then the ARB should give registered entities an opportunity to provide information to the ARB based on what the individual entity uses to evaluate new employees. For example, some POU's require new employees to undergo a thorough screening process to evaluate any criminal record.

Finally, as mentioned in ARB's June 19, 2012, *California Cap-and-Trade Program Implementation, Frequently Asked Questions (FAQ)*, CMUA supports the ARB's consideration of allowing a letter from the account representative's bank documenting an open bank account. This process is similar to Québec's approach which requires a confirmation from a financial institution that the natural person has an account with the institution. This avoids disclosure of actual bank details, which is one of the most objectionable parts of the KYC requirements. Furthermore, account viewing agents should not be required to provide the same information as account representatives, since these agents cannot complete any transactions within the tracking system and so there is no risk of fraud.

CMUA stresses that the KYC requirements would be difficult for POU employees and prefer that the ARB consider the alternatives mentioned above. We appreciate the efforts of the ARB to make the Cap & Trade Program secure, while helping to reduce the overall administrative burden on market participants.

Sincerely,



Tony Andreoni, P.E.  
Director of Regulatory Affairs  
California Municipal Utilities Association

cc: Mr. Richard Corey, Deputy Executive Officer  
Ms. Edie Chang, Assistant Chief, Stationary Source Division  
Dr. Steve Cliff, Climate Change Program Evaluation Branch  
Ms. Janette Brooks, Climate Change Program Planning & Management Branch