



Clerk of the Board  
California Air Resources Board  
1001 I Street, Sacramento, California 95814

23 January 2013

## **IETA COMMENTS ON CALIFORNIA ARB'S LINKING REGULATORY PACKAGE**

On behalf of the International Emissions Trading Association (IETA), I am grateful for the opportunity to provide comments in response to the California Air Resources Board's (ARB) [Second Notice of Public Availability of Modified Text on Linkage](#), including: [Attachment 1: Proposed Modified Regulation Order](#); and additional documents added to the regulatory record such as the [Discussion of Findings Required by Government Code section 12894](#). IETA's intent is to assist ARB in any way helpful, as it finalizes its linking approval process and prepares California's program for operations in a linked market, if and when linkage is approved.

### **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 150 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.

### **BENEFITS OF LINKING EMISSIONS TRADING PROGRAMS**

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.

### **OBSERVATIONS & RECOMMENDATIONS**

Regarding the specific regulatory package released by ARB on 8 January 2013, IETA does not take issue with the proposed technical language modifications in the *Proposed Modified Regulation Order (Attachment 1)*. We appreciate the efforts made by ARB in previous rule-making sessions to address our concerns (e.g., institution of provisions to determine exchange rates and the setting of auction reserve prices between the two jurisdictions), and we recognize that additional IETA linkage-related concerns have now been addressed by Québec's final regulatory amendments, published in December 2012 (e.g. uniform compliance deadlines between California & Québec, and the lack of information on Québec's offset rules).



When and if linking is officially approved in California, additional technical and operational issues will likely arise, which are not necessarily addressed in the *Proposed Modified Regulation Order*. IETA would like to re-iterate that we are keen to share our international carbon market and linking experience to help inform ARB's future linkage implementation activities when and if these opportunities arise in 2013 and beyond.

Examples of issues that should be addressed before a linked allowance auction takes place have been summarized below<sup>1</sup>.

## ***Joint Québec-California Practice Auction(s)***

If linkage is approved, California aims to hold an initial Québec-California joint allowance auction in August 2013. We also understand that Québec plans to hold a trial auction over the coming months, although specific details and timing remain uncertain.

Moving forward, should linkage be approved, we encourage both jurisdictions to consider holding at least one *joint* practice auction, involving participants across both jurisdictions. One or more trial runs – held prior to August 2013 – will enable both auction administrators and participants to test-run the centralized auction platform, 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). We consider it prudent for all parties to experience this new and potentially complicated process at least once in a *practice joint auction* before the launch of a first real joint auction.

## ***Process for Setting Exchange Rate and 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 (and adjust the auction reserve price accordingly). 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 affect 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.

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<sup>1</sup> *Recognizing that these items are not currently featured in the Proposed Modification Regulation Order*



## *Coordinate Public Information-Sharing Between Jurisdictions*

IETA is aware that ARB is holding a Public Information Sharing workshop on **25 January 2013** that will provide a proposal for how ARB plans to address information sharing. It will be integral that ARB and Québec adhere to the same public information-sharing policies if the two programs are to be linked. Disclosed information from either jurisdiction can affect the entire market, and thus disclosure policies must mirror one another.

### **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 in 2013 and beyond.

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,

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