



February 8, 2013

Steve Cliff, Branch Chief
Climate Change Program Evaluation Branch

Rajinder Sahota, Manager
Climate Change Program Operating Section

Sean Donovan, Staff,
Cap-and-Trade Program Monitoring

California Air Resources Board
1001 "I" Street, Sacramento, CA, 95812

Re: NRDC Comments on the January 25 Workshop Regarding Public Information Sharing in California's Cap-and-Trade Program

Dear Mr. Cliff, Ms. Sahota, and Mr. Donovan:

On behalf of the Natural Resources Defense Council (NRDC), and our more than 80,000 members in California, we appreciate the opportunity to comment on the public information sharing proposals presented by Air Resources Board (ARB) staff at the January 25 workshop. NRDC strongly supports the cap-and-trade program as a key element of California's plan to reduce greenhouse gas emissions and achieve the broader goals of AB 32. Public information sharing is a proven tool to promote the efficiency and efficacy of the program in reducing emissions and facilitating broader engagement and support. We encourage ARB to act on the proposals presented at the workshop to increase transparency and expand the timely release of information available to the public in the cap-and-trade program.

1. Public Information Sharing is a Critical Component of an Effective Market-Based Program to Reduce Greenhouse Gas Emissions

The timely release of public information is a vital tool to both enhance the efficiency of the market and deter attempts at market manipulation. Transparency minimizes transaction costs by affording market participants ready access to information on compliance instrument availability and allowance prices (for allowances acquired at auction). Public information sharing also supports California's efforts to expand the reach of its climate programs by affording third-parties and other jurisdictions an opportunity to monitor how the market is working.

Most importantly, information sharing limits the potential for market manipulation, which often depends on a market participant exploiting the advantage of asymmetric information.¹ Disclosure requirements put market participants in a position to explain and justify their behavior, which on its own can serve as an effective deterrent to manipulation, encourage up-front compliance, and promote a more competitive market. By establishing clear incentives on the front end to comply (or face the risk of public exposure), timely disclosure requirements also alleviate pressure on ex-post enforcement, which can be particularly challenging in emerging markets and new regulatory regimes; e.g., to prevent resource shuffling.

2. NRDC Supports ARB's Proposals to Expand Public Information Sharing in the Cap-and-Trade Program

NRDC supports ARB's proposal to expand public information sharing to increase the efficiency and transparency of the cap-and-trade program. Specifically, we support ARB's proposals to release annual compliance obligations and allowance allocations to publicly-owned utilities, and to regularly publish and update CITSS registrant account information.

While ARB must be sensitive to the impact of public data release on participants' compliance strategies, and their corresponding ability to engage with other market participants on a level competitive playing field, the value of information sharing warrants a presumption in favor of disclosure absent compelling reasons to the contrary. As the Emissions Market Assessment Committee (EMAC) notes, public data release on allowance transactions alone will not reveal any individual participant's true market position, as market entities are free to take confidential positions in the secondary financial market.² Concerns over price gouging should recede as the forward market continues to develop and grow in volume.³

Finally, it is imperative that ARB release data in a timely fashion. The value of information sharing in promoting market efficiency will be substantially undercut by a significant time lag, as participants' market positions are liable to have changed in the interim. Similarly, the disciplining value of releasing public data in encouraging up-front compliance and self-policing will be hamstrung if delays render the information provided obsolete. Accordingly, we support EMAC's recommendation for ARB to provide a real-time register of allowance accounts and trading activity to enable public information sharing to serve its intended objectives.

We appreciate ARB's commitment to designing the cap-and-trade program in a manner that maximizes transparency and facilitates third-party review and oversight. We look forward to engaging with staff and stakeholders as ARB moves forward with the information sharing proposals discussed at the workshop.

¹Emissions Market Assessment Committee (EMAC), Issue Analysis: Public Information Sharing in California's Greenhouse Gas Emissions Cap-and-Trade Market, at 2 (Sept. 20, 2012).

²Id.

³ We note the electric investor-owned utilities (IOUs) face unique constraints in their ability to participate in the forward market, per the California Public Utilities Commission's Decision in D.12-04-046 (April 19, 2012). As large players in the allowance market, who are also subject to holding and purchase limits, we appreciate entity-specific information sharing requirements may pose distinct challenges for the IOUs, and recommend ARB continue to engage with the IOUs, EMAC and other stakeholders on the appropriateness of specific data release proposals.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alex Jackson', with a long horizontal stroke extending to the right.

Alex Jackson
Legal Director, California Climate Project

A handwritten signature in black ink, appearing to read 'Stefanie Tanenhaus', with a long horizontal stroke extending to the right.

Stefanie Tanenhaus
Sustainable Energy Fellow