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Subject: Los Angeles Department of Water and Power (LADWP)
Comments – Public Information Sharing in California Air
Resources Board's (CARB) Cap-and-Trade Program

The LADWP appreciates the opportunity to submit comments on CARB's proposed public information sharing plan as presented at its Public Workshop held on January 25, 2013. LADWP urges CARB to carefully consider what allowance and market information should and should not be released to the public and how that information should be presented. LADWP requests that CARB strike a balance between releasing information to the public to facilitate market efficiency and preventing market collusion and the consequences for covered entities if too much information is disclosed.

Transparency of Market Information and Market Efficiency

CARB has published covered entity allocations by sector on its website. During the Public Workshop, CARB requested public feedback regarding publishing the allowance holdings in each publicly owned utility's (POU) compliance account and limited use holding account.

LADWP is concerned that publishing this information for POUs as well as for all covered entities would provide information that could be used to manipulate the market. Release of individual covered entity holdings by account would reveal each covered entity's short or long position, timing of the entity's purchase and sale of allowances, and strategy for compliance. Since there are a finite number of emission allowances available, uncertainty with respect to the approval status of offsets, and limited control options that can be implemented within a short time period to reduce emissions, disclosure of individual covered entity holdings may put individual covered entities at the mercy of owners of surplus allowances.

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To avoid the potential for market manipulation, LADWP recommends releasing aggregated rather than individual allowance holding data. Aggregated data would be sufficient to show the quantity of allowances held in entity compliance accounts vs. limited use holding accounts, and the quantity of allowances that are not in the compliance accounts and thus, may be available for sale in the secondary market. Aggregation of data would provide market transparency without divulging individual entity positions within the market.

CARB's Desire that the Public Have the Ability to See How the Market is Working and that Covered Entities and Offset Developers Are Complying

LADWP recommends that CARB publish an annual carbon market report similar to what the South Coast Air Quality Management District (SCAQMD) publishes annually for the RECLAIM cap-and-trade market. In SCAQMD's *Annual RECLAIM Audit Report*, allocation and trading issues that are addressed include:

- Number of registered transactions and associated values
- Average annual prices of emission credits
- Emission credit supply compared to reported emissions
- Information on market participants (e.g. investors' impact on the RECLAIM trading credit market)
- List of facilities that ceased operation
- Compliance status of facilities (e.g. number of facilities that failed to reconcile emissions and the reasons why)

Aggregating the information and preparing an overall market report will provide market information to the public in a user-friendly format and address CARB's objective that the *Public Will Be Able to See How the Market is Working and that Covered Entities and Offset Developers Are Complying*.

Information Sharing Data Elements

Compliance Instrument Tracking System Services (CITSS) Account Balances
CARB's cap-and-trade regulation requires each covered entity to surrender at least 30 percent of the allowances representing 30 percent of its GHG emissions during the first-and- second year of a 3-year compliance period, and 100 percent of the required allowances at the end of a compliance period. Since compliance is determined on a yearly and multi-year compliance period basis, CARB's proposal to publish CITSS account balances on a more frequent basis could reveal an individual entity's strategy with respect to program compliance and mislead the public about an individual entity's compliance status. Judgment on an entity's compliance status based on information shown before retirement/reconciliation of allowances would be premature and could cause confusion amongst those that are not familiar with this complex program.

Also, section 95921(e)(4) states, "The Executive Officer will protect confidential information to the extent permitted by law by ensuring that the accounts administrator releases information on the quantity and serial numbers of compliance instruments contained in compliance accounts in a timely manner." This provision does not explicitly require individual entity account balances to be published. In fact, CARB's Final Statement of Reasons (October 2011) states, "Regular release of holdings of individual firms may reveal commercially sensitive information on trade strategies that could increase the vulnerability of a participant or the market as a whole to manipulation." Therefore, LADWP recommends compliance account balances be published annually in an aggregate manner.

CARB's Proposal to Expand the Auction-Related Information Released to the Public
CARB currently publishes aggregated information on auction purchases and withholds information on specific entities and their associated amount of allowances purchased. CARB staff is considering expanding the published auction information to include the quantity of allowances purchased by individual compliance entities. However, this proposal seems inconsistent with the prohibition on release of an individual entity's auction information under Section 95914(c) of the cap-and-trade regulation titled "Non-disclosure of Bidding Information among Auction Participants." CARB's rationale for including the non-disclosure requirement in Section 95914(c) of the cap-and-trade regulation was to prevent collusion or market manipulation. LADWP believes this same non-disclosure principal should apply with respect to release of individual entity auction purchases.

CARB also currently publishes the total number of allowances associated with the bids rejected in an auction. LADWP believes that only the number of qualified bids should be published, not the total number of bids made (which would include rejected bids) unless CARB provides information as to the reasons why the bids were rejected. Entities could, for example, bid below the floor and/or inadvertently exceed their holding limits, in which case their bids would be automatically rejected. Including these bids in the number of total bids without explanation would be misleading because people would think there is more demand than there really is.

Retirement Compliance Instrument Data

CARB states, in its presentation at the January 25 public workshop (slide 17), that "Retired allowances and offsets are required to be public by Regulation." In addition, CARB is proposing to annually publish, on an individual entity basis, the amount of retired compliance instruments (vintage and quantity) on CARB's website after compliance deadlines. As mentioned previously, the cap-and-trade regulation only requires an individual covered entity to surrender allowances representing 30 percent of its emissions for the first-and-second year of a 3-year compliance period and

100 percent at the end of the compliance period. Publishing an individual entity's number of allowances surrendered on an annual basis would reveal entity short and long positions as well as compliance strategy. LADWP recommends that CARB aggregate the retirement compliance instrument data and provide a public report that discusses compliance and enforcement of the cap-and-trade program on an annual basis. The report could include the following information:

- Number of covered entities in the cap-and-trade program
- Number of covered entities that left the program and/or voluntarily opted into the program
- Number of entities that complied with the program
- If entities did not comply and emissions exceeded number of allowances retired, the extent to which they did
- Whether overall CARB GHG emissions reductions targets and goals were met for a compliance period (e.g. aggregate emissions for all entities were below aggregate allocations)
- Reasons why entities exceeded their allocations (e.g. arithmetic errors, incorrect use of data, omission of emissions associated with reportable sources)

LADWP believes that aggregated information of this nature will address CARB's objective that the *Public Will Be Able to See How the Market is Working and that Covered Entities and Offset Developers Are Complying*.

If you have any questions or require additional information, please contact me at (213) 367-0403 or Ms. Jodean Giese at (213) 367-0409.

Sincerely,



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Director of Environmental Affairs

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