POET ethanol products
Ethanol Products, LLC
3939 N. Webb Rd.
Wichita, KS 67226
poetep.com

PHONE: 316.303.1380
FAX: 316.267.1071

Michelle Buffington
California Air Resources Board
Sent via Email Only

July 7, 2011

Dear Michelle,

In regards to several commentators' assessments that the credit trading program does not need to be overly complex, I concur. Markets are more than capable of developing on their own and there are very few things required in the way of government intervention or regulation in order to make their operation more efficient. Two elements I believe that are key to a successful trading program are an assurance that the credits being traded are valid and that aggregate information about credit supply and demand is available.

To ensure the credits traded are valid, changes will likely be needed in the regulations and the LRT. Since the credits are not tangible property with any intrinsic value outside of the regulatory program, buyers will need some degree of assurance that the credits they are purchasing will be accepted by the ARB. Today, that is effectively accomplished by virtue that the credits are transferred with the renewable fuel when it is produced or imported into the state. The task of verifying the authenticity of the credit becomes more challenging as the number of hands it passes through increases and as credits from non-liquid transportation fuels are introduced into the market. It would seem that some level of a safe harbor provision for buyers acting in good faith would help facilitate transactions across a broader range of regulated parties. For instance, exempting regulated parties from fines and penalties who unknowingly buy or sell invalid credits would be a reasonable allowance to address this concern. The party holding the invalid credit would then have some period of time, perhaps until the end of the next full reporting cycle, to acquire valid credits to fulfill their compliance obligation. The buyer's recourse should still be directly with the seller and not with ARB. Also, by allowing regulated parties to transfer credits within the LRT on a more frequent basis than quarterly will afford participants greater assurances that the credits they are exchanging, validly exist within ARB's system.

High level information on credit supply/demand is also a very useful signal to the marketplace for determining the value and availability of credits. Government reporting of this information is customary when that regulatory body is responsible for administering the compliance and reporting aspects of the program. The challenge lies in determining the appropriate level of information to disseminate. In this case, I would suggest that the level of reporting that best matches the needs of the market participants would be the number of credits generated within the program on a quarterly basis and what the aggregate compliance balance is at the end of each year. While some commentators suggested that ARB should publish pricing data and more specific credit generation\consumption information; I believe the distribution of those details would amount to the release, even if indirectly, of confidential business information and exceeds the proper role of the ARB in the oversight of the credit market.

While there are a number of other characteristics of a healthy and robust marketplace, those elements are outside the parameters that ARB should attempt to oversee. The significant items and their rationale for being excluded from ARB's purview are discussed below.

Many panelists suggested that credit pricing is unknown to the marketplace today and would benefit from ARB disclosing the values at which credits are transacted. In addition to the reasons given above, this price data would be of negligible value to regulated parties and ARB because the prices reported for the CI credits can be skewed due to other contractual considerations made when the renewable fuel is transferred at the same time. OPIS currently provides quotes for 2 different Carbon Intensity levels of ethanol in California, which effectively allows market participants daily to understand the value the credits being exchanged.

Several commentators alluded to the success of exchanges (for commodities and securities) in creating a liquid and transparent market. It is important to recognize that the exchanges are a product of the liquidity that already resides in the marketplace rather than the liquidity being present due to the mere existence of the exchange. Given the relatively small number of regulated parties that would be market participants, it seems that the transaction volume and counterparty identification concerns that usually help define the value of having an exchange would be insufficient to support the level of complexity needed to develop that market infrastructure.

I again voice my willingness and interest in participating with Richard and others in the discussions surrounding the topic of the Credit Trading.

Sincerely,

Bob Whiteman
CFO
Poet Ethanol Products
(316) 303-1382