

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

\_\_\_\_\_)  
Order Instituting Rulemaking to Address Natural )  
Gas Distribution Utility Cost and Revenue Issues )  
Associated with Greenhouse Gas Emissions. )  
\_\_\_\_\_)

R.14-03-003  
(Filed March 13, 2014)

**PREHEARING CONFERENCE STATEMENT OF  
THE INTERNATIONAL EMISSIONS TRADING ASSOCIATION**

Robin Fraser

Representing  
International Emissions Trading Association  
5700 – 100 King St. West  
Toronto, Ontario M5X 1C7  
Telephone: (416) 992-1540  
Email: Fraser@ieta.org

April 10, 2014



structure of outreach and education activities related to the impacts of the Cap-and-Trade Program on natural gas end-use customers.<sup>2</sup>

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. Our 130 member companies include some of California’s, and the world’s, largest corporations—including leaders in power, oil & gas, mining, 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. In California, IETA supports the development of an environmentally effective and liquid carbon market, bringing to bear extensive experience from the participation in cap-and-trade programs around the world.

As a membership organization focused on the development and efficient operation of environmental markets, IETA will contain its comments in this OIR strictly to the second point of the scoping memorandum: the rules governing how natural gas corporations should procure Cap-and-Trade Compliance instruments.

IETA’s comments are summarized in the following bullets points:

- The Commission should enable greater flexibility for natural gas utilities to optimize the economic efficiencies inherent in ARB’s Cap-and-Trade program so as to reduce the costs to ratepayers<sup>3</sup>;
- The performance of ARB’s Cap-and-Trade program to date suggests that market transparency, liquidity, and maturity have sufficiently developed to enable the Commission to expand the degree of flexibility afforded to natural gas utilities in procuring compliance instruments while effectively addressing concerns over unnecessary costs being borne by ratepayers.

2 OIR p. 16

<sup>3</sup> IETA contends that greater flexibility for both electric utilities and natural gas utilities would benefit ratepayers and thus will explore the possibility of providing similar comments during the upcoming 2014 Long Term Procurement (“LTPP”) proceeding in support of increasing the procurement flexibility of the electric utilities.

## II.

### Discussion

#### 3.1 Issues, 2. Purchasing Rules, b. What rules and limits should govern how natural gas corporations acquire Cap-and-Trade compliance instruments?<sup>4</sup>

IETA appreciates the importance of the Commission enacting safeguards with the intention to protect ratepayers from unexpected consequences of natural gas utilities participating in the Cap-and-Trade market. However, IETA believes that limiting procurement activities (such as the limits on procurement for electric utilities) goes beyond what is necessary to protect ratepayers – and in fact may have the adverse effect of increasing costs for ratepayers. While a sufficient level of safeguard for ratepayers should be in place, this protection should not come at the expense of preventing natural gas utilities from optimizing the cost efficiencies inherent in the regulatory design of a Cap-and-Trade market.

IETA believes the appropriate amount of flexibility to afford natural gas utilities will include permitting them to purchase Cap-and-Trade compliance instruments not only through ARB auctions, competitive solicitations, and Commission-approved exchanges, but also deal in the bilateral over-the-counter trading market. In addition, natural gas utilities should be permitted to purchase options, swaps, and derivative products within the context of an overall regulatory approach that includes safeguards for ratepayers.

Providing flexibility in procurement rules will allow natural gas utilities to see and access more of the market, which will help reduce overall costs to ratepayers. In addition, greater flexibility in procurement rules will enable them to more effectively hedge price risk presented by gas and carbon price volatility between California’s quarterly auctions.

#### **A. The Cap-and-Trade market is sufficiently mature to support procurement by natural gas utilities.**

Based on the performance of the Cap-and-Trade market to date, the Commission should re-assess its original concerns at the beginnings of ARB’s Cap-and-Trade program regarding the risk and maturity of the market, as described in the rules governing electric utility purchases of Cap-and-Trade compliance instruments. In the more than three years since the Cap-and-Trade market first started trading, the over-the-counter (OTC) market has matured to provide the necessary transparency into market pricing and liquidity, as well as deliver important real-time data on market moving news and events.

The secondary market for California Carbon Allowance (CCA) futures contracts has matured significantly since trading began in August 2011 on the Intercontinental Exchange (ICE). Today there are approximately 40 active participants with CFTC reportable positions in the market and clearing trades via the ICE.

캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아 캘리포니아  
<sup>4</sup> OIR, p. 11. 캘리포니아





**III.**

**Conclusion**

For the reasons stated above, IETA respectfully requests the Commission adopt an approach to Cap-and-Trade compliance instrument risk management and procurement that affords the natural gas utilities a greater degree of flexibility. Such flexibility to utilize the OTC market, where most of the liquidity resides, will enable natural gas utilities to more effectively manage price risk and reduce overall compliance costs thereby reducing costs to California ratepayers. IETA believes that this can be done in such a way as to adequately ensure that ratepayers are not subjected to unnecessary increased costs. Thank you for the opportunity to submit these comments. We look forward to any questions or comments you may have on these recommendations.

Respectfully submitted,

By:       /s/ Robin Fraser      

ROBIN FRASER

Senior Analyst, IETA  
 5700 – 100 King St. West  
 Toronto, ON M5X 1C7  
 (416) 992-1540  
 Fraser@ieta.org

April 10, 2014