



DRA

*Division of Ratepayer Advocates
California Public Utilities Commission*

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Dana Appling, Director

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Dr. Lawrence Goulder
Chair, Economic Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA, 95814

November 17, 2009

**Re: Division of Ratepayer Advocates' Comments to the
Economic Advisory Allocation Committee.**

Dear Dr. Goulder:

DRA would like to take this opportunity to submit comments to the Economic Allocation Advisory Committee ("EAAC") regarding greenhouse gas (GHG) allowance auction design issues

DRA supports a cap and trade auction design that will facilitate compliance with the state's GHG reduction goals at the lowest cost, and promote a transparent, stable market for emissions permits. Specifically, DRA recommends that EAAC adopt an auction mechanism that manages price volatility and ratepayer impacts, ensures fairness and transparency, minimizes transaction costs, and prevents market manipulation.

Potential policy considerations in adopting an optimal auction design in DRA's opinion should include the use of an initial reserve price to establish a baseline price and minimize volatility; the use of a strategic reserve at a trigger price to allow the flexibility to inject more emission allowances into the market to stabilize price levels; and the use of reasonable amounts of banking and borrowing by time period, to stabilize the price of allowances over time.

DRA also recommends EAAC consider the role that generous geographic and quantitative limits for offsets can play in minimizing emissions compliance costs. In addition, DRA recommends that the ARB consider appropriate allowance purchase limits to prevent market manipulation. Finally, DRA emphasizes the importance of effective market oversight with input from stakeholders, to enforce rules and monitor the emerging emissions market.

Best Regards,

Marshal Enderby
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