



## **Comments of Argus Media to the California Air Resources Board on information sharing workshop**

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Argus Media appreciates the opportunity to respond to the California Air Resources Board presentation “Public Information Sharing in California’s Cap-and-Trade Program” of 25 January 2013. Argus believes it can make a meaningful contribution to this discussion and is uniquely positioned to assist the Air Resources Board identify those key elements of price and transaction data which improve market transparency and a well-functioning market. Argus is an independent price reporting organization, not a market participant, and our comments will focus primarily on transaction information useful for public disclosure and reporting of pricing and transactions.

### **Argus Media and its role in energy and emissions market indexation**

As an independent price reporting organization, Argus Media publishes daily and weekly prices for North American emissions markets, including extensive coverage of California’s carbon program. These assessments represent the marginal clearing price in an open and arms-length market. One use of Argus prices for emissions and other commodities is by energy companies, financial services and governments as price references. The prices may be used to index long-term contracts, spot market contracts, derivatives transactions such as swaps, as well as in corporate internal transfer pricing, market analysis, performance measures, risk management analysis and capital investment decisions. Government entities also use Argus spot market prices to determine taxation and royalty calculations.

Argus has an important role in the proper functioning of the energy markets. Confidence in the prices published by Argus creates confidence in the markets themselves, which in turn encourages liquidity, effective clearing of trades, accurate price discovery and overall market transparency.

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illuminating the markets

Argus recognizes that its clients and other industry stakeholders expect it to meet the highest standards in the field of price reporting, and to value principles that support its important role. Argus has robust governance and operates a rigorous and transparent controls framework including an Editorial Code of Conduct and an ethics and compliance policy entitled Argus Global Compliance Policy, all publicly available on its website.

As an independent price reporting organization, Argus is separate from the markets and has no vested interest in the level of any price that it reports. Argus has clear policies in place to avoid conflicts of interest and prohibits its employees from trading in the commodities or industries upon which it reports. A Global Compliance Officer oversees the company's compliance regime. This includes a rolling program of audits to ensure full and continuous adherence to the company's compliance policy.

Argus respects transparency and disclosure by making its processes public, and by providing market information openly. Argus ensures that it has the resources to achieve these values, by hiring and retaining qualified and experienced staff, and regularly training employees. Argus maintains its credibility as an independent price reporting organization by consistently applying its methodologies for price identification, and thus maintaining its high and long-standing reputation.

Argus uses a market-appropriate methodology to assess prices in the markets it covers. Argus consults with the range of participants involved in different markets and publishes methodologies for each price report on its website. Each methodology is reviewed regularly to ensure that it always meets the needs of market participants and is in line with industry practice. Argus seeks to reflect the way markets are traded, rather than impose its own view.

The prices reported by Argus and other independent price reporting organizations allow the energy sector to operate efficiently and effectively to the benefit of consumers and producers. Term contracts can be indexed to a transparent spot market price at an active market center and counterparties can be sure that they are receiving fair market value. This same system of indexation can be trusted by government entities as a robust representation of market value for emissions allowances, including California Carbon Allowances. The California Independent System Operator uses one of Argus' California Carbon Allowance indexes to help determine how to reimburse generators for their emissions costs for being available to the grid.

Argus has published market data from the federal environmental markets such as the Acid Rain Program, Clean Air Interstate Rule, and Cross-State Air Pollution Rule for more than a decade. We also monitor transfers in federal programs and regional counterparts like RGGI as a gauge of activity and prices being reported in the RGGI physical market.

### **California Carbon Market**

For regulatory markets with allowance trading, transparency is a key requirement. Transfer data can be used by the public, market participants and researchers to monitor the proper functioning of cap-and-trade programs. But aggregating price information attached to transfers may obfuscate clear price signals provided by price reporting agencies.

Transfers data is evidence of transactions but their prices do not generally represent a day's trade in the market. Transfers can occur months after a trade is made and the price signals they send may be contradictory. Using data from transfers to publish an aggregated representation of the market price of allowances and offsets can cloud more than it reveals.

Transfers can occur under a wide variety of contracts, from a prompt over-the-counter trade to tolling contracts incorporating embedded fuel and allowance agreements. A single transfer can also be the product of a number of contracts, such as when two counterparties settle a number of trades and transfer the net position. Such netting, both over-the-counter and through exchanges, can understate the total volumes being transacted in the market.

### **Transfer data reporting**

Air Resources Board staff discussed three options for releasing data in a January workshop for stakeholders. These include: releasing all individual transfers without account names or numbers; publishing only aggregated volumes and price information on transfers and publishing only information on "spot" trades. Staff also included an example of what the aggregated data would look like and asked for comment on which fields should be released.

EPA-administered national emissions trading programs such as the Acid Rain Program and its successors set a high bar for transparency in regulatory-disclosure terms, publishing all transfers with counterparties identified and disclosing the allowance holdings of every account on their system. EPA also publishes account representatives' contact details and the allowance allocations for each facility in the program. But EPA chose not to publish prices for transfers.

The Regional Greenhouse Gas Initiative's allowance transfer platform publishes the price and volume of each transfer it processes, but does not identify counterparties.

Transfer information shows when allowances move from one account to another but that can be a long time after the trade date. Therefore any price attached to the transfer may be very different to the market price on that day.

While participants in the SO<sub>2</sub> and NO<sub>x</sub> programs find the transfer information interesting, it should not be construed to represent current market activity because there is no way of pinpointing each individual trade date. Similarly pricing information aggregated for transfers concluded on the same day may refer to several different trade dates and so should not be confused with an accurate price signal for the day's current market value.

Market participants in the SO<sub>2</sub> and NO<sub>x</sub> program use the assessments and indexes published in Argus Air Daily to determine current market price and for benchmarking. These daily prices represent arms-length trades that are struck and confirmed only on the day of publication. Argus staff also considers bid/asks that are available in the market to ensure that assessments are an accurate representation of prevailing market price.

Publishing a volume-weighted average of transfers whose price may have been determined several months apart may actually confuse market participants less accustomed to the way emissions markets work.

Publishing just spot transfers would not achieve the Board’s goals of furthering transparency as much as possible as only a small part of the total market would be shown. Transfer data from auction distributions and exchange settlements is present in other tracking systems and can be an important gauge of allowance flows. Publishing only spot transfers may also dissuade participants from dealing in the spot market in order not to have their activities revealed.

The release of individual transfer data would provide a much clearer picture of market activity than aggregated data. Concerns about anticompetitive effects raised by the Department of Justice in comments to FERC on a related topic of improved transparency in the natural gas market could be mitigated by publishing the data with a suitable time lag. The absence of counterparty information would also mean that these concerns are not as great in the California carbon market.

The Air Resources Board has proposed publishing issuance and invalidation for offsets once a month. Both issuance and invalidation is important information affecting supply and demand, and Argus would prefer a more frequent dissemination of data in order to provide better analysis.

Aggregation of transfer data can reduce transparency. PJM Interconnections’ Environmental Information Services report of weighted-average price of solar renewable energy credit transfers is an example of what aggregated transfer data looks like (see table).

Spot market prices for New Jersey solar renewable energy certificates in January 2013 and December 2012 as observed by Argus were around \$85-100/MWh, well below the average prices indicated in the table. The transactions leading to these transfers were likely concluded at different times and with different parameters for delivery, counterparty credit relationships, and many other factors. Aggregation of data with such disparate criteria distorts the price signal.

| Solar Weighted-Average Price Report: includes all data up to 01/25/2013 00:25 |      |       |              |                 |                 |                  |                         |                          |                                    |
|---|------|-------|--------------|-----------------|-----------------|------------------|-------------------------|--------------------------|------------------------------------|
| Month   | Year | State | Active KW DC | Issued in Month | Traded in Month | Retired in Month | Low (Price/Certificate) | High (Price/Certificate) | Weighted-Average Price/Certificate |
| Jan   | 2013 | NJ    | 914,699      | 0               | 82,814          | 362              | \$40.00                 | \$769.00                 | \$289.06                           |
| Dec   | 2012 | NJ    | 898,162      | 65,933          | 72,070          | 6,952            | \$40.00                 | \$620.00                 | \$201.23                           |
| Total   |      |       |              | 65,933          | 154,884         | 7,314            |                         |                          |                                    |

Source: PJM-EIS

The table also identifies the volume traded in the month, when it means the volume being transferred in the given month. Transfers can diverge widely from trading and transactional data as spot forward and future trading builds.

Publishing only a small slice of transfers, such as only those transfers reported as occurring in the spot market, obscures the rest of the market and the large volumes that may be going through exchanges or in long-term contracts.

## **Conclusions**

The Air Resources Board should aim to strike a balance between providing transparency so that participants can research market fundamentals to make informed decisions, but at the same time ensuring that the data released does not give misleading price signals.

Offset issuance data should be made public on a daily basis, and be available as a public report from CITSS, similar to the way the Climate Action Reserve makes offset project data public on its website.

Similarly, information on the invalidation of offsets should be made public on the day that ARB invalidates the credits to ensure that all market participants have the same chance of gaining knowledge about an issue that could have an immediate bearing on offset prices.

Greater transparency would benefit the public and the market as it gets to grips with the cap-and-trade program. Argus welcomes the opportunity to work with the Air Resources Board on this matter and is glad to answer any questions that may arise from our comments.