



May 7, 2010

Thank you for considering these comments and recommendations submitted by the Western Climate Advocates Network (WeCAN) Markets and Cap Setting and Allowance Distribution Committees\* on behalf of WeCAN – a network of environmental and public interest organizations around the Western U.S. and Canada working to advance critical issues related to the Western Climate Initiative (WCI).

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WeCAN thanks the Market Design Committee for its work in developing this White Paper and is pleased to offer these comments.

It is great to see significant progress in answering practical questions on how this important mechanism will function. Our view is that auctioning is an important element of cap-and-trade program design. In broad terms, we find much to agree with in the paper. We particularly like the comparative perspective of the paper (i.e., its consideration of auction approaches undertaken in other contexts.) One auction system the Partners should also look at is the US Federal Communications auctions of licenses for access to the electromagnetic spectrum, which are quite analogous in their auctioning of permission to access a public good. Not incidentally, those auctions also feature a reserve price, which has proved useful from the perspective of the public interest.

The following are some comments pertaining to some specific auction design parameters covered in the paper.

- ***Fair uniform implementation of the reserve price or equivalent retirement of allowances should auctioning not occur in some jurisdictions.*** We are strong supporters of the reserve price feature as a guard against over allocation, and are concerned that some Partners may not participate due to the inability to establish authority to do this. We urge in the strongest terms no deviation from the WCI Design Recommendations that “[any] WCI Partner Jurisdiction that does not participate in the auction with the reserve or minimum price will retire the same proportion of its allowance budget as those retired by the WCI Partner jurisdictions that participated in the auction.” The principle of fairness demands this approach. In the alternative, if jurisdictions not auctioning, allocate all their allowance budget while some do not, this means that the jurisdictions implementing the reserve price are supporting the worthwhile objectives achieved by this, while the jurisdictions not doing this are handing out valuable allowances that would undermine the efforts of the others.



- ***Unsold allowances, those held back in response to the reserve price, should be retired*** or, if they are to be released at a future date, this should only occur if some price threshold is passed in future auctions.
- ***Do not restrict access at auction.*** We support unrestricted participation in the market for the simple reason that absent this, the public at large will be powerless to reduce heat-trapping emissions below the level of the cap. The perverse result of this is that the cap on emissions also becomes a floor. The retort from capped entities will be that citizens of the WCI could buy offsets from uncapped sectors or international offsets. This is not incorrect, yet it is also not sufficient to dissuade us from the view that in support of preserving the choice of affecting emission levels in the energy combusting parts of the economy that will be capped and are the principal sources of heat-trapping and other sources of air pollution. This is not to dismiss the value of land-based emissions, only to say that some may have a preference for reducing industrial emissions in the jurisdiction within which they reside, and this option should not be foreclosed.

We regret that we do not have the resources to more fully engage in the other important topics raised by the paper, for example guarding against market manipulation for example or the setting of the reserve price. On the latter issue, we do note that some discussions have suggested \$10/ton as a reasonable price floor. We continue to track this important topic and look forward to offering further comments in the future.

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**WeCAN Cap Setting and Allowance Distribution Committee**

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