ENVIRONMENTAL ENERGY ALLIANCE OF NEW YORK
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Andrew McKeon, Executive Director
RGGI, Inc.
90 Church Street, 4th Floor
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Comments submitted by email to info@rggi.org

Dear Mr. McKeon,

I am writing on behalf of the Environmental Energy Alliance of New York, LLC ("the Alliance"; participating members identified below) to provide responses to questions posed by the RGGI States for comment during the stakeholder meeting of June 27, 2017 and to reinforce the Alliance position that the RGGI States observe and measure some longer-term trends prior to making substantial changes given the limited experience with the programmatic changes that were made in the last review. The Alliance was unable to prepare extensive comments to meet the requested submittal date given our obligation to review the new program materials, prepare a response and receive approval from our members.

The range of policy options presented at the June 27th meeting is troubling because the Alliance believes that it changes too many parameters at a time of unprecedented change in the program as it stands. Only three years have transpired since the programmatic changes that were made in the 2012 review; it seems prudent to observe and to measure some longer-term trends prior to making substantial changes. The Alliance supports bringing more states into the RGGI program and cautions against changes that are complicated or punitive. Secondly, the previous comments filed by the Alliance showed that the programmatic changes prior to any 2020 adjustments will create an unprecedented allowance scarcity. How the auctions and the secondary market will respond to the first-ever scarcity situation is an unknown. In addition, the compliance entity share of allowance holdings is going to be much smaller than in the past, a change to the program for which there is no experience.

Specifically, the Alliance, in this letter, offers its recommendations on the design and use of the Emission Containment Reserve (ECR), the Cost Containment Reserve (CCR), and the adjustment of banked allowances. The Alliance also raises an important discussion related to the presentation on allowance purchase behavior by compliance entities.

Inasmuch as the ECR is intended to adjust and control allowance supply, it should be used in conjunction with the CCR and the hard floor (reserve) price to achieve program objectives. The ECR price could be determined by adding ten percent of the range between the reserve price and the CCR price to the reserve price; CCR and reserve price increases should continue at current trajectories. The Alliance suggests that allowances removed using the ECR trigger should be redirected to the CCR; CCR allowances should be available in quarterly auctions to mitigate price anomalies or other market aberrations. Overall reductions in the number of ECR and CCR allowances could mirror the slope of the emissions cap reductions, but with no net loss of allowances. It is imperative that those allowances withdrawn through the ECR are available in the event there is scarcity or price spikes. Many Alliance members are compliance entities, and as such, do not support the introduction of too many variables that may impact the market; the Alliance suggests the introduction of the ECR should only be implemented in lieu of additional banked allowance removals. Further, the Alliance suggests a modeling analysis that evaluates the ECR in the reference case without banked allowance adjustments to fully understand the impact of the ECR with the other cost controls. If, however, the decision is made to adjust the number of banked allowances, the Alliance prefers partial adjustments timed early in a compliance period to avoid upsetting allowance purchase planning. Finally, modeling should also be conducted to provide analyses of the impact of program changes on ratepayers and the bulk power system reliability.

The Alliance raises an important issue with respect to the Resources for the Future and University of Virginia ECR analysis presented in a webinar on June 14, 2017. The Alliance believes there is a misconception in the academic perception of allowance management. In particular, there is a potential disconnect between the economic theory of allowance management and the reality of compliance entity allowance management. Economic theory presumes that allowance management decisions depend on long-run future outlooks of allowance supply and demand whereas in reality most compliance entity allowance management is determined almost entirely by short-term requirements, particularly for the current compliance period

In Dr. Shobe's June 14th presentation he draws the analogy between allowances and commodities. In the commodity world the decision between selling and storing the commodity today is determined by the long run anticipated future price of that commodity. If it is expected that there will be less of the commodity available in the future then the price will likely go up over time and entities will stockpile now to sell at a later time when the price is higher. In putting forth this economic theory, Dr. Shobe postulates that if compliance entities know that the allowance supply is going to be reduced in the future then current behavior will reflect that and they will purchase additional allowances now to bank for future use. Clearly, this describes the motivation and analysis of non-compliance entities but it is not driving allowance-buying decisions by compliance entities.

This "allowances are like commodities" theory is highlighted on Slide 19 in the presentation which states that it is the long-run supply that counts. "In markets for storable commodities (like allowances, for example), the current price and the plan for accumulation of a stock of the commodity depend on

- The expected long-run total supply compared to
- The expected long-run total demand."

The reality of compliance entity management is that there is rarely long-term planning on the time scale envisioned by Dr. Shobe. RGGI allowances are typically purchased by the compliance entities for the current compliance period. Compliance entities do not want to tie up capital in allowances because they have other more pressing needs for that money. As compliance entities have become familiar with the auction system and their operational needs their share of the allowance bank has shrunk. Simply stated, the analogy between storable commodities and allowances is not appropriate.

Compliance entities have long commented that the perfect foresight of IPM which predicts that affected sources will buy allowances in early years because there will be a shortage in the future is not representative of actual behavior. It appears that this is also an issue with academic theories of allowance management. At timestamp 44:10 of the June 14th webinar recording, Dr. Shobe states that "students understand the ECR and they make coherent inter-temporal decisions" in the allowance management lab. Intertemporal is an economic term describing the "concept of how the current decisions made by an individual can affect the options that become available to them at a future time." The student behavior is consistent with Dr. Shobe's expectation that current allowance purchases will be dictated by long-run perceptions of supply and demand.

The Alliance has two recommendations in this regard. The first is to reiterate the Alliance recommendation to minimize the number of programmatic changes during this review. Both IPM and the academic perception of allowance management depend on long-run perceptions and that focus is not representative of compliance entity allowance management. The Alliance would prefer to see more modest programmatic changes as the allowance market becomes more constrained and additional uncertainty surrounds the pace of transformation of the electricity sector. Our second recommendation is that RGGI sponsor an allowance management lab test with Dr. Shobe that uses compliance entity allowance managers. We believe that it would be a learning experience for everyone and that the result would be a better representation of what could happen in the ECR-constrained future.

We appreciate the opportunity to comment on the RGGI program design elements discussed above. Thank you for your time and consideration.

Sincerely,

Sandra Meier

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