June 11, 2012

Ms. Nicole Singh
Regional Greenhouse Gas Initiative Inc.
90 Church St. 4th Floor
New York, NY 10007

IETA STAKEHOLDER COMMENTS ON RGGI PROGRAM REVIEW

On behalf of the International Emissions Trading Association (IETA), I am grateful for this opportunity to provide comments in response to the Regional Greenhouse Gas Initiative's (RGGI's) May 2012 Request for Stakeholder Comments on Program Review. IETA welcomes this opportunity to provide our insight into how to best improve the program during this period.

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. IETA has been the leading voice of the business community on the subject of emissions trading since 2000. Our member companies include some of North America's, and the world's, largest energy and industrial corporations—including global leaders in oil, electricity, cement, aluminum, chemicals, paper, and banking; as well as leading firms in the data verification and certification, brokering and trading, offset project development, legal, and consulting industries.

RGGI has requested stakeholder input on four policy areas: Offsets, a Cost Containment Reserve (CCR), Control Period, and Current Market Reserve Price (CMPR). IETA will provide comments addressing the first three of these issues in its response.

Firstly, IETA encourages the use of offsets as the most cost-effective tool for reducing emissions, and will provide recommendations for amendments that create a better environment for investment in offset projects. IETA will also caution that the inclusion of a CCR will require consideration of the potential market consequences. Finally, IETA will provide its views on the potential benefits of using multi-year or annual control periods, as well as the use of price triggers to lengthen the compliance period.

OFFSETS

The Use of External Offset Registries in the RGGI Program

IETA has previously provided comments to RGGI regarding potential changes to regulations surrounding the use of offsets as part of the RGGI program[1]. IETA continues to believe that structural issues beyond the relative price of allowances and offsets could hinder offset supply. Such a diminishment in offset supply would likely lead to increased program costs.

RGGI currently allows offsets from the following five project types into its cap-and-trade program:

[1] Full submission available at:
http://www.rggi.org/docs/ProgramReview/StakeholderComments/SC021012_IETA.pdf

IETA – MAKING MARKETS WORK FOR THE ENVIRONMENT
1730 Rhode Island Ave. NW, Suite 802
Washington, DC 20036
+ 1 (202) 629-5980

1. Capture or destroy CH_4 from landfills
2. Reduce emissions of SF_6 from electricity transmission and distribution equipment
3. Sequester CO_2 through afforestation
4. Reduce emissions of CO_2 through non-electric end-use energy efficiency in buildings
5. Avoid CH_4 emissions through agricultural manure management operations

IETA recommends a number of measures be adopted by RGGI states in order to encourage the supply of offset credits for use within the program. IETA believes the inclusion of credits from external registries, such as the Verified Carbon Standard (VCS), the American Carbon Registry (ACR), and the Climate Action Reserve (CAR) would constitute a significant step forward to incentivize investment in offset projects. In lieu of naming specific offset registries, RGGI states caould utilize language from previous proposed federal legislation directing the regulator on approving external registries.[2] Relying on existing GHG programs will allow the RGGI offset program to deliver results faster and at less cost, especially because the rules of the GHG programs are already well established and they have a proven track record of developing sound methodologies (or protocols), providing oversight of auditors, and establishing robust registry systems. This step should be taken in conjunction with broadening the geographical scope of offset projects beyond participating states.

From the perspective of offset project developers, it is critical to make investments where the potential revenue streams are predictable and robust. Accepting credits issued by external registries will increase the ability for offset developers to register credits for use in multiple markets, providing a greater incentive to sell credits for use in the RGGI program. Conversely, projects exclusively available for compliance with RGGI are less flexible to access different markets depending on market conditions. As RGGI examines reforms, which will increase the pipeline of offset projects, this perspective should be a key consideration.

For entities covered under RGGI, a liquid market reduces the costs of achieving compliance with the program. Enabling credits from external registries to be surrendered for compliance will increase liquidity available in the market, therefore reducing price volatility within the market. Registries such as VCS, ACR and CAR have sufficient supply of offset credits to provide flexibility for covered entities. Offsets are intended to provide liquidity to the market and lower the costs of reducing emissions, and accepting external registry credits will provide a significant step forward to achieve this.

IETA cautions against simply transferring the methodology language from other registries to the RGGI rules. Methodologies developed under VCS, ACR, CAR etc. regularly update methodologies. Simply reincorporating this updated language may present administrative burdens for RGGI states. Accepting credits from these protocols is a way of preventing these challenges. Additionally, managing offset registries and issuance requires significant technical capacity and expertise to revise and update methodologies based on cutting edge developments, as well as advise project developers on compliance with methodologies and overseeing registration. If RGGI wishes to maintain its internal registry for projects, it will need to ensure that there is sufficient technical capacity to undertake these tasks. IETA believes registries are in the best position to provide these services to the market, and incorporating them into the offset program enables programs such as RGGI to foster innovative low cost emissions reductions for use in the compliance market.

---

[2] For Example, see Clean Energy Jobs and American Power Act (2009), Section 740 (a)(2) Available: http://www.opencongress.org/bill/111-s1733/text

Permissible Percentage of Offsets for Compliance & Offset Price Triggers

RGGI is also considering amendments to the percentage of offsets available for surrender as an entity's compliance obligation. IETA believes quantitative limits on offsets unnecessarily restricts the options available for compliance and raises program costs. Program and entity-usage limits would create uncertainty for offset project developers and investors with long-term planning horizons. Ideally, the total supply for offsets should be decided by market participants through price signals, rather than pre-determined in the program rules. This would create a situation in which private actors are given the greatest amount of flexibility to achieve real emissions reductions at the lowest economic cost.

If RGGI nevertheless maintains a quantitative limit on the use of offsets for compliance, IETA would recommend mandating the highest percentage possible and eliminating any price triggers for increasing the limit. Project developers will make investments based on projections of market conditions many years in the future, and regulations such as price triggers introduce unnecessary uncertainty into such planning. IETA recommends simplifying the rules by eliminating price triggers and incorporating a high quantitative limit, or preferably eliminating it altogether.

COST CONTAINMENT RESERVE (CCR) DESIGN

Consider potential market distortions associated with a CCR

IETA generally cautions against the use of an allowance reserve in program design. An allowance reserve, at best, can perform a price smoothing function and reduce market risk, provided the mechanism's parameters, size, and conditions under which reserves will be released into the market are defined and certain. Under this best-case scenario, the market will effectively factor reserve dynamics and impacts into pricing. While short term price smoothing can provide a consistency signal to project developers, a CCR does not provide any assurance of real long-term cost containment. If RGGI is committed to implementing a CCR type of structure, it should be designed with long-term efficiency in mind, not just short term price smoothing.

In contrast, if reserve parameters and conditions are not clear to market participants, the existence and impact of the allowance reserve essentially becomes a "wild card", whereby unnecessary risk is injected into the market, debilitating the emergence of a fully functional market and impeding policy objectives.

CONTROL PERIOD

Currently RGGI utilizes a period for compliance of three years, with the potential to increase to four years in the event of a stage two price trigger event. IETA believes that multi-year compliance periods provide flexibility for companies in how they choose to comply with the regulations. However, utilizing an annual compliance obligation would create a more transparent price signal reflective of total emissions for the covered year. Furthermore, shorter compliance obligations generate greater liquidity in the market across the timespan of the program, through a greater demand for transacting allowances and offsets for surrender each year. IETA recommends that RGGI should take these different factors into consideration when examining the possibility of amending the control period length.

Furthermore, IETA recommends RGGI choose the options that provide the greatest level of predictability possible when deciding upon design elements such as control periods. Changing compliance rules based on an exogenous factor, such as allowance prices, has the potential to undermine such predictability, and RGGI should take this into consideration when making potential changes to the RGGI program. Therefore, IETA recommends that the control period should be not be lengthened based on a price trigger, and instead additional allowances can be released into the market.

CONCLUDING REMARKS

In summary, IETA believes that there are effective policy changes made possible under the 2012 Program Review that would improve the efficacy of the RGGI carbon market to drive cost effective emissions reductions. IETA is encouraged that RGGI is looking at these potential amendments and the recommendations outlined in these comments would build upon the foundations of the current program, progressing RGGI further towards cost effective emissions reductions.

Once again, on behalf of IETA and our member companies, I would like to thank you for your attention to these comments. Please do not hesitate to contact either myself, or Anthony Mansell (Mansell@ieta.org) with questions.

Sincerely,

Dirk Forrister

Dirk Forrister
President and CEO