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New York State Department of Environmental Conservation
Climate Change Office
625 Broadway
Albany, New York 12233

**Re: Comments of International Brotherhood of Electrical Workers, Locals 83 & 97
Regarding Auction Design for Selling CO₂ Emission Allowances Under the
Regional Greenhouse Gas Initiative, Final Report, October 26, 2007**

To Whom It May Concern:

International Brotherhood of Electrical Workers, Local Unions 83 and 97 (“IBEW Local”) represents the interests of over 1,600 bargaining unit members who are employees of a variety of electric generating units in New York.¹ These employees are critical to providing adequate and reliable electric commodity to utility customers in the State of New York. The adequacy and reliability of the electric commodity produced in New York illustrates the quality of the work performed by these dedicated employees. In representing these employees, IBEW Local has a significant interest in the outcome of the Regional Greenhouse Gas Initiative (“RGGI”) and the components of which the RGGI program is comprised. IBEW Local respectfully submits the following comments on the Final Report dated October 26, 2007: *Auction Design for Selling CO₂ Emission Allowances Under the Regional Greenhouse Gas Initiative* (“Final Report”).

IBEW Local is appreciative of the work effort put into the Final Report by the investigators and their assistants retained to propose an auction design. This is especially so given the fact that RGGI participating states have agreed to allocate at least 25% of the emission allowances created by a cap-and-trade program to benefit consumers and to support strategic energy investments, as well as the fact that several RGGI participating states have decided to auction 100% of their annual CO₂ allowance budgets, the design of allowance auctions is critical to the success of the RGGI program.

IBEW Local generally supports the recommendations made in the Final Report with a few exceptions discussed below:

¹ The generating units include those owned by AES Corporation, the James A. Fitzpatrick nuclear generating plant owned by Entergy Nuclear, the Nine Mile Point nuclear plants owned by Constellation Nuclear, the electric generating facilities owned by NRG, the electric generating facilities owned by Reliant, and the Bethlehem Energy generating facility owned by PSEG.

Discussion

Recommendation 6: Reserve Price

While allowance prices of \$2-\$6/ton were generally attained as a result of the experiments conducted in Phase II research,² there may be substantially greater volatility in allowance prices to be experienced during actual auctions, especially over the initial few years of the RGGI Program. This volatility may present an obstacle to determine an appropriate reserve price.

The volatility of the European CO₂ allowance market sheds some light on the difficulty in setting a appropriate reserve price at the beginning of a CO₂ allowance cap-and-trade program. In July 2006 the spot price of a CO₂ allowance in Europe per NORD POOL, was 16.53 euros per metric ton or \$18.90 per short ton, while at the same time the forward December 2008 price was 19.80 euros per metric ton or \$22.64 per short ton. On May 16, 2007, CO₂ allowance spot closed at only 0.30 euros per metric ton or \$0.37 per short ton, while the forward December 2008 price remained high and closed at 20.85 euros or \$25.58 per short ton per NORD POOL. On November 6, 2007, the CO₂ allowance spot closed at 0.07 euros per metric ton or about \$0.09 per short ton, while the forward December 2008 price remained high and closed at 21.45 euros or approximately \$29.00 per short ton per NORD POOL.

The European CO₂ allowance market spot prices have shown significant volatility while futures prices provide an indication of potentially high allowance prices that may be experienced. The current spot price of the CO₂ allowance has dropped precipitously since July 2006 and significantly from November 2007, whereas the comparable forward price in dollars for a December 2008 contract has increased by 26%, and closed at an order of magnitude higher than the experimental prices obtained through the research conducted as the basis of the Final Report.

Given the above, what is the appropriate reserve price to be set for the initial RGGI auctions? IBEW Local respectfully submits that either no reserve price be set for the initial auction or that the reserve price be set at a minimal level until an appropriate track record is established. The openness of the CO₂ allowance auction to participants other than the emitting electric generators would likely create an upward pressure on allowance prices so that, even without a reserve price, a significantly positive allowance value would likely be achieved over a minimal initial reserve price. If a reserve price is set, the IBEW Local believes that all states should be required to have the same reserve price and that reserve price should be made public in advance of the auction.

² *Auction Design for Selling CO₂ Emission Allowances Under the Regional Greenhouse Gas Initiative*, Final Report, October 26, 2007 at 49, Figure 6.1; at 51, Figure 6.2; at 53, Figure 6.3; at 61, Figure 8.1; at 67, Figure 8.3; and at 76, Figure 10.1.

Recommendation 9: Open Auctions to All Qualified Bidders

IBEW Local agrees that, if auctions are held, open auctions will enhance competition and limit opportunities for collusion. That being said, there remains a concern that limiting a single entity to purchase (or take a beneficial interest in) no more than 33% of the allowances for sale in any auction is insufficient to prevent the hoarding of allowances by a single entity or a limited group of entities. IBEW Local would prefer a limit in the range of 15% - 20%. As was recognized in the Final Report, the supply of allowances and the demand for electricity both are inelastic.³ Therefore, the use of the lower limitation is recommended to boost competition, provide more orderly and lower price volatility auctions, and to facilitate the generators obtaining the necessary allowances required to produce the electricity needed to maintain adequate and reliable service. IBEW Local believes that other design elements of the RGGI market are insufficient to eliminate hoarding without such a lower purchase limit for single entities.

There should also be clear guidelines and standards for auction participant eligibility in terms of financial and ethical conduct given the openness of the proposed participant structure.

Recommendation 10: Bids are Binding Contracts

IBEW Local agrees with the components of this recommendation, except for the allowance of those not being able to meet financial qualifications being able to deposit cash in escrow to cover bids. This element is an invitation to launder money. Given today's financial sophistication of entities that may be involved in illegal activities, it is recommended that this cash escrow and deposit element be eliminated from the recommendations made in the Final Report. If this element remains in the recommendation, the administrative agency in charge of the auction should take notice of the potential for abuse of shell corporations and be required to (a) verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity; and, (b) verify that any person purporting to act on behalf of the customer is so authorized and identify that person. It should also report all currency transactions above a fixed amount, to the U.S. Treasury or other competent regulatory authority involved with investigating money laundering cases subject to strict safeguards to ensure proper use of the information.

³ *ibid.* at 70.

Conclusion

For the reasons discussed in detail above, IBEW Local respectfully recommends that: (1) there should be no reserve price set for the initial auction or that the reserve price be set at a minimal level until an appropriate track record is established; (2) allowances by a single entity or a limited group of entities should be limited in each auction within a range of 15% - 20%, rather than the 33% that appears in the Final Report; and, (3) the Final Report recommendation that those not being able to meet financial qualifications may deposit cash in escrow to cover bids should be eliminated, or if not eliminated, that strict ethical and informational requirements be applied to appropriately deal with a cash transaction.

IBEW Local appreciates the opportunity to provide the RGGI Staff with the above comments regarding the Final Report.

Dated: November 15, 2007
Ridgefield, Connecticut 06877-4511

Respectfully Submitted,

/s/ Richard J. Koda

Richard J. Koda, Principal
KODA CONSULTING, Inc.

Member of the New York State Coalition of Energy and Business Groups and consultant to International Brotherhood of Electrical Workers, Local Unions 83 and 97