

RGGI Program Operations Review for Stakeholder Comment

I. Introduction & Purpose

The states participating in the second Regional Greenhouse Gas Initiative (RGGI) control period¹ are requesting stakeholder input on the RGGI CO₂ Allowance Auctions and RGGI CO₂ Allowance Tracking System (RGGI COATS) operations as part of the 2012 program review. This document summarizes the administration of the RGGI CO₂ Allowance Auctions and RGGI COATS over the first three years of the program, identifying processes that have worked well and potential opportunities for improvement, and also includes instructions for submitting comments.

The comprehensive 2012 program review was included in RGGI's initial design and is part of the states' ongoing commitment to ensure the environmental integrity of the RGGI program and the long-term development of the RGGI market. The states have been conducting learning sessions on key program design elements and seeking stakeholder input on program review at meetings facilitated by RGGI, Inc. since mid-2010.

For more information on program review, visit http://www.rggi.org/design/program_review. For more information about the RGGI program, visit <http://www.rggi.org/market>.

II. Program Operations: CO₂ Allowance Auction Operations

The following summarizes the administration of the RGGI CO₂ Allowance Auctions and requests comment on the RGGI auctions administrative processes, such as the auction platform, market monitoring documents, and the overall process and implementation of RGGI auctions.

Please submit written comments by Tuesday, April 3rd to info@rggi.org. Written comments will be posted to www.rggi.org by Friday, April 6, 2012.

RGGI CO₂ Allowance Auctions

Over the first three years of the program:

- RGGI has completed 14 successful auctions.
- The auctions have been administered successfully with no significant technical or administrative problems.
- According to the market monitor, there has been no indication of market manipulation or anti-competitive conduct.
- The auctions have effectively distributed over 400 million allowances.

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- According to the market monitor, across all auctions 86% of allowances were won by electric generators and their corporate affiliates and 97% of all allowances in circulation are currently held by electric generators and their corporate affiliates.

Auction Format and Process

The RGGI CO₂ allowance auctions are held quarterly and are conducted using a “single-round,” “sealed-bid,” “uniform-price” format, in which each bidder may submit multiple confidential bids for a specific quantity of CO₂ allowances at a specific price. Each bidder receives the quantity of CO₂ allowances specified in their winning bids at a uniform clearing price. Any party can participate in the RGGI CO₂ allowance auctions, provided they meet qualification requirements, including provision of financial security.

Each auction process lasts approximately seven weeks. Each auction is noticed at least 45 days before the date of the auction on the RGGI auction website, http://www.rggi.org/market/co2_auctions/information. The Auction Notice provides the auction date and time, categories of eligible bidders, requirements for qualification, quantity of CO₂ allowances to be auctioned, and information and procedures for participation. Along with the publication of the Auction Notice, the Qualification Application, the Intent to Bid form, and an FAQ document are released. The Qualification Application includes submission instructions and forms needed to become a qualified auction participant. The Intent to Bid includes submission instructions and forms needed for participation by a qualified applicant for each specific auction. Finally, the FAQ document includes common questions regarding auction qualification and participation, any changes in the auction documents or processes since the prior auction, auction processes including posting of a financial security, the auction platform, and the COATS system, as well as other relevant information.

Posting of financial security is due one week prior to the auction. Such security can be posted by cash, letter of credit, or bond. The Friday following each auction, the RGGI participating states publish the auction results to the RGGI website at http://www.rggi.org/market/co2_auctions/results including the auction clearing price, the total number of allowances sold, and a detailed auction report that contains aggregate auction results.

In addition to current control period allowances, the RGGI auctions have sometimes offered a small percentage of future control period allowances. The Auction Design Report² recommended the auction of future control period allowances to help provide generators with some degree of certainty regarding future allowance prices and allowance availability to assist in their planning for future investments.

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Bid Limitations

Auction rules limit the number of allowances that associated entities may purchase in a single auction to 25 percent of the CO₂ allowances offered for sale in that auction. The states have limited the number of allowances that any one entity can purchase at any single auction to reduce the opportunity for bidders to exert market power in the RGGI auctions and to reduce the opportunity for bidders to hoard allowances. In order to prevent entities from circumventing the bidding limitation, the states also require that auction applicants confidentially disclose corporate associations and any benefitting parties for whom they purchase allowances. In five separate auctions individual participants have reached this bid limitation.

Other auction design features limit the number of allowances an entity may purchase at auction. For example, the value of an auction participant's bid cannot exceed the amount of a bidder's financial security allocated to a particular auction.

The RGGI auctions have used a reserve price, adjusted for inflation, starting at \$1.86³ in 2008 and increasing to \$1.93 in 2012. The reserve price is the minimum price for which the auction platform will accept a bid. This reserve price is an important tool for reducing the potential of collusion.

All bid limitations are programmed and administered through the auction platform.

Independent Market Monitor

The RGGI auctions are monitored by an independent market monitor, Potomac Economics. The market monitor observes the entire auction process to monitor for anti-competitive bidder conduct; ensures the auctions are administered in accordance with the noticed auction rules and procedures; and offers recommendations to the RGGI participating states regarding proposed changes to auction rules or procedures to improve the efficiency of the market for CO₂ allowances.

The RGGI market monitor also monitors the secondary markets for RGGI CO₂ allowances. Quarterly reports from the market monitor contain detailed market information and are available online at: http://www.rggi.org/market/co2_auctions/results.

Review of the Auction Administration Process

Following each auction cycle, the states evaluate the process for prospective bidder participation and to identify other opportunities for administrative improvements in the auction process. The changes below have been implemented since the start of the program:

- Auction application submission transitioned from paper to electronic submission of forms, this change was made in response to feedback from auction participants to help simplify the applicant process.

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- As part of the transition away from applicant submission via hard copies, applicants are no longer required to notarize forms and initializing and signatory requirements on documents were reduced.
- To provide applicants more flexibility the financial security deadline was extended to one week prior to the auction; originally applicants submitted financial security along with their qualification documents and intent to bid.
- The RGGI states have evaluated the three hour auction window for the auction platform. After testing a longer window the states have found the 3 hour window to be sufficient.

Areas for Discussion and Questions for Stakeholders

Please provide your feedback on the auction process.

We would like to hear your comments on what is working well and opportunities for improvement.

- **Auction Administration**

(e.g. Have you found the administration of the auction process straightforward and simple for participation? Have you found any hindrances to participation? Any comments regarding specific operations of the administration of the RGGI auctions?)

- **Qualification Forms**

- *(e.g. Ease of use and/or substance of the forms required for auction participation, i.e. the Qualification Application and the Intent to Bid? Any areas that could be simplified, clarified, or modified?)*

- **Auction Platform**

(e.g. The usability, accessibility, and interface with the auction platform?)

- **Timing of Submission**

(e.g. Sufficient time between the submission of the Qualification Application and/or Intent to Bid documents to provide further information pertaining to the remediation of those documents when remediation issues have arisen?)

- **Market Monitoring**

(e.g. Form, substance, or usefulness of the Market Monitoring reports?)

III. Program Operations: RGGI COATS Operations

This following summarizes the administration of RGGI COATS and includes questions for stakeholders to provide feedback to the RGGI states on RGGI COATS.

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RGGI COATS Design and Process

RGGI COATS, administered by SRA International, Inc., is the platform that records and tracks data for each state's CO₂ Budget Trading Program. RGGI COATS facilitates market participation by enabling:

- The allocation, award, and transfer of CO₂ allowances;
- The registration of offset projects;
- The submittal of offset project Consistency Applications and Monitoring and Verification Reports; and
- Public access to RGGI program data.

For more information on RGGI COATS, see: <http://www.rggi.org/market/tracking>.

Public Reports

RGGI COATS enables the public to view, customize, and download reports of RGGI program data and CO₂ allowance market activity through nine types of program and market data reports:

- 1) CO₂ allowance transactions, showing the date, price, and type of transaction;
- 2) RGGI COATS accounts, showing a list of every account registered in RGGI COATS;
- 3) RGGI COATS account representatives, showing individual contact details for all accounts;
- 4) RGGI sources, listing each regulated power plant and its location;
- 5) Owners/operators of RGGI sources, showing the corporate affiliation of owners and operators for each regulated power plant;
- 6) Special approvals, detailing allowance allocations made by states;
- 7) Offset project applications and approvals;
- 8) CO₂ emissions from RGGI sources, showing emissions for each regulated power plant and summary CO₂ emissions for the RGGI region; and
- 9) Compliance data for CO₂ budget sources.

To view public reports in RGGI COATS, go to www.rggi-coats.org and click on the desired report category in the "Public Reports" section. No login is required.

Compliance

RGGI COATS is also the platform used for the RGGI compliance process. RGGI participating state agencies use RGGI COATS to determine whether regulated power plants are in compliance with state CO₂ Budget Trading Program regulations. Under each RGGI state's CO₂

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Budget Trading Program, each regulated power plant is required to hold one CO₂ allowance for each ton of CO₂ emitted during the preceding three-year control period. For more information on compliance, see: <http://www.rggi.org/market/tracking/compliance>.

Administrative Highlights and Ongoing Improvements

RGGI COATS has been administered thus far in a manner to enable the identification and implementation of improvements on an ongoing basis. Some of these improvements include:

- Ongoing updates of software;
- Additional public reporting capabilities to provide more easily available and transparent data to the public; and
- Updates to platform security to be consistent with industry standards to protect against internet attacks.

General feedback from RGGI COATS users has been positive stating that the RGGI COATS functionality is easy to use, customer service is responsive and public reports contain useful information. Ongoing updates and reviews are performed to maintain the security of RGGI COATS and there have been no instances of hacking or fraud.

Areas for Discussion and Questions for Stakeholders

The RGGI states would like your comments on RGGI COATS.

We would like to hear your comments on what is working well in RGGI COATS and opportunities for improvement.

- **Usability and flexibility of the platform**

(e.g. Do you have any suggestions for how the RGGI COATS platform can be improved? Please describe the actions that you take in RGGI COATS and provide any suggestions for improved functionality.)

- **Overall user experience**

(e.g. Please provide any feedback you may have on the customer service you receive from the RGGI COATS System Administrator.)

- **Public reports**

(e.g. Are there any additional types of data or reports that would be helpful for you to see in RGGI COATS?)

¹ See New Jersey Notice of Withdrawal of Agreement to the RGGI MOU http://www.rggi.org/docs/Documents/NJ-Statement_112911.pdf

² http://www.rggi.org/docs/rggi_auction_final.pdf

³ This value is 80 percent of ICF International's modeled 2009 allowance price of \$2.32, as represented in 2009 dollars.