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Submitted via email to info@rggi.org

Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Re: RGGI Draft Model Rule Comments of the RGGI Working Group

Dear RGGI Inc.,

This comment letter provides the comments of the RGGI Working Group on several draft RGGI Model rule changes presented at the November 20 stakeholder meeting in Boston. Whatever consensus is reached on the Model Rule, the RGGI Working Group expects ample opportunity for public review and comment prior to final approval and adoption.

Size and Structure of the Cap

While the current RGGI program identified the emission reduction goal of 10 percent below current emissions by 2018, the RGGI states have not indicated a revised emission reduction goal for 2018 or 2020 for that matter. As the RGGI states evaluate their options, we recommend that a clear emission reduction goal be established. While we prefer the emission reduction goals of the program focus on 2018, we understand the states have been modeling out to 2020.

The current structure of the RGGI cap, stabilization of emissions followed by a 2.5% annual reduction beginning in 2015, is an approach that we could support depending on the starting cap level, start date for the cap revision, and the size, source of the allowances and trigger prices for the Cost Containment Reserve.

Unfortunately, without an adequate understanding of the changes in wholesale power prices and electricity bill impacts associated with the alternative cap scenarios, we are unable to comment on an adjusted cap level at this time. We encourage the RGGI states to release the energy prices as part of every policy case run as well as the projected electricity bill impacts. Once this information is released, we will be better equipped to evaluate the results and comment on the appropriate cap level.

Additionally, we suggest that the states reconsider adjusting the cap level in 2014 and evaluate starting in 2015 instead. The main advantage to this approach is that the newly revised cap will take effect at the start of RGGI's third compliance period rather than the final year of the second compliance period. This will likely result in a smoother market transition and maintain the original stabilization goal from 2012-2014. Stakeholders would also benefit from additional time to fully evaluate the modeling data and policy options. In addition, stakeholders would have additional reported emissions data to inform the revised cap level.

Treatment of Banked Allowances

The draft Model Rule includes language to adjust the revised RGGI cap downward to account for the private bank of allowances in two stages. The RGGI states have proposed this in order to correct the over allocation of the revised cap while protecting the compliance value of allowances already purchased. The approach that the states included in the draft model rule seems reasonable and straightforward. However, we remain skeptical that the bank will grow as large as the IPM modeling predicts because the adjustment methodology creates a disincentive for banking.

It is our understanding that the use of banked allowances would not be restricted in any way under this approach. In other words, any allowance vintage purchased prior to the start date of the revised cap could be used for compliance purposes at any point in the future without restriction.

Treatment of Unsold Allowances
Any unsold allowances should be offered for sale in one or more subsequent auctions during that compliance period. For example, if there are unsold allowances from the second and third quarter auctions, they should be offered for sale once again in the fourth quarter auction. If they remain unsold at the end of the year, they should be held by the RGGI states and offered again in subsequent auctions depending on allowances prices and market conditions. Any unsold sold allowances should only be retired at the end of the three year compliance period following a notice and comment period. Furthermore, based on market conditions and projected emission trends, the RGGI states should consider allocating unsold allowances to supplement the CCR in the event that it is accessed.

Cost Containment Reserve
The draft Model Rule includes language to create a Cost Containment Reserve consisting of allowances in addition to the cap. While we support this approach, we are unable to comment on the size of the CCR at this time without additional information on the REMI economic modeling assumptions and results and customer bill impacts. If the CCR is triggered, which we feel is unlikely, it will be due to higher than anticipated prices due to increased market demand. As noted above, we support the use of unsold allowances to supplement the CCR as necessary in the unlikely event that the CCR is accessed.

In terms of the CCR trigger price, we encourage the RGGI states to evaluate alternatives to the step wise increase in trigger prices used in the IPM modeling. First, the RGGI states should consider a level allowance price through 2018 that would be reevaluated at that point. The review of the trigger price should consider allowance prices, market conditions and emission trends. Second, the RGGI states should also consider setting a trigger price which escalates by a defined percentage on an annual basis similar to the auction reserve price.

Annual Interim Compliance
We disagree with establishing an annual interim compliance requirement and recommend eliminating this from the draft RGGI Model Rule. We are concerned that adding such a requirement will increase demand for current vintage allowances which could result in unintended consequences on allowance prices. Furthermore, this requirement would impact market and auction strategies currently available to compliance entities.

Reserve Price
The auction reserve price included in the draft Model Rule seems reasonable. If the states revise the cap downward, more in line with current emissions, the level and rate of change of the reserve price will be less of a factor and the allowance clearing price will reflect market forces.

Thank you for your consideration of these comments. We look forward to continued participation in the RGGI 2012 program review process. If you have any questions on these comments please contact me directly at 978-405-1269.

Sincerely,

Brian Jones
MJB&A
on behalf of the RGGI Working Group