FPL Energy, 21 Pardee Place, Ewing, New Jersey 08628
609-771-0894

FPL Energy

Initial Comments of FPL Energy, LLC on the Proposed RGGI Auction Structure

As a follow-up to the May 31st meeting between RGGI agency staff representatives and stakeholders in Long Island City, New York, FPL Energy is pleased to offer its initial thoughts on the auction structure to be utilized at the outset of the allowance auction process. We appreciate the willingness of RGGI staff to consider stakeholder comments at this stage, and look forward to continued discussions with RGGI staff as additional research on the auction structure and process is conducted and results shared with stakeholders. Our instant comments are brief, primarily because the researchers' recommendations, as discussed at the May 31st meeting, were preliminary and broad, with additional detailed research to be conducted during the pending "Phase 2."

In its initial review, researchers' interim recommendations for an auction structure suggested the consideration of a mixed auction program.[1] Specifically, they recommended that "the first time…a given vintage is auctioned, an English clock with a shootout round using discriminatory pricing should be used. Subsequent auctions of that vintage would use a sealed-bid format." FPL Energy acknowledges the benefits of the hybrid approach, with the English clock mechanism facilitating price discovery and the shootout method limiting the risk of collusion or manipulation. At this stage, the suggested methodology is one that FPL Energy could support, as long as it complies with the overall standards spelled out in the Phase 1 Research Report – specifically:

1. Provides round by round price discovery feedback information.
2. Avoids bidder ex post regret.
3. Avoids seller ex post regret.
4. Prevents demand reduction price manipulation.
5. Deters collusion among bidders.
6. Prevents surprise power play to corner market.
7. Promotes entry.
8. Revenue maximization.

In concept, the English clock auction is relatively well known, as is the shootout round methodology. That having been said, the researchers themselves acknowledged that much additional work remains to be done to better refine the auction proposals and impacts. Stakeholders provided significant feedback at the May 31st meeting, with a particular interest

[1] "Auction Design for Selling CO2 Emission Allowances under the Regional Greenhouse Gas Initiative – Phase 1 Research Report (Draft)," May 25, 2007, Investigators Dallas Burtraw, Jacob Goeree, Charlie Holt, Karen Palmer, Bill Shobe.

in ensuring that anti-competitive behavior (e.g. hoarding) be an area of significant focus during the more intensive Phase 2 research.

Beyond this, FPL Energy strongly urges RGGI state agency staff to complete its Phase 2 research as quickly as possible and share its findings with stakeholders for input. Ideally, this research would have been completed – and findings disseminated – so that the benefits of that effort could be incorporated into the development of proposed RGGI rules and legislation prior to their issuance by the RGGI states. We would note that New York State has suggested that its RGGI rule would be issued through the formal rulemaking process by the end of June 2007. For any program of this importance and complexity to be successful, a defined and detailed understanding of RGGI program and auction rules and procedures must be available to both participants and agency staff alike as early as possible. Auctions, we presume, will commence by mid- to late- 2008, leaving precious little time to fill in considerable gaps.

As stated earlier, FPL Energy looks forward to reviewing the results of that Phase 2 research, and in participating further in upcoming stakeholder discussions.

Warmest regards,

David B. Applebaum
On behalf of FPL Energy, LLC

David B. Applebaum
Director, Regulatory Affairs
FPL Energy, LLC
21 Pardee Place
Ewing, New Jersey 08628
(609) 771-0894 (ph)
david_applebaum@fpl.com