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DELIVERY BY EMAIL TO: INFO@RGGI.ORG

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

Re: Comments of Vitol Inc. on the 2016 RGGI Program Review

Vitol Inc. (“Vitol”) would like to thank RGGI, Inc. (“RGGI”) for the opportunity to comment on the 2016 program review following the webinar held on February 8, 2017. Vitol has been an active participant in the RGGI market since its inception in 2008. We view the program review process as an opportunity to make needed improvements to the RGGI market design in order to build upon the success that the RGGI program and the member states have experienced. In our comments filed on November 30, 2016, we indicated our support for program revisions that will facilitate a dynamic management of the supply of emission allowances. As we indicated in our comments, utilizing a Phase III Bank Adjustment, implementing the Emission Containment Reserve (“ECR”), and revising the Auction Reserve Price and Cost Containment Reserve are critical to bolstering the confidence of market participants and stakeholders that the RGGI program will be a robust market that will achieve the desired reductions in greenhouse gas emissions for many years ahead. To that end, we were encouraged by the detailed and thoughtful discussion of the need for the ECR mechanism during a separate webinar on February 7, 2017¹, and we look forward to future discussions of this concept.

While not part of the discussion at the February 8 webinar, Vitol would like to stress that the need for improvement to the RGGI program design extends beyond ensuring the success of the RGGI market. It has been well-publicized that the operators, market participants, and stakeholders of the organized wholesale electricity markets in New England and New York have been grappling with how to accommodate the environmental policies (for example, those

¹ The webinar, titled, “An Emissions Containment Reserve for RGGI: How Might It Work?”, was a collaborative event developed by the Nicholas Institute for Environmental Policy Solutions at Duke University, the Georgetown Climate Center, Resources for the Future, and the Collaborative for RGGI Progress.

requiring reductions in greenhouse gas emissions from electricity generation and increases in renewable, low emission, and zero emission energy sources) enacted by individual states while preventing or minimizing the unintended negative consequences that these policies could have on the integrity and competitive function of the wholesale electricity and capacity markets.² Generally, there is broad concern that certain provisions of state policies may have the unintended consequences of compromising reliability of the transmission system, threatening competition through the subsidization of particular electricity resource types, and shifting costs in an inequitable manner.³ While many ideas on how to alleviate these concerns have surfaced in discussions within the New England and New York markets, it is generally agreed upon that a market efficient methodology to achieve state policy goals to reduce greenhouse gas emissions is to incorporate a robust price signal for greenhouse gas emissions directly into the economic commitment and dispatch evaluation of electricity resources conducted by both New York ISO and ISO New England. Including a robust emissions price would influence the aggregate supply curve of electricity resources in a manner that increases the likelihood that zero emission and low emission resources are committed and dispatched ahead of high emission resources. This would also allow for the marginal cost of emissions to be included in the electricity market clearing price, which would provide a higher level of compensation to zero emission and low emission resources, given that the marginal resource that sets the clearing price likely has some level of emission costs within its offer to supply electricity. These outcomes would achieve state goals for limiting greenhouse gas emissions while sending a transparent market signal that zero or low emission resources as well as efficient flexible resources that provide needed reliability services are economically desirable.

The structure for incorporating emission costs into the electricity resource commitment and dispatch evaluation process is already in place. In both of these markets, resources that are required to purchase RGGI emission allowances are allowed to incorporate the cost of the emission allowances within their offers to supply electricity. However, the price of the allowances under the current RGGI program design may not be robust enough to create efficient commitment and dispatch solutions that achieve policy goals and minimize negative unintended consequences. One can intuitively reason that improvements to the design of the RGGI program that lead to more robust market-determined price signals for emission

² In New England, discussions among ISO New England, market participants, and other stakeholders occur within the Integrating Markets and Public Policy stakeholder forum. In New York, the New York ISO created the Integrating Public Policy Project to facilitate stakeholder discussions.

³ See generally, “Chairman’s Opening Remarks, NEPOOL IMAPP Initiative,” August 11, 2016 at http://www.nepool.com/uploads/IMAPP_20160811_Chairman_Remarks.pdf, and “Proposed 2017 Project Integrating Public Policy,” August 17, 2016, at http://www.nyiso.com/public/webdocs/markets_operations/committees/bic/meeting_materials/2016-08-17/agenda%204%20Public%20Policy%20and%20NYISO%20Markets.pdf.

allowances will then facilitate the desired outcomes in the wholesale electricity market that achieve policy goals and minimize negative unintended consequences.

Also, it is imperative for RGGI and its member states to provide market participants with complete transparency in advance regarding if and how state policies that call for greenhouse gas emission limits that are not synchronized with the respective state's emission allowances available in the RGGI market will be incorporated into the RGGI program. For example, the Massachusetts Department of Environmental Protection ("MA DEP") has proposed regulations calling for increased limits on greenhouse gas emissions from particular electricity generators within the state.⁴ Among other things, the proposed regulation calls for an aggregate limit of approximately 9 million metric tons for 2018.⁵ However, Massachusetts has an allotment of RGGI emission allowances for 2017 that exceeds this amount.⁶ If not handled in a manner that bolsters the integrity of the program, that is if there are no adjustments made to Massachusetts' allotment of RGGI emission allowances to account for this additional limit, this will be a disparity that could add to the challenges that the RGGI program currently faces. It is of utmost importance that RGGI and its member states provide clarity well in advance of implementation of a state policy, such as MA DEP's proposed regulations, regarding if and how the policy requirements will be incorporated with or reconciled against the respective state's allotment of RGGI market emission allowances and the aggregate amount of allowances for the entire program.

In addition, recent media reports have indicated that some member states within RGGI are considering changing their participation within the RGGI program.⁷ That is, some states appear to be contemplating exiting the RGGI program, perhaps driven by the variation in desired stringency of emission limits among the member states (i.e. some states want stricter limits, while others may not). The RGGI program was initially designed in recognition of the value of a collective effort between many states to limit greenhouse gas emissions through a cap and trade program, even though each state within the program may have different goals for

⁴ Massachusetts Department of Environmental Protection, "Background Document on Proposed New and Amended Regulations: 310 CMR 7.00 and 310 CMR 60.00, Air Pollution Control for Stationary and Mobile Sources," December 16, 2016. See specifically, "Reducing Greenhouse Gas Emissions from Electricity Generating Units: 310 CMR 7.74," pp. 34-44.

⁵ *Ibid.*, 37

⁶ Detailed information on state allowance budgets can be found on RGGI's website at http://www.rggi.org/docs/CO2AuctionsTrackingOffsets/Allocation/2017_Allowance-Allocation.pdf.

⁷ For instance, see the news article, "New Hampshire bills would withdraw state from RGGI, repeal renewables mandate" published February 14, 2017, by Utility Dive at <http://www.utilitydive.com/news/new-hampshire-bills-would-withdraw-state-from-rggi-repeal-renewables-manda/436127/>, and "Md. Balks at Proposed Emission Cuts as RGGI States Ponder Future" published September 12, 2016, by RTO Insider at <https://www.rtoinsider.com/md-emission-caps-rggi-future-31504/>.

greenhouse gas reductions.⁸ As with regional wholesale electricity markets that span multiple states, a large regional program for greenhouse gas emission allowances facilitates a market with liquidity and commercial participation that could not be achieved on a small geographic scale. The competitive environment that results from this liquidity and commercial participation drives the revenue the individual states within the program receive, which ultimately benefits consumers within those respective states, all while reducing greenhouse gas emissions over the entire region. These revenues are valuable offsets to potential higher wholesale electricity costs resulting from compliance with emission restrictions and other policy requirements. Said another way, states that withdraw from the RGGI program will lose this revenue stream but may still be exposed to potentially higher regional wholesale electricity costs.

If, in fact, the variation in emission limit stringency is the driver for a state or states to consider leaving the RGGI program, then a possible solution to accommodate continued participation by all current member states is for states seeking more stringent limits on greenhouse gas emissions to reduce their allowance allocations, which will reduce the overall allowance allocations in the program. Intuitively, this will increase the value of allowances, driving more revenue to individual states, particularly those with less stringent emission limits who will have a larger share of the overall program revenue budget resulting from the allowance allocation reductions of the other states. This will provide an incentive for all states to remain in the program.

In closing, Vitol firmly believes RGGI should maintain its position as a leader in the area of effective greenhouse gas emission reductions. Vitol respectfully requests RGGI to consider the recommendations described in this letter, as these are intended to contribute to the future success of the RGGI program. Vitol greatly appreciates the opportunity to submit our comments to you.

Respectfully yours,

Vitol Inc.

⁸Regional Greenhouse Gas Initiative Memorandum of Understanding, December 20, 2005, August 31, 2006, and April 20, 2007, located at <https://www.rggi.org/design/history/mou>.