October 17, 2024

Andrew J. McKeon
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New York, NY 10007

Submitted electronically to info@rggi.org

Dear Mr. McKeon -

DRW applauds the efforts of the Regional Greenhouse Gas Initiative (RGGI) states to lead the nation in combatting climate change through the Cap-and-Trade Program as a market-based vehicle for meeting the decarbonization goals codified by the RGGI states.

ABOUT DRW

DRW is a diversified trading firm with decades of experience innovating across both traditional and cutting-edge markets. Our team of more than 2,000 employees, including a sizable presence in New York City and Greenwich Connecticut, works globally to advance our mission: to harness the power of free markets to solve challenging problems, capture opportunities and pursue positive change. In the energy space specifically, we believe free markets have an essential role to play in spurring the innovations and economics needed to support the world's energy transition.

In addition to trading desks focused on carbon and other energy products, we have investments in companies like Nacero (producer of sustainable aviation fuel, lower carbon aviation fuel and lower carbon footprint light fuels), Crusoe (working to eliminate routine flaring of natural case in a way that also reduce the cost of cloud computing) and Artemeter (connecting capital to high-quality carbon projects globally). Our founder, Don Wilson, has partnered with Michael Greenstone, the Milton Friedman Distinguished Service Professor in Economics at the University of Chicago and the founding director of the University's new energy and climate institute to develop Climate Vault, which calculates Scope 1, 2 & 3 emissions for organizations, events, products and portfolios, invests in compliance credits in proportion with emissions today and evaluates emerging Carbon Dioxide Removal (CDR) solutions for tomorrow. As they become available, Climate Vault will purchase and retire High Quality Carbon Dioxide Removals in proportion with historical emissions.

DRW respectfully submits the following comments in support of the third RGGI Program Review, with a focus on the Exploratory Policy Scenario (EPS) update published September 23, 2024 ("Sept 23 update")[i]:

1. **RGGI SHOULD IMPLEMENT THE PROGRAM REVIEW AS SOON AS POSSIBLE**

DRW is concerned the Third Program Review timeline is slipping. Initial Program Review releases from 2021 suggested the Program Review would be complete by 2023[ii]. Prior to the September 23 update, the most recent Program Review update (published in September 2023) indicated that the updated allowance supplies (i.e., revised state caps) resulting from the Third Program Review would start in 2026[iii] (slide 22).

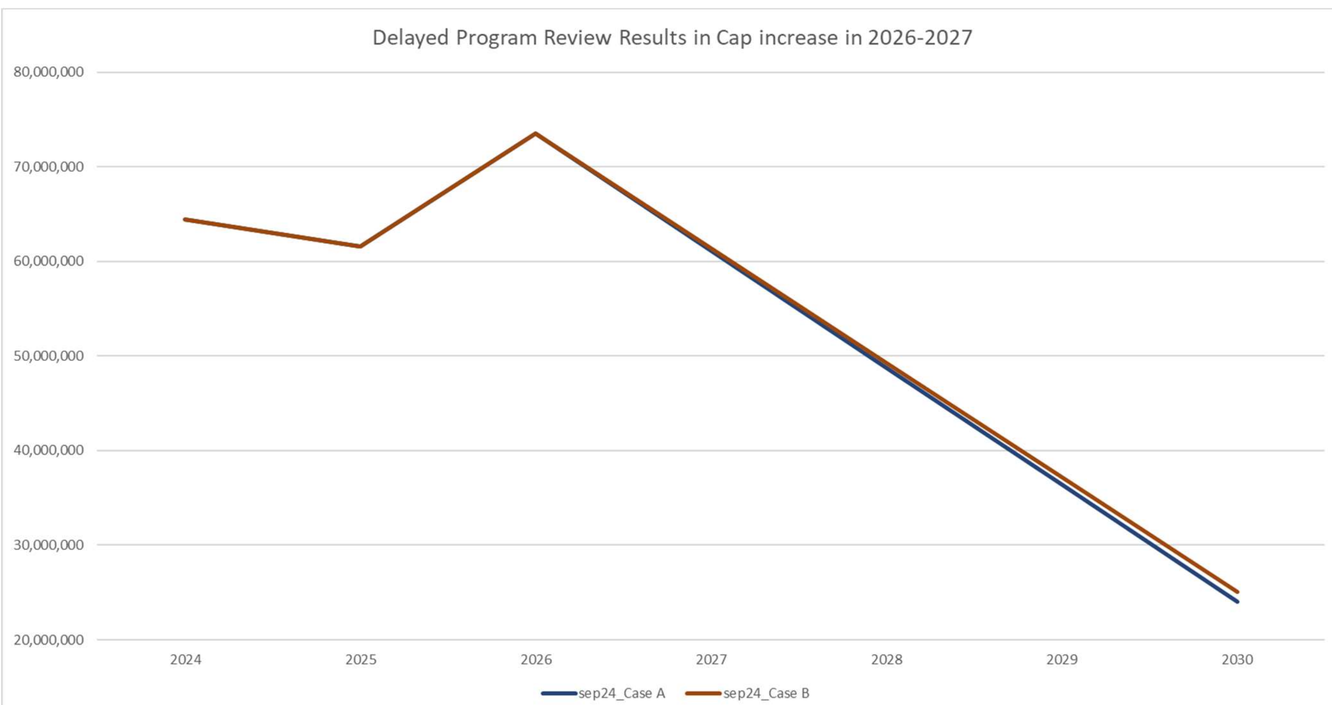
The September 23 EPS now suggests state caps may change starting in 2027 (slides 7-9) and the “Economic Modeling” portion indicates results starting in 2028 (slides 12-19). Because there was no opportunity to ask clarifying questions, DRW is unsure whether the current expectation is for the revised state caps to take effect in 2026, 2027 or even 2028.

DRW believes that any delays in implementation have the potential to undermine states’ abilities to meet their decarbonization goals and reduce confidence in the RGGI market. We urge RGGI to implement the Program Review as soon as possible.

2. THE RGGI PROGRAM SHOULD SEEK TO HAVE A SMOOTH CAP TRAJECTORY

RGGI’s Third Adjustment for Banked Allowances (TABA), which reduces the state caps based on the pre-2021 oversupply[iv], concludes in 2025. Based on the September 23 EPS, it appears the Program Review and resultant cap trajectory changes may not take effect until potentially 2027 (or even 2028 as discussed above). This creates an outcome where allowances available to the market temporarily increase in 2026 or 2027, before resuming their downward trajectory in 2027 or 2028.

It is DRW’s view that this “lumpiness” (a rough depiction of which is shown below) could contribute to short-term volatility that is both avoidable and not based the principle of a gradually declining emissions cap. It also is likely to result in volatile state revenues received from the auction of allowances. RGGI should either implement the updated caps by 2026 or create a mechanism to smooth the cap declines in a way that is well-telegraphed to the market.



3. RGGI SHOULD INCLUDE A FOURTH ADJUSTMENT FOR BANKED ALLOWANCES (FABA) TO ADJUST FOR ANY HISTORICAL OVERSUPPLY

The most recent Market Monitor Report states there are substantial private holdings in excess of compliance obligations[v]. Consistent with the prior Program Reviews, RGGI should commit to a program where, in the long run, supply will equal demand in the RGGI program by removing any historical oversupply from future caps. This mechanism, which DRW (and others) refer to as a Fourth Adjustment for Banked Allowances ("FABA"), is especially important now that Cost Containment Reserve (CCR) allowances have been introduced into the system in three of the four years since the TABA took effect in 2021. If implementation by 2026 is not possible, the FABA could be used as a mechanism to telegraph an adjustment to future caps to compensate for the short-term increase in 2026 supply.

4. RGGI SHOULD NOT SCRAP THE EMISSIONS CONTAINMENT RESERVE (ECR)

DRW supports the proposal introduced in the September 23 update to increase the Auction Reserve Price (ARP) in line with the current ECR trigger price. However, DRW was alarmed to note the emissions containment reserve (ECR) was explicitly excluded (slide 7). As there was no opportunity to ask clarifying questions, DRW does not know whether this was simply for the purposes of the EPS as a modeling exercise or if this represents a desire to eliminate the ECR from the RGGI Program.

DRW believes the ECR is a desirable feature of the market for many of the reasons described by Resources for the Future during the Second Program Review[vi]. Moreover, if RGGI wants to preserve the Cost CCR to add allowances if short-term demand exceeds short-term supply, it also should have a corresponding mechanism to remove allowances if short-term supply exceeds short-term demand.

DRW recommends preserving the ECR and placing it equidistant between the increased ARP and first CCR. This would allow sufficient space for the ECR to come into effect prior to triggering a failed auction.

5. PROPOSED CHANGES TO THE COST CONTAINMENT RESERVE INTRODUCE TOO MANY RESERVE ALLOWANCES AND POTENTIALLY UNDERMINE STATE DECARBONIZATION GOALS; DRW RECOMMENDS A MORE NUANCED APPROACH

Under the September 23 update, the existing CCR was increased substantially to 11.75 MM allowances, and a second CCR of equally large size (11.75 MM allowances) was proposed. In 2028, this would mean the CCR increased from 7.1 MM allowances under existing rules to 23.5 MM allowances – meaning the number of reserve allowances would more than triple. Relative to the state caps, the potential 2028 CCR release would increase from 12% under current rules to 57% in EPS Scenario B (Slide 16). There was no justification provided for the volume of 11.75 MM allowances placed in each CCR, but the large volume suggests practically infinite allowances are available. This could lead to several unintended consequences, including perpetual system oversupply and failure of states to meet their decarbonization targets established in statute.

DRW recommends a more nuanced approach to cost containment, specifically one that aligns CCR supply to the state caps (acknowledging that fewer CCR allowances will be necessary as emissions drop) and reduces volumes over time at a pace that mirrors state caps (similar to the current design). As another idea, the RGGI states could create more smaller CCRs that release incremental volumes at gradually increasing price points, or a price ceiling mechanism similar to the one that exists in the California-Quebec market.

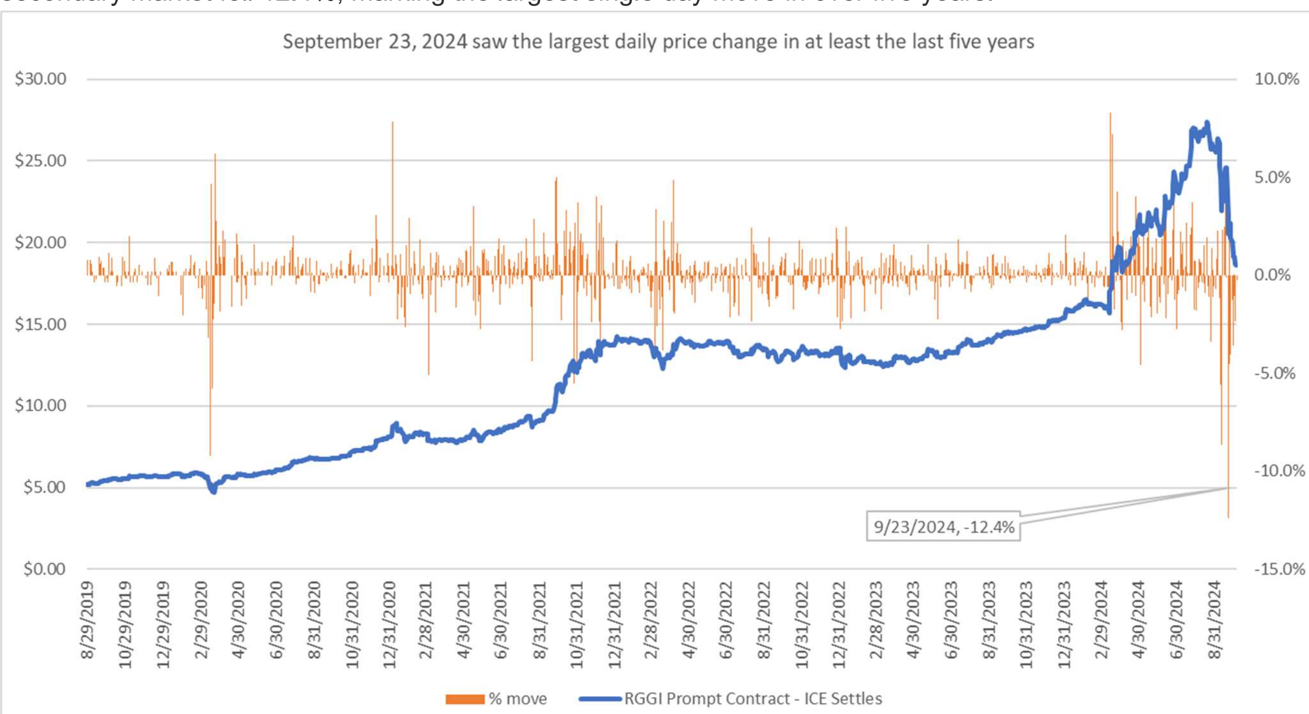
DRW also notes that there was no justification provided for the chosen price tiers and recommends tying ECR, CCR and price ceiling to the discounted social cost of carbonvii, adjusted annually for inflation.

6. RGGI SHOULD ESTABLISH A CLEAR PROCEDURE TO ADDRESS STATES THAT MAY ENTER OR EXIT RGGI IN THE FUTURE

DRW understands that the RGGI states may have delayed the Program Review as a result of legal cases regarding Virginia and/or Pennsylvania's participation in the RGGI program. The RGGI states should establish an ex-ante procedure for adding and subtracting states in the future and be prepared to complete future Program Reviews with contingencies in place to accommodate incremental or decremental state participation in the program. This may require including scenarios where individual states are modeled such that incremental or decremental supply and demand are only known ex ante. As a guiding principle, doing modeling at the state level (as opposed to the ISO level) might be instructive.

7. RGGI SHOULD SCHEDULE KEY INFORMATION RELEASES AND PROVIDE OPPORTUNITIES FOR QUESTIONS AND ANSWERS

The September 23 plan was released without notice, explanation or an opportunity for market participants to ask clarifying questions about key elements of the release. This has left market participants trying to interpret RGGI's materials in a vacuum, which has sent the secondary market into a freefall. On the day the plan was released, the secondary market fell 12.4%, marking the largest single day move in over five years.



Market moves in response to uncertainty are to be expected but are not always desirable or efficient. In this instance, we do not believe RGGI intended to create market noise or confusion amongst market participants who want to support RGGI's objectives. We would suggest that given the importance of these plans and the signals they send, that RGGI consider an approach where it:

a) informs market participants when information is going to be released, ahead of time

b) holds call(s) or meeting(s) following the release of materials to allow market participants to ask clarifying questions

CONCLUSION

RGGI is one of the longest-standing cap and trade programs in the US, and it has achieved significant emissions abatement in the power sector. DRW supports market-based programs that are ambitious and create equitable opportunities for all market participants. We encourage the RGGI states to move forward and complete the Program Review by 2026, and we look forward to further engaging on this process. Thank you for your consideration.

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[i] https://www.rggi.org/sites/default/files/Uploads/Program-Review/2024/Third_Program_Review_Update_9-23-2024.pdf
[ii] https://www.rggi.org/sites/default/files/Uploads/Program-Review/10-18-2021/RGGI_Listening_Session_2_Presentation.pdf
[iii] https://www.rggi.org/sites/default/files/Uploads/Program-Review/2023-09-26/RGGI_26_Sept_2023_Meeting_Presentation.pdf
[iv] https://www.rggi.org/sites/default/files/Uploads/Press-Releases/TABA_Announcement_2021-03-15.pdf
[v] https://www.rggi.org/sites/default/files/Uploads/Market-Monitor/Quarterly-Reports/MM_Secondary_Market_Report_2024_Q2.pdf
[vi] https://www.rff.org/events/all-events/an-emissions-containment-reserve-ecr-for-rggi-a-report-on-the-analytical-results/
[vii] https://www.epa.gov/system/files/documents/2023-12/epa_scghg_2023_report_final.pdf