



MERCURIA

ENERGY AMERICA, INC.

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VIA EMAIL

April 27, 2017

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

RE: Request for Comment on 2016 Program Review

Mercuria Energy America, Inc. (“Mercuria”), a Delaware corporation, is an independent energy marketing and trading company. Mercuria is a long-time participant in the RGGI market and appreciates the opportunity to submit these comments regarding the 2016 Program Review, pursuant to RGGI’s request at the April 20, 2017 stakeholder meeting.

The member states have strived to make the Regional Greenhouse Gas Initiative the leader in market-based carbon cap and trade programs. This is especially important in light of the Presidential administration change and the subsequent impending fate of the nation’s Clean Power Plan. We believe that for RGGI to be a leading program in the fight against climate change, a number of additions / modifications need to be made to the studied scenarios presented at the stakeholder meeting on April 20, 2017. This belief is motivated by the fact that the modeled scenarios presented forecasted RGGI prices staying at a \$2-\$3 per ton level through the studied life of the program. This is at odds with one of RGGI’s founding member state’s recent valuation of the social cost of carbon being higher than \$42/ton.¹ This forecasted price is also too low to incent meaningful change in power plant behavior. A program whose prices are unresponsive to market supply and demand forces is not a healthy market.

We believe that the current low price environment is driven by the large market oversupply as demonstrated by the size of the current bank. As mentioned in our previous comments, the release of the two CCRs in 2014 and 2015 oversupplied the market by 15 million tons. Additionally, state RPS and other programs have helped propel renewable energy build rates at a faster pace than RGGI previously modeled and therefore emissions are actualizing significantly lower than projected. RGGI prices have reacted commensurately and are now anchored at levels last seen prior to the initial program amendment. These price levels run counter to the spirit of the program and do not adequately incent economic dispatch to curtail emissions.

¹ <http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7B44C5D5B8-14C3-4F32-8399-F5487D6D8FE8%7D>



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We believe the following changes will help enable prices to respond to true market supply and demand forces, as well as more accurately value the marginal cost of abatement at an economically feasible level:

1. Third Bank Adjustment

The program review needs to incorporate a further bank adjustment with the caveat that this adjustment address the *actual* size of the bank and not a predetermined number (in your modeling 25 million tons was used.) Utilizing the actual size of the bank ending in 2018 and initiating a third bank adjustment starting with auctions in 2019 will help to calibrate the large oversupply and subsequently allow prices to properly react to market fundamentals.

2. Emissions and Price Containment Reserves (ECR and CCR)

We believe that these market mechanisms are critical in normalizing market supply and demand because they work to incent generation production only when market forces send the signal to do so. As outlined in Appendix (A), when set at appropriate levels, a tiered ECR and CCR can ensure that RGGI prices remain high enough to incent economic dispatch decisions for thermal resources while protecting rate-payers by keeping prices from moving too high.

3. Reserve Price Increase

Since the benefit of CO₂ reductions are not bound by geography, RGGI should adopt a reserve price of \$13.57 in 2017 that matches the other CO₂ trading program in North America (WCI program)². A higher reserve price can ensure that the minimum marginal cost of abatement remains relevant under current power market economic conditions.

We have two comments regarding the modeling that was presented in the April 20, 2017:

1. It was stated that there was an assumption of 100% compliance with RGGI obligations. With the challenging environment for fossil generators we see a risk of further retirements which could prevent the emissions from those units from ever being in compliance. In the last review, there was a modification where each year 50% of the annual CO₂ obligation has to be surrendered but it was stated that consideration could be given to making quarterly surrendering or some other more timely compliance timeline. If a plant files for bankruptcy protection before the compliance period true-up date, 50% of accrued obligations may never be surrendered for compliance. If this occurs with some of the bigger fossil fuel generators, it would likely result in millions of tons of additional supply being accounted for in the market, resulting in higher allowed emissions and lower, inappropriate prices.

² <https://www.arb.ca.gov/cc/capandtrade/auction/may-2017/notice.pdf>



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2. We continue to have concerns that increases in renewable resources are under-forecasted. For instance, the same week as the April 20, 2017 RGGI Stakeholder meeting, ISO-NE released an updated forecast for Photovoltaic generation that showed a significant increase over the next 10 years versus their previous forecast³. Implementing proper and robust ECR and CCR concepts will address and accommodate future forecasting errors.

Adding in dynamic elements such as tiered ECR and CCR, and making necessary reductions in future supply to account for the current large bank of allowances will help to make the RGGI program a properly functioning market.

We believe that upon implementing the detailed changes outlined herein, RGGI can once again reclaim its place as a model for market-based carbon abatement programs. Thank you for your consideration of these comments. Mercuria looks forward to continued participation in the RGGI program and markets.

Very truly yours,

Mercuria Energy America, Inc.

³ https://www.iso-ne.com/static-assets/documents/2017/04/2017-04-05_2017_energy_peak_forecasts.pdf



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Appendix A.

	Reserve Price	ECR 1	ECR 2	CCR 1	CCR 2
2017	\$ 13.57	\$ 14.93	\$ 17.91	\$ 33.93	\$ 44.78
2018	\$ 14.45	\$ 15.90	\$ 19.08	\$ 36.13	\$ 47.69
2019	\$ 15.39	\$ 16.93	\$ 20.32	\$ 38.48	\$ 50.79
2020	\$ 16.39	\$ 18.03	\$ 21.64	\$ 40.98	\$ 54.09
2021	\$ 17.46	\$ 19.20	\$ 23.04	\$ 43.64	\$ 57.61
2022	\$ 18.59	\$ 20.45	\$ 24.54	\$ 46.48	\$ 61.35
2023	\$ 19.80	\$ 21.78	\$ 26.14	\$ 49.50	\$ 65.34
2024	\$ 21.09	\$ 23.20	\$ 27.84	\$ 52.72	\$ 69.59
2025	\$ 22.46	\$ 24.70	\$ 29.64	\$ 56.15	\$ 74.11
2026	\$ 23.92	\$ 26.31	\$ 31.57	\$ 59.80	\$ 78.93
2027	\$ 25.47	\$ 28.02	\$ 33.62	\$ 63.68	\$ 84.06
2028	\$ 27.13	\$ 29.84	\$ 35.81	\$ 67.82	\$ 89.52
2029	\$ 28.89	\$ 31.78	\$ 38.14	\$ 72.23	\$ 95.34
2030	\$ 30.77	\$ 33.85	\$ 40.62	\$ 76.92	\$ 101.54

Assumptions:

Reserve Price increase at an annual rate of 5% +CPI

CPI increases at a rate of 1.5%

ECR 1 increases at a rate of 110% of the Reserve Price

ECR 2 increases at a rate of 120% of the Reserve Price

CCR 1 increases at a rate of 250% of the Reserve Price

CCR 2 increases at a rate of 300% of the Reserve Price