



May 2, 2011

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

Re: Comments on the Reserve Price Analysis Report and the Potential Use of the Current Market Reserve Price for Future Allowance Auctions

Dear RGGI Inc.,

As a group of RGGI affected electricity generation and utility companies, we commend RGGI Inc. for releasing the report titled “Reserve Price Analysis Task: Performed for RGGI Inc. on behalf of the Participating States” (Reserve Price Analysis Report) by William Shobe, Ph. D. We are owners and operators of RGGI covered sources and actively participate in the quarterly regional allowance auctions. Either collectively or individually, we have participated as stakeholders in all stages of RGGI program development, implementation, and the CO₂ allowance market.

Our comments to RGGI Inc. focus on the following issues regarding the Current Market Reserve Price (CMRP) report and the potential use of the CMRP for future auctions:

- Justification for Switching to the CMRP
- Calculation Methodology
- Announcement Timing

Justification for Switching to the CMRP

We disagree with the conclusion of Dr Shobe that there is sufficient data to warrant consideration of the CMRP. We do not agree with the basic premise that the over the counter (OTC) market has developed to the point of a liquid market. As such, we do not believe that it should be included in the reserve price calculation. Currently the Chicago Climate Futures Exchange (CCFE) volume has been non-existent and there are days when markets are not even being quoted on CCFE. The infrastructure is in place but the trading activity is not there.

Furthermore, we do not believe a transition to the use of the CMRP is justified or necessary at this time. Both recent auction clearing prices and secondary market prices for RGGI futures contracts have stabilized around the minimum auction reserve price that has been used for all auctions to date. Given current market dynamics, allowance prices are unlikely to rise significantly. Therefore, since the states have agreed to use the higher of the CMRP and the minimum auction reserve price, the CMRP would probably not be binding at any point in the near future.

Committing to using the CMRP could open up the potential for market speculation or even manipulation by non-compliance entities. Although this remains a remote possibility and would probably be unprofitable, maintaining the reserve price at current levels precludes this possibility entirely.

We support a broader discussion of the RGGI allowance auctions and the reserve price as part of the comprehensive 2012 program review being undertaken by the states. If the states decide to begin calculating the CMRP for future auctions, we offer the following comments to guide the transition and reduce uncertainty among market participants.

Calculating Methodology

Relying on volume-weighted average auction clearing prices and secondary market prices for futures contracts on the CCFE is a reasonable approach for calculating the CMRP. According to RGGI state regulations, the current market price and current market reserve price are defined as follows:

- *Current Market Price*. The volume-weighted average of (i) transaction prices reported to the department or its agent, (ii) prices as reported publicly through reputable sources, (iii) CO₂ allowance award price(s) from preceding CO₂ allowance auction(s), or (iv) any combination of these options.
- *Current market reserve price (CMRP)*. The monetary amount calculated to be 80 percent of the current market price.

However, we support expanding the time period considered for futures contract prices to as long as a month. While this would increase the relative influence of the futures trades, it might also reduce the possibility that a short-term spike in futures prices during the lead-up to an auction would cause the CMRP to rise.

Furthermore, the RGGI States must release an official methodology that describes the exact process for calculating the CMRP. Since all data inputs for calculating the CMRP are publicly available, the official methodology would allow market participants to calculate the CMRP prior to the official release, reducing uncertainty. Specifically the methodology should include the following:

- The specific data sources considered for the calculation (e.g. whether or not NYMEX futures contracts will be included);
- The number of days of futures contract trading included in the calculation;
- Exact prices used (e.g. individual trade prices or close-of-day prices);and
- Clear steps for all mathematical calculations.

CMRP Announcement Timing

Although market participants should be able to calculate the CMRP prior to the official release, the RGGI States should announce the CMRP as far in advance of the upcoming auction as practicable to provide auction participants with sufficient time to adjust their bidding strategies and minimize uncertainty. Furthermore, an early release would allow time to resolve any discrepancies between the

official CMRP and calculations by auction participants. A clear, public methodology should minimize potential for such discrepancies.

The Reserve Price Analysis Report discusses two timeframes for calculating and announcing the official CMRP. The “Two Week Prior CMRP” would result in an official announcement on the Monday one week before the auction, while under “Prior Week CMRP” the release would be on the Monday of the auction week. Besides the inaugural event, all RGGI allowance auctions have been scheduled for Wednesdays. Releasing the official CMRP just two days prior to the auction event could lead to greater uncertainty among auction participants. Therefore, of the methodologies discussed in the Reserve Price Analysis Report, we prefer the “Two Week Prior CMRP.” However, we believe that the RGGI States should consider allowing additional time between the release of the CMRP and the auction, either by calculating CMRP using earlier data or by scheduling the auctions for a Thursday or Friday.

Thank you for your consideration of these comments. We look forward to continued participation in the RGGI program review process. If you have any questions on these comments please contact Isaac Liberman (MJB&A) at 978-405-1266.

Sincerely,

A handwritten signature in black ink, appearing to read 'BJ', with a horizontal line extending to the right.

Brian Jones
M.J. Bradley & Associates, LLC
on behalf of:

**Calpine Corporation • Dominion Energy New England • New York Power Authority
NRG Energy, Inc. • Public Service Enterprise Group**