

Regional Greenhouse Gas Initiative

an Initiative of the Northeast and Mid-Atlantic States of the U.S.

Request for Comment on CO₂ Allowance Auction Reserve Price

April 8, 2011

The Regional Greenhouse Gas Initiative (RGGI) distributes CO₂ allowances through quarterly, regional CO₂ allowance auctions. Each of the RGGI participating states¹ is considering when it may be appropriate to use a Current Market Reserve Price (“CMRP”) in future CO₂ allowance auctions and how to calculate a CMRP.

On behalf of each of the participating states, RGGI, Inc. engaged a consultant to evaluate the sufficiency of market data and potential approaches for calculating a CMRP. The consultant’s *Reserve Price Analysis* report is now available for comment from stakeholders and the public.

Reserve Price:

The reserve price is defined in each CO₂ Allowance Auction Notice as the minimum bid price for an allowance.² The reserve price in each auction is the higher of the “minimum reserve price”, currently \$1.89, or the “current market reserve price”, if such a price has been established. The “current market reserve price” is eighty percent of the “current market price”. All of the CO₂ allowance auctions to date have used the minimum reserve price.³

Instructions for Written Comments:

The report is available at www.rggi.org. Written comments are encouraged and should be submitted to info@rggi.org by Monday, May 2, 2011, 5:00 PM. All written comments will be posted at www.rggi.org by Friday, May 6, 2011.

Comments should focus on the following questions:

- 1) The report finds that a transition to a CMRP may be appropriate based on an analysis of CO₂ allowance price volatility and dispersion. Do you have any comments on the analysis used in the report? What impacts, if any, on the CO₂ allowance market would result from a transition to a CMRP?

¹ The ten participating states of RGGI are Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island and Vermont.

² Each of the participating states regulations are available at <http://www.rggi.org/design/regulations>.

³ The Auction Notice for CO₂ Allowance Auction 12, which will be held on June 8, 2011, was released on April 8, 2011 and announced the reserve price for Auction 12 as \$1.89. Any potential changes to the reserve price would be considered for auctions subsequent to Auction 12.

- 2) What additional market data or indicators could be considered in the analysis? What would be the advantages and disadvantages of using this additional data or indicators?
- 3) The report proposes that a CMRP calculation would use the prior auction price and a futures trading price. Do you have any comments on the CMRP calculation proposed in the report?
- 4) The report proposes two options for when to calculate a CMRP. One option is to calculate the CMRP the week before an auction and another is to calculate the CMRP two weeks before an auction. Do you have any comments on the advantages or disadvantages of either option, or comments on alternative approaches?
- 5) What additional guidance would you provide as the participating states consider calculation of a CMRP in future CO₂ allowance auctions?

Thank you for your comments and suggestions. Each of the participating states will review and evaluate your comments as they consider when it may be appropriate to use a CMRP in future CO₂ allowance auctions and how to calculate a CMRP.