MJB & A

CONCORD, MA - MANCHESTER, NH - WASHINGTON, DC

47 JUNCTION SQUARE DRIVE
CONCORD, MA 01742

978-369-5533
www.mjbradley.com

January 28, 2013

Submitted via email to info@rggi.org

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

Re: Comments of the RGGI Working Group

Dear RGGI Inc.,

This letter provides the comments of the RGGI Working Group on the IPM modeling and customer bill impact analysis presented during the January 8 stakeholder webinar. As noted in previous comments, the RGGI Working Group requests the opportunity for public review and comment of the RGGI Model Rule prior to final approval and adoption by the RGGI states.

IPM Modeling

We are glad to see the inclusion of the energy prices in the recently released IPM modeling results for the 97 million ton (97 cap) and 91 million ton (91 cap) caps. Using this information we are now better equipped to evaluate the modeling results and assess the different cap levels.

According to the January 8th webinar materials, the RGGI states worked with ICF to adjust how the model typically treats the use of the allowance bank. The states had ICF run an alternate banking scenario where approximately two-thirds of the banked allowances are used during 2014-17 and the other one-third are used during 2018-2020. This results in lower allowance prices in the early years of the modeling horizon and higher prices in 2020 when compared to the original 97 and 91 cap runs.

As the RGGI states are likely well aware, there is significant uncertainty associated with the use of private allowance banks. If RGGI adjusts the cap downward, in line with projected 2014 CO_2 emissions, this will create allowance scarcity and fundamentally change RGGI CO_2 allowance market dynamics. Compliance entities will have to reassess their compliance strategies, including their approach to the allowance auctions and the role allowance banking will play, if any.

While some entities may choose to use their allowance bank in the near term, others may choose to build up an allowance bank for use in the future to manage compliance costs as the RGGI cap is further reduced and allowance prices likely increase. However, it is impossible to predict how private entities will approach banking and unwise to assume a particular scenario is more likely than another. Projections of how the allowance bank may be used, should not form the basis of decision making on the size of the cap, allowances prices or anticipated consumer price impacts.

Consumer Bill Impacts

We were glad to see the results of the customer bill impact analysis by customer class presented during the stakeholder webinar. The approach and methodology used by the Analysis Group appears reasonable. However, we question why the bill impact analysis was presented for the 91

Cap_Alt Bank scenario only. At the very least the 91 Cap_Bank scenario should be analyzed and presented as well.

Recommendations

Cap Level
The RGGI Working Group recommends a revised cap in line with projected 2014 emissions represented in the IPM modeling by the 97 cap. This approach is in line with the original goal of stabilizing and then reducing CO_2 emissions from the region's power sector.

Cost Containment Reserve
Establish a total CCR of 35 million tons from 2014-2020 in addition to the revised cap. As noted in previous comments, we support the use of unsold allowances to supplement the CCR as necessary in the unlikely event that the CCR is accessed.

The CCR tons should be offered at $5/ton in 2014, $6/ton in 2015, $7/ton in 2016, $8/ton in 2017, and $10/ton in 2018-2020. The CCR trigger price should be reviewed in 2016 based on market conditions. Eligibility to purchase CCR tons should be limited to compliance entities only.

Reserve Price
Simplify the allowance auction reserve price as outlined in the draft Model Rule. Establish a reserve price of $2.00/ton in 2014 that would increase by 2.5 percent each year beginning in 2015. As noted in previous comments, if the states revise the cap downward, more in line with projected 2014 emissions, the level and rate of change of the reserve price will be less of a factor and the allowance clearing price will reflect market forces.

Treatment of Banked Allowances
In order to transition from the current RGGI program cap to an adjusted cap, we agree that the revised annual RGGI caps should be adjusted to account for the allowance bank from the first compliance period (2009-2011 vintage allowances) and the allowance bank from the second compliance period (2012 and 2013 vintage allowances).

Annual Interim Compliance
Do not establish an annual interim compliance requirement as outlined in the draft RGGI Model Rule.

Treatment of Unsold Allowances
Any unsold allowances should be offered at subsequent auctions during the compliance period. Unsold allowances should only be retired at the end of the three year compliance period following a notice and comment period.

Thank you for your consideration of these comments. If you have any questions on these comments please contact me directly at 978-405-1269.

Sincerely,

Brian Jones
MJB&A
on behalf of the RGGI Working Group