

Comments on “Final Report: Auction Design for Selling CO2 Allowances Under RGGI”

The Nature Conservancy appreciates the opportunity to comment and provide input on the recommendations of the RGGI Auction Design Team. In general, we commend the good work of this team and the thorough and thoughtful recommendations made in their final report to the RGGI staff working group. We offer these brief comments to lend our voice to important issues related to staging and operations of the RGGI auction. Once again, these issues take on greater importance as the nation looks to the RGGI program as it leads in resolving some critical details in the staging and operations of a cap-and-trade program.

Timing of the Auction

Related to timing, we agree with the goal of staging the first auction in June of 2008. One critical element of ensuring a smooth start up to the RGGI program and in mitigating market volatility will be to begin to auction the allowances as soon as possible. Doing so will provide market transparency that the generators will need to plan into the future. For the same reasons, we support quarterly auctions.

Regional Auction

We also support and agree with the goal of staging a regional auction to minimize market confusion and needlessly higher administrative and transaction costs.

Reserve Price

We agree with the recommendations of the RGGI Auction Design Team that the setting of a reserve price is extremely important in carrying out the auction. As experts in auction design and execution, the Auction Design Team cites experience with auctions that illuminates the setting of a reserve price as one critical element in ensuring market liquidity and mitigating against collusion. Importantly, it also ensures a market signal to developers of green technology, without which investments may not be made. Finally, it ensures a societal value is placed on the allowance commodity, and they aren't given away for free. There is growing concern being expressed that the RGGI program cap may have been set too high. If this is the case, allowances at the outset of the program could be valued very low or at zero. There needs to be some value placed on these allowances to ensure that the program achieves its stated goal of emission reduction.

Contingency Account

We recommend that, especially if it is determined that RGGI is significantly over allocated, allowances that fall below the reserve price are retired. At a minimum, any allowances that fall below the reserve price should be placed in a contingency reserve account. This account should be held and only released if the price of allowances reaches a trigger price at which greater market liquidity may be desirable.

Market Monitoring

Once the auction and secondary market for allowance sales is up and running, it is important that market monitoring occur to ensure no market manipulation is taking place. We call on RGGI, Inc. to hire a third party to perform this important task.

Access to Emission Information

Finally, in order to best prepare for, plan and carry out the RGGI program, it is essential that timely emission data is released. States are in the process of compiling 2005 and 2006 emission data and we urge them to release this data as soon as possible. This information is critical for planning and ensuring a smooth launch of the RGGI program.

Thank you again for this opportunity to comment. Should you have any questions regarding these comments, please feel free to contact, Sarah Woodhouse Murdock, Climate Change Program Manager for the Eastern Region, The Nature Conservancy, smurdock@tnc.org; 617-542-1908 x204.