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2 May 2006

Comments of Evolution Markets on the Regional Greenhouse Gas Initiative (RGGI)

Evolution Markets welcomes the opportunity to comment on both the RGGI Memorandum of Understanding (MOU) and its Draft Model Rule. As it is at the forefront of the nascent greenhouse gas compliance markets in the United States, it is critical that RGGI be structured and implemented as effectively as possible. We commend the governors of the RGGI states for understanding the need for mandatory greenhouse gas reductions and the efficiency of well-structured emissions trading in achieving these reductions, and additionally commend the Staff Working Group on its open, thoughtful and punctual implementation process.

RGGI faces fundamental challenges. We understand that, due in no small part to the novelty of mandatory greenhouse gas controls in the United States, RGGI was designed to be a modest program in terms of its perceived coverage and impacts. However, it is critical to understand that in order to achieve the expected cost-compliance efficiency gains of a cap-and-trade regime, strong incentive and liquidity are the central drivers. Quite simply, with its modest coverage and cap, RGGI has neither. Indeed recent estimated emissions under RGGI fall below the 2009 cap, obviating the need for system-wide trading. Though they are enshrined in the MOU, the Staff Working Group should strive to facilitate the expansion of RGGI to additional economic sectors, and should both tighten and move up the schedule of the RGGI cap.

In addition, in any cap-and-trade program covered installations require maximum certainty to weigh investment and compliance options. The price “triggers” outlined in the MOU and the Draft Model Rule introduce unnecessary complication and should be scrapped. The goal of RGGI is to produce real greenhouse gas reductions in the most cost-effective manner possible. In this light, the offset use limits and geographic coverage tied to these price triggers should simply be extended to the maximum acceptable levels. As long as offset reductions are “real, surplus, verifiable, permanent and enforceable,” their use will only improve the efficiency of the program and should be encouraged.

Regarding the details of the Draft Model Rule, several points warrant comment. First, again with a focus on trading efficiency, there is no need for an automatic exemption based on market penetration. Indeed, such generators may have very different emissions and investment profiles than those currently covered by RGGI; their inclusion would consequently, by definition, increase the incentives and effect of emissions trading.

In reference to the March 23 Solicitation for Comments, we offer two points. We recognize that the Staff Working Group faces difficulty in managing Offsets Additionality. Yet as currently outlined in the Draft Model Rule, many project developers face confusion. More specifically, many of our Renewable Portfolio Standard Credit customers have expressed that they expect ownership of "all environmental attributes" from their projects. As drafted, the Model Rule would require them to "pick a market." This approach may in fact lead to market fragmentation for both renewables and carbon. We encourage a strict focus on environmental additionality. Finally, the development of standardized offset criteria for the Natural Gas Transmission and Distribution category should be managed outside the current policy structure of RGGI. The measurement and rate recovery issues in light of current practice in the industry are legitimate concerns which are best addressed by industry experts. We recommend a formal engineering study. Long-term viability should trump short-term expediency.

As it is slated to be the first mandatory greenhouse gas compliance program in the nation, RGGI merits praise. For this same reason, it requires extraordinary attention to detail. As it debates structure and implementation the Staff Working Group must always keep the fundamental goal of RGGI in mind: real emissions reductions at the lowest possible cost. This is achieved through a strong cap, wide coverage across sectors and geography, simplicity, transparency and maximum liquidity. All outstanding questions surrounding RGGI should be addressed with these points firmly in mind.

Evolution Markets LLC is a brokerage and advisory services company that is devoted to providing the best information and execution in emerging commodity markets, with a focus on serving the institutional energy and heavy industry sectors. Formed in March 2000, the focus of the company is to structure transactions in the environmental credit, renewable energy, weather derivative, natural gas and the over the counter (OTC) coal markets. Evolution Markets' management team consists of former senior managers, traders, brokers and consultants at a variety of leading energy, Wall Street brokerage and consulting firms, bringing more than 100 years of collective experience and relationships in the energy and environmental risk management fields. Evolution facilitated the first trades in SO2 allowances, NOx allowances, ERCs in several states, greenhouse gas emissions, weather derivatives and OTC coal trades, and earned numerous industry awards.