To: The RGGI Staff Working Group

In response to the March 23 request for comments on the draft Model Rule, Gifford Park Associates is please to provide, on behalf of a confidential client, comments in the form of this letter. These comments have been prepared by Gifford Park Associates on behalf of a start-up company presently in the process of raising significant capital to establish a new environmental insurance company specializing in state, national, regional and global markets for carbon-related insurance products and services, with expected launch in late 2006.

For this new insurance company to succeed, it needs to have flexible, transparent, open and liquid markets for carbon allowances, credits and offsets. The company intends to assist companies in achieving compliance with carbon regulatory regimes in the most cost effective manner, and to reduce or mitigate their carbon and climate risks.

Therefore, this company needs many of the same requirements of other commenters on the draft Model Rule, such as: verifiable & credible data, transparency, simplicity, low transaction costs, high liquidity, and fungibility with other trading systems and mechanisms. In this regard, we have the following comments on the Model Rule.

1) Section XX-10.5 (c) 4 (iii) regarding "Calculating of Carbon Sequestered" states on page 114-115 of the Draft Model Rule that the total net carbon change should be reduced by 20% of the calculated amount, to account for potential losses of sequestered carbon. When a clarification was requested at the NYC stakeholder meeting, the answer given was this was to protect against potential catastrophic losses of sequestered carbon from fire, flood, expropriation, etc. The risks of these carbon losses are potentially exactly the type of risks that our environmental insurance company client would like to manage for clients through use of risk management techniques such as new and innovative insurance products.

Rather than a blanket 20% reduction, we would propose that the Model Rule allow either:

a) the 20% reduction, OR,

b) the purchase of an insurance product that would deliver an equivalent number of carbon offsets equal to the loss of up to 20% of the sequestered carbon.

This would allow financial markets to take on this risk, and protect both the Regulatory Agency and the client against unexpected losses, while allowing the full amount of calculated sequestration to be used as an offset by the carbon sequestration offset provider.

We expect that such a product could be developed quickly if RGGI adopted this language, and may well be developed in any case for other carbon trading schemes around the world with similar concerns and with whom RGGI states may wish to allow carbon offset trading across their borders. The insurance product could potentially help provide an environmentally valuable offset at a lower cost than an arbitrary 20% reduction in calculated offset that does not take into regard the ACTUAL risks involved for each specific project. This is because the 20% reduction essentially increases the costs of all sequestration projects by 25%, and we believe may make many such projects

uneconomical- this new insurance product may allow these projects to recognize full value minus the cost of the insurance.
Deliverability of claim payments in offsets, instead of cash, protects the regulatory agency (and offset provider) against volatility in prices that could lead to non-delivery of the promised offsets, and will create demand in financial markets for offset credits which the insurance company may possibly buy as a hedge against future claims. Both of these results will lower the risks and costs of sequestration projects and make them more likely to succeed.

2) The scope and size of the RGGI program needs to be quickly widened, both to other industries and geographically, and especially in terms of allowable offsets. Many other industries might be able to provide GHG reductions at much lower cost than the utility industry, so the sooner that other industries are regulated by RGGI, the more cost-efficient the cap-and-trade system will be. GHG emissions leading to climate change and global warming is a GLOBAL problem, and GHG emissions reductions done outside the RGGI states will have the same net effect as GHG emission reductions in the RGGI states. While recognition of the UNFCCC standards through the permanent retirement of Certified Emissions Reductions credits is useful, the Model Rule as now proposed does not encourage development of substantial offset financial markets, due to the 3.3% limit on the usage of offsets purchased outside the electrical sector.

3) Our client believes that the mainstream financial and insurance industries have not been encouraged enough to participate in the RGGI Model Rule Process. As a result, the rules developed may be unwieldy in practical use in the financial markets, and may set bad precedence for future, or expanded RGGI, regulatory schemes on a regional or national basis. All parties need to be included in the discussions, both to prevent undesirable side effects in or between energy and emissions trading markets, or to prevent efficient trading from occurring at all.

4) Portions of the RGGI Model Rule related to transfers of renewable energy credits (XX-10.3.d.ii), to the use of limits on state Systems Benefit Charge revenues to fund energy efficiency projects and to Financial Additionality appear to discourage use of both offsets and renewable energy in projects which wish to offer offsets to the RGGI trading system. Similar to the problems that have been encountered in the CDM, it would appear that the RGGII Model Rule goal is to encourage GHG emission reductions, but not too much reductions, since developers may have to choose to either sell renewable energy or sell offsets, but not both. Since both accomplish the goals of RGGI to reduce carbon emissions, why are limits established that will reduce the incentives and increase uncertainties for financial investors who want to fund such projects?

5) Major requirements for extensive disclosure of financial information within the RGGI Model Rule may also limit the interest of financial markets, due to the possible requirement to disclosure to public entities proprietary information that may be required to release that information through Freedom of Information Acts. It would be better to let financial exchanges (either existing stock market or commodity exchanges, or newly

created carbon exchanges) provide the regulation of financial responsibilities and counter-party requirements, rather than the RGGI Model Rule.

Please free to contact me if you have any questions regarding our comments, or to establish a dialogue with our client regarding the insurance and financial industry implications of climate change, global warming, carbon credits and the RGGI Model Rule and process.

Best regards,

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