

# BIOURJA NEHME COMMODITIES

1080 Eldridge Parkway #1175  
Houston, Texas  
77077 USA

---

**Mr. Andrew McKeon**  
**Executive Director**  
**RGGI, Inc.**  
**90 Church Street, 4<sup>th</sup> Floor**  
**New York, NY 10007**  
**Via e-mail: [info@rggi.org](mailto:info@rggi.org)**

December 5, 2016

Re: BioUrja Nehme Commodities comments on RGGI's 2016 Program Review

Dear Mr. McKeon,

BioUrja Nehme Commodities LLC (BNC) is an international trading group specialized in environmental commodities.

The firm purchases, sells, and markets emission rights, green certificates, advanced biofuels and renewable chemicals in international markets, assisting energy and industrial groups in buying or selling environmental assets, managing risk and complying with environmental regulations. Its founding team has participated actively in several emission markets, such as the EU-ETS, Clean Development Mechanism, California-Quebec, US regional emissions markets, voluntary carbon markets, and has been active in RGGI since its early years.

We provide below comments in response to your request for feedback on the different market design elements under consideration.

We thank you for the opportunity to share our views.

Kind Regards,



Fabio Nehme

President  
BioUrja Nehme Commodities

# BIOURJA NEHME COMMODITIES

1080 Eldridge Parkway #1175  
Houston, Texas  
77077 USA

---

## A. Time of Policy Implementation

BNC believes that any policy changes should be implemented as soon as approval from the member states is secured in order to ensure a level playing field to all participants and signal that the new rules have no risk of being removed or further adjusted prior to coming into force.

Regarding a level playing field for all, once the final program review is announced, it will likely impact the market in different ways. A long gap between announcement and implementation could distort the market, unintentionally favoring one group of market participants versus another. For instance, per the current IPM model prices are likely to gradually increase, and therefore larger, well-capitalized generators with access to historically low-cost funding can deploy cash today to buy allowances and hold until 2020. On the other hand, smaller, less capitalized generators could face constraints in deploying cash today and hence have to buy allowances at a potentially much higher price in the future.

Concerning the risk of implementation, the recent presidential election introduced some level of uncertainty as to the direction of federal climate-related policies. While RGGI is a state-driven program, the longer it takes for any RGGI policy to be implemented, the higher could be the risk, real or perceived, that any federal policy uncertainty spreads to regional efforts such as RGGI. Such concern could delay participants' actions, and hinder the emission reduction impact of the program. Therefore, BNC believes it would be preferable that RGGI implements the new rules immediately following their approval by the member states.

## B. Auction Reserve Price

While we refrain from suggesting any specific value, BNC notes that in comparison to US and international practice RGGI's auction reserve price seems low as policy makers, businesses and other stakeholders in the US and elsewhere have shown that they are expecting and willing to accept higher carbon prices.

The World Bank's most recent global survey on carbon pricing, *Carbon Pricing Watch 2016*, shows that of the 63 jurisdictions, national and sub-national, that are pricing carbon, all but six have price levels higher than RGGI's auction reserve price. This same report also shows that while most of these programs have been launched after RGGI, many have aimed from the start for higher prices for emissions.

In the US alone, the auction reserve price in California for 2017 is \$13.57/t. The EPA's social cost of carbon, which on August 2016 was ruled by the Seventh Circuit Court of Appeals under the *Zero Zone Inc. v. Department of Energy* case as a legitimate value for emissions, is around \$40/t. RGGI states such as New York are also accepting EPA's social cost of carbon as evidenced by New York's choice to use it as the basis for the incentives rendered to its nuclear fleet under its Clean Energy Standard program.

# BIOURJA NEHME COMMODITIES

1080 Eldridge Parkway #1175  
Houston, Texas  
77077 USA

---

Lastly, many large American firms also share the view that higher carbon prices are both expected and acceptable. According to the *Global Carbon Price Report 2016* by the Carbon Disclosure Project, a global non-profit organization that tracks carbon pricing among large corporations, 210 American corporations already have or intend to soon have an internal carbon price. According to the same report some American companies use the California-Quebec prices or EPA's social cost of carbon as a reference point for their internal carbon pricing while others are using internal carbon prices as high as \$150/t.

## C. Adjustment for Banked Allowances

As explained above, BNC believes that any policy changes should be implemented sooner rather than later so that all participants are treated equally regardless of their forward-looking time horizon and financial capabilities, and to mitigate the potential risk that any of the new policies are modified or removed prior to taking effect. For these same reasons, BNC believes that a one-time adjustment to the banked allowances would be preferable.

## D. Emissions Containment Reserve

BNC believes this is an important feature to ensure that the market has flexible mechanisms to account for changes in technology and structural demand that may make actual emissions patterns differ significantly from expectations and from the objectives of the market design. There are two factors that we consider to be important in designing the emissions containment reserve.

First, it should be seen in conjunction with the auction reserve price. The lower the auction reserve price, the more aggressive the emission containment reserve should be to act as a buffer against excessive volatility.

Second, it should aim to promote a rapid rebalancing of the market, otherwise its relevance could be limited. To that end, BNC's view is that rather than a fixed volume of allowances, it may be more effective if set as a percentage of the excess allowance supply in relation to the cap. For instance, if it were to be set as 40% of the oversupply at any point in time it would ensure that in a few auctions the market supply and demand balance is re-established and in doing so would make certain that the economic signal to reduce emissions is sustained.

## F. Cost Containment Reserve

BNC believes that an upward adjustment of the Cost Containment Reserve (CCR) price trigger would be consistent with and take into account the evidence, as noted above, that stakeholders in the US and elsewhere are expecting and willing to accept higher carbon prices.

# BIOURJA NEHME COMMODITIES

1080 Eldridge Parkway #1175  
Houston, Texas  
77077 USA

---

## G. Offsets

In BNC's experience, while offsets can be an effective cost containment element in any emissions market, the successful creation of a sustained supply of offsets is driven by a number of variables. In particular, offset developers typically look for a combination of attractive prices, the ability to enter multi-year forward contracts, and the perspective of a large market. Those are important conditions as any greenfield offset project carries significant upfront risks and costs for project planning, development, and operations, and typically have a relatively long cash cycle, often 2-3 years from the initial investments to the first cash inflow from the delivery of the offsets.

Considering the stated intention to keep offsets at 3.3% of the market cap, which will be decreasing over time, the market may be too small to attract a meaningful number of developers. Further, based on its experience in other emissions markets, BNC believes that most compliance entities are unlikely to enter forward offset purchase contracts beyond the next review, which if held as frequently as the recent ones, would likely limit forward contracts to around 3-4 years. Therefore, considering the constraints on market size and tenor for forward contracts, any new offset supply into RGGI will be heavily dependent on short-term price.

While many factors will determine what that short-term price would have to be, we note that the experience of other emissions programs that offered larger markets and longer tenor for forward offset sales than RGGI, such as the EU-ETS and California's cap and trade program, is that a sustained and diversified supply of carbon offsets was achieved with prices higher than those observed in RGGI.