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**VIA EMAIL**

November 30, 2016

Regional Greenhouse Gas Initiative, Inc.  
90 Church St., 4<sup>th</sup> Floor  
New York, NY 10007

RE: Request for Comment on 2016 Program Review

Mercuria Energy America, Inc. (“Mercuria”), a Delaware corporation, is an independent energy marketing and trading company. Mercuria is a long-time participant in the RGGI market and appreciates the opportunity to submit these comments, pursuant to RGGI’s request, regarding the 2016 Program Review.

The 2012 RGGI program review was a very thoughtful exercise and many of the design elements were well-executed. With the clarity of hindsight however, Mercuria believes two design elements in the redesign were flawed:

1. Supply and demand modeling was inaccurate – actual burns have consistently been lower than modeled by material amounts:

| Year                 | Program Cap | Actual Burn | Delta         |
|----------------------|-------------|-------------|---------------|
| 2014                 | 91 MT       | 86.5 MT     | <b>4.5 MT</b> |
| 2015                 | 88.7 MT     | 83.2 MT     | <b>4.5 MT</b> |
| 2016 (rolling 4 Q’s) | 87.0 MT     | 79.6 MT     | <b>7.4 MT</b> |

2. An overly conservative choice on early CCR dollar triggers has resulted in 15M additional tons of supply in the market which compromises program integrity by either keeping prices low due to a large bank or allowing future year emissions to be above the established program caps.

The result of these two flaws is the creation of an oversupply situation, the effect of which has been a substantial price reduction in allowance value such that prices do not accurately reflect carbon values and subsequent stagnation of market activity creating a lack of market liquidity. Neither of the foregoing are signs of a healthy market.

RGGI should be immensely proud of the important role it has continued to play as a Climate Leader. RGGI is at a critical decision point regarding the program redesign.



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Mercuria believes all the decisions it makes should be made with the goal of maintaining the integrity of the program. To do so, the program must be properly designed to incentivize participants to respond to market signals that incent participant behavior to achieve the program's objectives.

Following are some suggestions for the for 2016 Program Review:

- Work to Ensure Modeling Assumptions Are Accurate
  - Among other concerns, there is significant concern that the assumptions regarding nuclear retirements are not accurate. The nuclear retirement process is long, and based on the fact that Indian Point's retirement has not been made certain, use of this retirement as a basis for modeling only exacerbates the inaccuracy of these modeling assumptions. Entergy, itself, has made public comment to RGGI on 2/24/2016 indicating that Indian Point will continue to be in service past 2019. Indian Point generated ~16 M MWh in 2015, which, if replaced with natural gas, would generate almost 8M tons of CO2 annually. This represents 10% of RGGI's annual burn. **Recommendation: It is not appropriate for the base case modeling to continue presuming that Indian Point will retire in 2019.**
  - It is unlikely that the modeled reduction in leakage with a CPP in place will be correct, given the election of Mr. Trump as President. The assumption that CPP is included in the RGGI base case is, therefore, not a good assumption. **Recommendation: Modeled base case should have no CPP and low case should have CPP.**
  - Estimate of Renewables in the RGGI affected areas do not match the RPS statements from the individual States. For example, New York has a 50% by 2030 goal, which implies a stated renewable goal to be 75TWh by 2030 (NYDPS Staff White Paper on Clean Energy Standard, January 25, 2016, page 9). The current model has 61TWh for New York. **Recommendation: Estimate of Renewable MWh in the RGGI footprint needs to be reviewed and should more accurately reflect the sum of member State's stated renewable goals**
- RGGI is asking for feedback on the timing of these program modifications. While the percent cap reduction debate continues, it is widely understood that those reductions would start in 2020. However, other design elements which help address the overhang of banked allowances need to be implemented in 2018. If the collective redesign waits until 2020 to address the banked allowances, we can reasonably expect some participants to exit this market due the prospect of continued price decline. The resulting lack of liquidity and surplus of allowances will not be good for the long term health of the program. **Recommendation: Make the changes effective as soon as possible.**
- The range of potential market prices should better reflect the societal cost of carbon as well as be impactful enough to incentivize proper market behaviors, such as fuel



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switching and renewable development. **Recommendation: raise the floor price significantly.**

- A reserve price of \$2.10/T hurts the integrity of the program because it fails to influence industry behavior focused on reducing emissions. Three upstate New York nuclear generators were not economically viable due to the fact the benefits of their carbon free generation were not properly valued by the market via an appropriate carbon price; the low RGGI price was insufficient to economically advantage these carbon free plants. The State of New York has implemented a Zero Emission Credit (“ZEC”) plan, being an incremental payment, to benefit these 3 nuclear power plants with a carbon value of \$40/T. If program prices were more reflective of the true value of carbon, the controversial ZEC subsidy would not be needed. The low price of carbon incited New York to establish the ZEC program and other states are expected to do the same. These programs amount to out-of-market payments providing the very benefit the RGGI program was intended to address. As more and more states follow in the steps of New York, the integrity of the RGGI market will continue to erode and further interventions will be needed. Increasing the floor price helps value carbon free resources properly.
- One of the finest attributes of the RGGI program is the generation of revenue from auction proceeds which can be used to satisfy State environmental mandates. Increasing \$/T for the reserve auction price ensures that there is a reliable source of funds for these important initiatives and serves as a compelling reason for neighboring states to join the RGGI. The other carbon cap and trade program in the United States has a carbon price of ~\$13/T. The EPA values the societal cost of carbon to be \$40/T. Being a climate leader means setting strong (and sometimes hard to achieve) targets.
- A major environmental goal of RGGI is to reduce emissions. Compliance entities should be economically incentivized, through a market construct, to behave in a way that achieves this goal. Pricing should be sufficiently high to promote economic decisions focused on actually reducing CO2 emissions.
- Assumptions related to market supply and demand must be well-informed. Using the ICF model to solve for a balanced market in the year 2030 while ignoring near-term market behavior does not accurately reflect true market conditions. There is a large volume of banked allowances and a significant cost of capital and opportunity for the market to hold them. As a market participant who continually participates in the RGGI auctions, helping to provide much needed liquidity in the market, if this volume of banked allowances is not addressed in the near term, RGGI will revisit its fate of 2010: auctions may clear at the floor price and the program will be regarded as a failed program, not a leader.
- The newly introduced ECR concept is a welcomed addition to the program and as presented is thoughtful. A concept such as this provides health for regulatory based



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markets like emissions by providing for some elasticity to changing conditions in between administrative reviews. As suggested, the ECR reserve size would be designed as the cumulative difference between a base cap and a more stringent cap (say, a base case of a 2.5% decline and a 5% decline). Given the current allowance bank oversupply in the RGGI market, the ECR mechanism and its volumes should start in 2018. The unexpected additional “bank” represents a deviation between a base cap and a more stringent cap – what the ECR is designed to manage.

Thank you for your consideration of these comments. Mercuria looks forward to continued participation in the RGGI program and markets.

Very truly yours,

Mercuria Energy America, Inc.