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IETA INPUT ON RGGI STAKEHOLDER REVIEW PROCESS

The International Emissions Trading Association (IETA)[1] is a global non-profit business organization supporting the development and success of cap and trade programs resulting in real and measurable greenhouse gas (GHG) emission reductions, while balancing economic growth with environmental integrity and social equity. IETA appreciates the opportunity to share input related to the 2016 Program Review, pursuant to RGGI's request at the 27 June 2017 stakeholder meeting.

Impacts of RGGI Program Uncertainty

IETA recognizes the importance of a broadly supported review of RGGI's program for the upcoming control and post-2020 periods. Regulatory certainty is critical to the proper functioning of environmental markets, including RGGI's cap and trade program. As per numerous analysts and market participants, a central reason for RGGI's recent decline in pricing and liquidity is uncertainty around the program's fate and shape post-2020. Another key factor for this decline has been the undeniable growth in oversupply. As evidenced by the most recent (June 2017) auction results, where the clearing price hit a four-year low, continued uncertainty in the program poses a risk of capital flight from the RGGI market, thereby reverting the program back to the reserve price with little to no trading and inefficient market outcomes.

RGGI Regional & Global Climate Leadership

Member States have sought to make RGGI a U.S. regional and global leader in harnessing market power to cost-effectively tackle climate change, drive clean investment, and encourage cross-border program collaboration. Until recently, RGGI has succeeded in reaching these climate and socio-economic goals.

More than ever, RGGI sub-national climate and market leadership must not only survive but also grow broader and deeper. This is especially true in light of President Trump's decision to exit – or attempt to "renegotiate" – U.S. Federal climate commitments under the UN Paris Climate Change Agreement, along with the Administration's related acts to axe or delay domestic GHG reduction measures, including the Clean Power Plan.

[1] IETA members include RGGI compliance entities, entrepreneurs delivering climate solutions, service and infrastructure providers, and registries representing the backbone of environmental integrity in RGGI's cap and trade program.

Program Amendment Recommendations

As outlined at the June stakeholder meeting, for RGGI to continue its sub-national climate leadership and cooperation, a number of considerations for program amendments need to be addressed.

IETA is encouraged by the innovative cap reduction and design steps contemplated under the three (3) Policy Scenarios. **We strongly believe that Member States should pursue a solution that incorporates a 2019 cap reduction of 6.52%, as outlined in Policy Scenario #3**, with the caveat that the post-2019 cap should decline at a rate of 4.0% annually thereafter. Taking this approach would help to more effectively address current market oversupply in a timely manner, while also ensuring that a further building of RGGI's allowance bank is avoided under Phase 5 of the program.

In addition to the 2019 cap reduction and post-2019 cap decline, **the following identifies four (4) priority program changes that we believe will enable RGGI prices to respond to actual market supply and demand forces**. If adopted, these modifications should more accurately value the marginal cost of abatement at an economically feasible level across the region.

1. THIRD BANK ADJUSTMENT

We believe that RGGI's program review must incorporate a further bank adjustment, with the caveat that this adjustment be a "full" bank adjustment addressing the actual size of the bank and not a pre-determined number.[2] Accounting for the actual bank size, ending in 2020, and initiating a third bank adjustment to fully draw down this bank should help calibrate the large oversupply. This move will subsequently allow prices to properly react to market fundamentals.

IETA firmly believes that a full bank adjustment should take into account actual emissions rather than IPM modeled emissions. A realistic approach to actual emissions, based on renewable resource expansion and RGGI state imports, is paramount to correctly adjusting the current oversupply and fashioning reserve mechanisms (described in more detail below) that will properly respond to fundamentals going forward.

2. EMISSIONS AND COST-CONTAINMENT RESERVES

IETA believes the introduction of both an Emissions Containment Reserve (ECR) and a Cost-Containment Reserve (CCR) are critical mechanisms to help stabilize RGGI market's supply and demand balances. These mechanisms would help band prices at levels that more accurately allocate a merit order for dispatching thermal resource-based GHG intensities.

[2] RGGI's modeling estimated a post-2020 bank size of 25 million tons.

3. RESERVE PRICE INCREASE – THROUGH A "LINKAGE-READY" LENS

We urge RGGI to signal the adoption of a more meaningful forward reserve price. Through a market linkage-ready lens, this modified reserve price should more closely align with the escalating price across other – particularly North American – GHG market trading programs. Special focus should be dedicated to price and other program alignment with the Western Climate Initiative (WCI), currently covering California and Quebec (i.e., neighboring power market) with Ontario link planned for January 2018.

A higher reserve price that more closely aligns with other GHG compliance markets will ensure that the minimum marginal cost of abatement remains relevant under current power market economic conditions. The approach also allows for cross-border linkage and broader environmental and socio-economic benefits down the road. Specifically, IETA believes that a non-market-based annual escalator in RGGI should be added, similar to the 5% escalator in the California market plus Consumer Price Index (CPI).

Incorporating dynamic elements (i.e., ECR and CCR) and making necessary reductions in future supply to account for the existing allowance bank, will help market functionality and overall success of RGGI.

4. OFFSETS

To date, RGGI price signals have not incentivized offsets generation and use. IETA recognizes this reality, but we also believe that increased levels of sub-national climate ambition and therefore prices and linkage opportunities – especially across the U.S. states and Canadian provinces – are afoot. **We therefore strongly believe that all RGGI Member States should be allowed to use and enable offsets generation, while also being allowed to retain state-level or cross-state coordinated offsets infrastructure.**

Any consideration to eliminate all offset project categories across certain RGGI Member States should not be entertained. This would undermine future linkage and cost-containment opportunities. If maintaining an offsets program is an administrative burden, IETA is on-hand to further discuss merits and opportunities with third-party offset actors, including registries.

For the purposes of the Program Review and this input opportunity, **we strongly encourage the RGGI Model Rule to explicitly authorize Member States to use third-party registries**.

Program Review & Process Timeline

Finally, we cannot stress enough how critical it is for RGGI's current Program Review to reach a clear outcome as soon as possible. While the issues being addressed are certainly complex, the market simply cannot operate effectively with so much looming uncertainty.

The delay in releasing a new Model Rule has already postponed implementation of program changes well into 2018 and potentially even 2019; an uncertainty that is clearly reflected in RGGI's most recent auction results. **The strength of RGGI ultimately relies on the clarity, transparency and timeliness of the program's decision-making process.**

Conclusion

By implementing the detailed changes, outlined above, IETA is confident that RGGI can reclaim its place of leadership and act as a model for regions – across the U.S. and globally – towards harnessing the power of the market to address climate change.

On behalf of our 150+ business members, we appreciate this opportunity to IETA's express views on key program amendment issues while voicing support for the continuation and ultimate success of RGGI's cap and trade program. We would be pleased to discuss these issues further by phone or in person.

For any questions or follow-up, contact IETA Managing Director, Katie Sullivan, at sullivan@ieta.org.

Sincerely,

Dirk Forrister
President & CEO
IETA