MERCURIA

ENERGY AMERICA, INC.

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**VIA EMAIL**

July 10, 2017

Regional Greenhouse Gas Initiative, Inc.
90 Church St., 4th 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 regarding the 2016 Program Review, pursuant to RGGI's request at the June 27, 2017 stakeholder meeting.

Mercuria appreciates the efforts to address the structural deficiencies currently weighing on the market that were discussed at the most recent stakeholder meeting. It is important that the thoughtful modifications to the program be dynamic and self-adjusting. If a self-adjusting program works effectively, it eliminates the need to have substantive program reviews every few years which could result in a weakened program, particularly if it substantively changes. The best way to ensure a dynamic, self-adjusting program is by implementing volume triggers as a "percentage" of base case, versus using fixed numbers.

In response to the IPM modeling and questions posed under considerations for program amendments, Mercuria recommends the following proposed amendments:

1. **Cap Adjustment**

The RGGI states should pursue the parameters proposed under Policy Scenario # 3 with modifications. The 6.52% Cap Reduction in 2019 is a positive step forward in addressing the large surplus in the market. Mercuria recommends a cap decline of 3.5% in lieu of the current 3% proposed; it is a more accurate proxy and better reflects historical observed emissions reductions which have averaged in excess of 4% in recent years.

## 2. **Bank Adjustment**

Mercuria recommends a full post 2020 bank adjustment as proposed under Policy Scenario # 3. It is critical that the volume under the full bank adjustment be determined based on the "actual" bank at the end of 2020 in lieu of a modeled estimate. Attempting to determine this number prior to the end of 2020 simply amounts to speculation and runs counter to the spirit of the program.

## 3. **Emissions Containment Reserve (ECR)**

The ECR is a critical tool to help normalize supply/demand imbalances. When determining parameters for ECR levels, it is pragmatic to utilize the IPM modeling of nominal CO2 Credit Prices under Policy Scenario # 3 for reference points. The ECR strike prices should be set on an annual basis at 75% of the IPM Model forecast prices. ECR volumes should be set at 20% of each respective year's Adjusted Cap. These parameters are outlined in Appendix A.

## 4. **Cost Containment Reserve (CCR)**

The CCR provides a valuable cost containment measure. Lessons learned from the First Program Amendment dictate that it is critical to not set the CCR levels too low as they can easily distort supply/demand balances and lead to market oversupply when triggered. When determining parameters for CCR levels, it is once again pragmatic to also utilize the IPM modeling of nominal CO2 Credit Prices under Policy Scenario # 3 for reference points. The CCR strike prices should be set on an annual basis at 300% of the IPM Model forecast prices. CCR volumes should be set at 10% of each respective year's Adjusted Cap. These parameters are also outlined in Appendix A.

## 5. **Reserve Price**

The Reserve Price should be set at a level high enough to ensure that the minimum marginal cost of abatement remains relevant under current economic conditions in the power market. IPM modeling of nominal CO2 Credit Prices under Policy Scenario # 3 should be used to anchor a reference point for appropriate Reserve Price levels. The Reserve Price should initially be set at 50% of the 2019 IPM CO2 Credit Price and increase on an annual basis at 5% + Consumer Price Index (CPI). The resulting annual increase in the reserve price closely correlates with the trajectory of price appreciation modeled under the IPM. These parameters are also outlined in Appendix A.

If the above-detailed program amendments are enacted, we can once again look forward to a healthy and functioning market and RGGI and its participating states' abilities to reclaim their place as pioneers in the fight to address climate change through market-based mechanisms.

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.

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**Appendix A.**

| | 50% | | | 75% | 300% | | 20% | 10% |
|------|---------------|---------------|------------|------------|-------------------|------------|-------------|-------------|
| | Reserve Price | IPM CO2 Price | ECR Levels | CCR Levels | Adjusted Cap | ECR Volumes | CCR Volumes |
| 2019 | $ 4.75 | $ 9.50 | $ 7.13 | $ 28.50 | 53,068,247 | 10,613,649 | 5,306,825 |
| 2020 | $ 5.06 | $ 10.03 | $ 7.53 | $ 30.10 | 50,444,927 | 10,088,985 | 5,044,493 |
| 2021 | $ 5.39 | $ 10.67 | $ 8.01 | $ 32.02 | 59,081,102 | 11,816,220 | 5,908,110 |
| 2022 | $ 5.74 | $ 11.31 | $ 8.49 | $ 33.94 | 56,638,201 | 11,327,640 | 5,663,820 |
| 2023 | $ 6.11 | $ 11.95 | $ 8.97 | $ 35.86 | 54,280,802 | 10,856,160 | 5,428,080 |
| 2024 | $ 6.51 | $ 12.93 | $ 9.70 | $ 38.79 | 52,005,912 | 10,401,182 | 5,200,591 |
| 2025 | $ 6.93 | $ 13.90 | $ 10.43 | $ 41.71 | 49,810,642 | 9,962,128 | 4,981,064 |
| 2026 | $ 7.38 | $ 14.88 | $ 11.16 | $ 44.64 | 58,408,273 | 11,681,655 | 5,840,827 |
| 2027 | $ 7.86 | $ 15.83 | $ 11.87 | $ 47.49 | 56,363,984 | 11,272,797 | 5,636,398 |
| 2028 | $ 8.37 | $ 16.78 | $ 12.58 | $ 50.33 | 54,391,244 | 10,878,249 | 5,439,124 |
| 2029 | $ 8.92 | $ 17.73 | $ 13.29 | $ 53.18 | 52,487,551 | 10,497,510 | 5,248,755 |
| 2030 | $ 9.50 | $ 19.20 | $ 14.40 | $ 57.60 | 50,650,487 | 10,130,097 | 5,065,049 |

**Assumptions:**
Reserve Price increases at 5% +CPI
CPI Estimated at 1.5%
ECR levels modeled at 75% of the IPM Model forecast prices of nominal CO2 Credit Prices under Policy Scenario # 3
CCR levels modeled at 300% of the IPM Model forecast prices of nominal CO2 Credit Prices under Policy Scenario # 3
ECR volumes modeled at 20% of the Adjusted Cap for each respective year
CCR volumes modeled at 10% of the Adjusted Cap for each respective year