

RGGI – Allowance Auctions Issues and Work Plan

Presentation to

**MA RGGI Stakeholder Group
Topical Forum #2**

**MA Division of Energy Resources
MA Department of Environmental Protection
Executive Office of Energy and Environmental Affairs**

March 12, 2007



Outline of Presentation

- MA Apportionment and Allocation of Allowances
- RGGI Regional Auction Option
- Design Principles for Auction
- Auction Types and Design Elements
- RGGI Work Plan – Tasks and Timeline
- Administration and Use of Auction Proceeds
- Questions and Discussion



MA Apportionment and Allocation of Allowances

MA Apportionment of RGGI 2009 Cap (9 states)

- RGGI Cap = 150.6 million tons
- MA Apportionment = 26.6 million tons (17.7%)

MA Allocation of Allowances

- Governor Patrick has committed to auction MA allowances
- Per RGGI MOU, all states must reserve at least 25% of their allowances for strategic energy and consumer benefit purposes.
- VT, NY and other states are considering auctioning 100% of their allowances.



RGGI Regional Auction Option

RGGI SWG is establishing a Regional Auction platform and standard rules that will offer states the option for auctioning all or a portion of their allowances.

Regional Auction would be administered by RGGI Regional Organization

MA staff will participate in development of Regional Auction, but adoption by state is to be determined.

- MA is inclined to participate in Regional Auction, assuming design is acceptable.



Design Principles for Auction

(recommended for consideration by RGGI SWG)

Auction Principles (slide 1)

- Achieve on-going authentic price discovery
- Promote a liquid allowance market
- Be open to participation for bidding by any individual or entity that meets the minimum financial requirements
- Be open and transparent
- Minimize price volatility
- Guard against collusion and/or market manipulation



Design Principles for Auction

(recommended for consideration by RGGI SWG)

Auction Principles (slide 2)

- Minimize administration and transaction costs
- Be held as frequently as is needed to achieve design objectives
- Avoid interference with existing over-the-counter allowance markets
- Align well with wholesale energy and capacity markets
- Be web-based with a simple user interface
- Be open to all participating states, with participation optional



Auction Types and Design Elements

Auction Objective and Possible Types

- Maximize Revenue
 - English Auction (ascending price)
 - Dutch Auction (descending price)
 - Second-price, Sealed Bid
- Minimize Allowance Price (or Revenue)
 - Descending Clock
 - Dutch Auction, Last Price (Reverse Auction)



Auction Types and Design Elements

Design Elements

- Open vs. Closed Auction
 - ❖ Open – anyone can bid
 - ❖ Closed – only regulated facilities can bid (w/in state or entire RGGI region)
 - ❖ Hybrid Designs - Examples
 - ❖ Open auction for some of the allowances, closed auction for remainder
 - ❖ Right of First Refusal – auction first closed to only regulated facilities; unsold allowances sold in open auction



Auction Types and Design Elements

Design Elements

- Transparency
 - ❖ What data becomes available
 - ❖ When does data become available (pre-auction, post-auction)
 - ❖ To whom does the data become available (registered bidders, public)
- Auction Frequency
 - ❖ Yearly, semi-annually, quarterly – for example
- Auction Blocks (or Tranches)
 - ❖ Limit bidders to maximum number of tranches in order to prevent hoarding or concentration of allowances with a limited number of bidders.



RGGI Auction Work Plan

Tasks and Timeline

- Stakeholder Input on Design Principles (currently)
- Identify Preliminary Auction Design Options (January to February 2007)
- Analyze Options (January to June 2007)
- Stakeholder Workshop (June 2007)
- Finalize Proposed Design (July 2007)
- ⇒ MA Decision to Participate in Regional Auction, or Develop and Implement its own Auction
- Establish auction platform and auction rules (August to September 2007)
- Auction Demonstration (October to November 2007)
- First Auction (First Quarter 2008)



Administration and Use of Auction Proceeds

- Auction proceeds will be entrusted in a state government trust fund.
- DOER has authority to perform auction and receive funds (MGL 25A Section 13) but additional legislation may be filed to clarify.
- Funds will be used for public benefits, such as:
 - energy efficiency
 - energy cost savings
 - renewable energy
 - other projects with greenhouse gas emission benefits



Questions and Discussion

- 1) What should MA consider to be the overall objective of the auction?
 - a) Maximize Revenues for public benefit use
 - b) Minimize Allowance Price



Questions and Discussion

2) Should MA participate in the RGGI Regional Auction?

What criteria should MA use to decide whether to participate in the Regional Auction?

What issues should MA consider in deciding whether to participate in the Regional Auction?



Questions and Discussion

- 3) To what extent should the allowance auction be Open or Closed?
- 4) What is the best Frequency of the Auction; annually, semi-annually, quarterly?



Questions and Discussion

- 5) How should the proceeds from the MA allowance auction be used?



Timeline

Date	Event	Time	Location
March 12, 2007	Stakeholder Meeting #2: Auctions	9:30 AM - 12:30 PM	MassDEP Boston Office
April 5, 2007	Stakeholder Meeting #3: Review of Draft RGGI Rule	1:00 PM - 4:00 PM	MassDEP Boston Office
April 10, 2007	Stakeholder Meeting #4: Review of Draft RGGI Rule (Repeat of 4/5/07)	10:00 AM - 1:00 PM	MassDEP Worcester Office
Summer/Fall 2007	MassDEP Proposes Rule to Implement RGGI		
Early 2008	MassDEP Finalizes Rule to Implement RGGI		

Due to this ambitious schedule, MassDEP and DOER request that stakeholders submit comments within one week after the relevant stakeholder meeting.

Additional regional RGGI Stakeholder Meetings will provide opportunity for input to program implementation. MA Stakeholders will be informed of meetings as they are scheduled.



Resources and Contacts

- For more information regarding RGGI see: <http://rggi.org>
- For the final RGGI model rule see:
http://rggi.org/docs/model_rule_corrected_1_5_07.pdf
- Questions should be directed to either:
Bill Lamkin, DEP
(978) 694-3294 william.lamkin@state.ma.us
Dwayne Breger, DOER
(617) 727-4732 x40127 dwayne.breger@state.ma.us
- Comments and requests to be added to, or removed from, the GHG Stakeholder email list should be directed to:
Nicholas Bianco, MassDEP/BWP
One Winter St
Boston, MA 02108
Nicholas.M.Bianco@state.ma.us
617-292-5705

