



Comments of Argus Media to the Regional Greenhouse Gas Initiative

Argus Media appreciates the opportunity to respond to the Regional Greenhouse Gas Initiative's (RGGI) request for stakeholder feedback issued on 21 May 2012. Argus believes it can make a meaningful contribution to this discussion and, as an independent third party, is well positioned to assist RGGI in its proposed course of action. Argus is not a market participant and our comments will focus only on section VI: Use of Current Market Reserve Price.

Argus Media and its role in energy and emissions market indexation

Argus is a leading provider of price assessments, business intelligence and market data for the global crude oil, petroleum products, gas, LPG, coal, electricity, biofuels, biomass, emissions and transportation industries. It is headquartered in London UK, and has offices in Washington, Houston, New York, Portland, Calgary, Moscow, Singapore, Tokyo, Beijing, Kiev, Sydney, Astana, Johannesburg and Dubai as well as employees in other key locations. Argus was founded in 1970 and is a privately held UK-registered company, owned by its employees and the family of its founder. Argus has operated in the US since 1986.

Argus is the leading publisher of daily and weekly prices for US emissions markets. These spot markets represent the marginal price in an open and arms-length market. These prices are used by energy companies, financial services and governments as price references or price benchmarks. The prices are used to index long-term contracts, spot market contracts, derivatives transactions such as swaps, and are used in corporate internal transfer pricing, market analysis, performance measures, risk management analysis and capital investment decisions. Government entities frequently use Argus spot market prices to determine taxation and royalty calculations.

Argus has an important role in the proper functioning of the energy markets. Confidence in the prices published by Argus creates confidence in the markets themselves, which in turn encourages liquidity, effective clearing of trades, accurate price indexation and overall market transparency.

Argus recognizes that its clients and other industry stakeholders expect it to meet the highest standards in the field of price reporting, and to value principles that support its important role. Argus has a published ethics policy to ensure objectivity. Argus is an independent firm, with clear corporate governance and a robust compliance program overseen by its Global Compliance Officer.

Argus respects transparency and disclosure by making its processes public and by providing market information in an open and non-discriminatory fashion. Argus ensures that it has the resources to achieve these values by hiring and retaining qualified and experienced staff and regularly training employees. Argus maintains its credibility as an independent price reporting organization by consistently applying its methodologies for price identification, and thus maintaining its high and long-standing reputation.

Argus uses market-appropriate methodologies to identify prices in the markets it covers. Argus consults with the range of participants involved in different markets and publishes methodologies for each price report on its website. Each methodology is reviewed regularly to ensure that it always meets the needs of market participants and is in line with industry practice. Argus methodologies seek to reflect the way markets are traded.

The prices reported by Argus and other independent price reporting organizations allow the energy sector to operate efficiently and effectively to the benefit of consumers and producers. Term contracts can be indexed to a transparent spot market price at an active market center and counterparties can be sure that they are receiving fair market value. This same system of indexation can be trusted by government entities as a robust representation of market value for emissions allowances, including RGGI's. The sections below outline why these market prices accurately represent value in the RGGI CO₂ allowance market.

RGGI Volume-Weighted Average

Argus believes that RGGI should use a publicly available volume-weighted average of allowance transactions to determine the current market price of allowances to set a market-based auction reserve price, if the states wish to use such a measure instead of the minimum reserve price. While the oversupply of allowances has weakened the spot and December-delivery RGGI CO₂ allowance prices, the contemplated changes to the program will lead to a more dynamic carbon price.

Argus Air Daily is the leading provider of market price information for settlement in the over-the-counter markets. Argus price indexes are available to the US emissions markets for settlement of spot and forward trading in:

- Sulfur emission allowances in US SO₂ trading program (Acid Rain Program)
- Emission allowances in US SO₂, annual and seasonal NO_x trading programs (CAIR)
- SO₂ and NO_x emissions in the Cross-state Air Pollution Rule markets
- Renewable energy certificates for markets in Connecticut, Massachusetts, New Jersey, Pennsylvania, and Texas, plus national voluntary Green-e wind
- RGGI CO₂ allowances
- California Carbon Allowances and Offsets

Argus Air Daily has been the publication of record in the federal SO₂ and NO_x markets for more than a decade and has a large number of utility and regulatory subscribers. Argus took over publication of Air Daily when it acquired Fieldston Publications in July 2000. Argus Air Daily is recognized by the emissions industry as the leading index provider for the federal SO₂ and NO_x markets. The SO₂ assessments have been used to settle financial contracts and have been used to adjust for the cost of SO₂ allowances in commodity contracts. As a result, many of the power companies and market participants that are active in the RGGI market already have access to the publication.

This breadth of market price assessment and depth in emissions markets gives Argus a unique and compelling position as the leading price indexation platform in US environmental markets. We believe our published market assessments and indexes could serve as an appropriate vehicle for RGGI to establish GHG allowance costs.

Argus Air Daily has published a daily price assessment for RGGI CO₂ allowances since January 2009 and daily and monthly cumulative volume-weighted averages since February 2009.

The Argus price indexes for RGGI CO₂ allowances are built on trading activity in the market across the whole day. RGGI CO₂ allowances trade on a variety of transactional platforms, including the secondary over-the-counter market and on the IntercontinentalExchange. With RGGI allowances potentially trading on other platforms or exchanges in the future, Argus is well positioned to provide daily, weekly and monthly price indexes for the whole of the market, regardless of transaction venue.

The states of Maine, New York, Rhode Island and New Hampshire have adopted a broad definition of Current Market Price that leaves much discretion in the hands of the regulator leading up to one of the program's auctions.

In their regulations, a current market price is defined as the combination of the volume-weighted averages of the prices reported to regulators when allowances are transferred, prices as reported publicly through reputable sources and the clearing price of recent RGGI auctions. It is unclear how much weight state regulators would assign to each factor. The use of a publicly available and reputable volume-weighted average such as the one published in Argus Air Daily would allow compliance buyers to estimate where the Current Market Price Reserve will be set at the time of the auction.

Large purchases for compliance are often done over the counter so that buyers can include specific provisions, such as credit requirements, performance assurance and delivery requirements. While the prices reported when allowances are transferred are accurate, those prices may have been agreed to months and years prior to the transfer of allowances, and can give a faulty indication of what a compliance entity would have to pay for allowances when it enters the market.

Many of those transfers may occur as part of a larger deal between two parties for the delivery of power, and the price of allowances may have been affected by other parts of the negotiation, or they may have been fixed at a price level not reflective of the current market. Argus believes regulators should base current market prices on where trades are currently occurring, and not use measures that may give weight to transfers done under agreements struck long ago. Indexation relying upon transfer values will lag the actual market considerably and may be entirely unrepresentative of current market prices. Use of Argus indexes will avoid this and other potential market distortions.

Such distinctions are of crucial importance when examining the price identification function and provide price reporting organizations such as Argus with a significant advantage over transfers reported to a regulator. Argus surveys are also able to capture the broadest swathe of the market by using prices from multiple platforms.

Argus Air Daily conducts broad surveys of brokers, traders, generators and utilities to discover daily prices for environmental commodities. Indexes are available through the Argus Air Daily publication, the Argus website and data feeds, and have become recognized for broad use in the emissions markets and those affected by them. As recently as December 2011, Argus-published prices have been confirmed as settlement values for trading of SO₂ emissions allowances under Acid Rain and successor programs by the Coal Trading Association's standard trading contract. That contract uses Argus-published SO₂ price indexes to value sulfur adjustments in US and international coal supply agreements.

Argus keeps close track of RGGI allowance trades and diligently seeks to verify all reported trades. All the trades included in the volume-weighted average are published in Argus Air Daily.

Market participants can access further details of the RGGI assessment procedures in the Argus Air Daily methodology, available online at the following address: <http://www.argusmedia.com/methodology>. A copy of our methodology, current as of this comment document, is provided as part of our comments to RGGI on this matter.

Conclusion

In conclusion, Argus strongly believes RGGI should have confidence using current open-market prices for RGGI CO₂ allowances as identified and published by trusted and independent price reporting organizations. Argus Air Daily has been publishing RGGI prices since the start of compliance, and continues to provide reliable and accurate price indexation.

Argus welcomes the opportunity to work with RGGI on this matter and is glad to answer any questions that may arise from our comments or give another presentation to the working group handling this issue.