

- [HOME](#)
- [Beware of Watchdog](#)
- [Big Stories](#)
- [Feed Us Tips](#)
- [Use Our News](#)
- [Subscribe](#)

[CONTRIBUTE RSS](#) 

THE SECRETS TEN STATES & WALL STREET DON'T WANT YOU TO KNOW by Mark Lagerkvist

Posted on July 28, 2010



Secrecy and greed are polluting the Regional Greenhouse Gas Initiative, the nation's first mandatory cap-and-trade system. Under the RGGI scheme, the smell of profiteering is powerful. New Jersey and nine other Northeast states have sold [\\$729 million](#) in carbon dioxide permits since 2008.

The bidders at RGGI auctions include Goldman Sachs, Morgan Stanley, Merrill Lynch, JPMorgan Chase and other Wall Street heavyweights. They hope to make big money by speculating on the price of permits, called allowances. Electric power plants are required to obtain an allowance for each ton of CO-2 they emit.

But exactly who is buying what at these auctions? How much of the carbon market have they cornered? What effect will the wheeling and dealing have on the electricity bills paid by consumers?

That's none of our business, according to the bureaucrats in charge. They denied New Jersey Watchdog's [Open Public Records Act requests](#) for auction details, contending the bidders' "expectation of privacy" and "trade secrets" outweigh the public right to know.

RGGI executive director [Jonathan Schrag claims RGGI is not a "public body"](#) subject to state open records laws – even though it's [a non-profit cooperative created and governed by the states](#) of New Jersey, New York, Connecticut, Massachusetts, Maine, Rhode Island, New Hampshire, Vermont, Delaware and Maryland.

The New Jersey Department of Environmental Protection contends it ["does not have documents responsive to \(the\) request in its possession."](#) Reached by telephone while vacationing, Schrag expressed surprise at NJDEP's statement. He said RGGI provides details of auction particulars to all 10 states.

State officials were ready with more hot air: ["Even if the documents requested were in the possession of NJDEP... requested items would also be subject to confidentiality as trade secrets."](#) the agency argued in its written response.

["Balancing the interests of the ten signatory states... and the potential harm to the performance of the auctions against the private right to access and disclosure of such documents, the private right to access would be outweighed by the public interest in confidentiality of any records maintained by RGGI Inc."](#) concluded NJDEP.

When Schrag returned from vacation, he declined New Jersey Watchdog's request for an interview. According to RGGI records, [all ten states have agreed not to release so-called "market sensitive information"](#) – even weeks, months or years after the auctions are over.

RGGI's secrecy sharply contrasts the transparent approach of the U.S. Environmental Protection Agency in similar auctions. [For the past 18 years](#), the EPA has been selling allowances for acid rain, also known as sulfur dioxide or SO-2.

[After each annual auction](#), the EPA posts the particulars on its Internet site. [Going back to 1994](#), the agency has disclosed all buyers, their bids and the number of SO-2 permits each purchased. [Starting with 2003](#), those reports have been expanded to include information on unsuccessful bidders and their bids.

The EPA's auction experience directly contradicts NJDEP's claim that disclosure of the so-called "trade secrets" could somehow cause "harm to the performance of the auctions." In fact, the [EPA credits its transparency as a key](#) to its acid rain program's success.

RGGI pretends its scheme provides "[the maximum level of public disclosure.](#)" For each quarterly auction, it releases aggregate totals and statistics in a [report](#) by an \$185,000-a-year consultant who invariably concludes "the auction was administered in a fair and transparent manner" with "no material concerns regarding the auction process."

But there is no disclosure of the auction winners and how many governmental CO-2 permits they purchased. Instead, RGGI publishes lists of potential bidders who submitted "intent to bid" applications. The lists offer a glimpse of whose trade secrets RGGI is keeping confidential.

The most conspicuous are the financial power brokers who generate money, not electricity. The [most recent list](#) includes Morgan Stanley Capital Group, Merrill Lynch Commodities, Barclays Bank and Louis Dreyfus Energy Services. [Previous auctions](#) have included JP Morgan Ventures Energy and Goldman Sachs, through its J Arons & Co. subsidiary.

At RGGI auctions, the utilities that need the CO-2 allowances must compete against private interests that can profit by driving prices up. The scheme affects the 209 electric generating plants with capacities of 25 megawatts or more.

"The electric power sector will be vulnerable to competition from hedge funds and other financial institutions and entities that may drive up the price of RGGI allowances," a [PSEG Public Services Corp. official complained to regulators in a 2007 letter](#). "The result will be higher energy prices." With 14 power plants in RGGI states – including 11 in New Jersey – [PSEG has estimated it needs to purchase 16 million permits a year](#) to cover its carbon emissions.

Electric customers in the Northeast have yet to feel much of RGGI's impact. During the recession, carbon dioxide emissions fell along with the demand for electricity. As a result, CO-2 allowances are abundant and relatively cheap. Prices for current permits at RGGI auctions have dropped from [\\$3.51 per CO-2 ton in March 2009 to \\$1.86 this September](#).

That is likely to change with the economy – and particularly when RGGI lowers the cap by reducing the number of permits available. As demand and prices rise, speculators are likely to flock to carbon auctions in increasing numbers. The financial industry is preparing a marketplace to handle billions and trillions of dollars of deals – a hot new category of investments to make everyone forget about sub-prime mortgages.

Derivative investments vehicles based on carbon dioxide emissions and RGGI permits are already available through two secondary markets – the [Chicago Climate Futures Exchange](#) and the [Green Exchange](#).

Those markets are backed by giants in the financial world. The Green Exchange (GreenEx) is [owned by the Chicago Mercantile Exchange, Goldman Sachs, Morgan Stanley, Credit Suisse and other equity partners](#). The Chicago Climate Futures Exchange (CCFC) was recently purchased by [IntercontinentalExchange Inc.](#) (ICE), which operates the world's largest energy trading platform.

Though Congress failed to pass legislation for a nationwide system, RGGI ensures that cap-and-trade remains alive in the U.S. The scheme has friends in high places, both on Wall Street and within the Obama Administration. [EPA Commissioner Lisa P. Jackson was first vice-chair of RGGI](#) in 2008 while head of NJDEP.

RGGI is the prototype for two other mandatory regional systems scheduled to start in 2012. The [Midwestern Greenhouse Gas Reduction Accord](#) will bring cap-and-trade to Illinois, Michigan, Wisconsin, Minnesota, Iowa and Kansas. The [Western Climate Initiative](#) adds California, Oregon, Washington, Arizona, Mexico, Utah and Montana – plus British Columbia, Ontario and Quebec. Manitoba is a member of both cooperatives.

Together, the [three regional systems will encompass 23 states with roughly half of population in the U.S.](#) – plus four Canadian provinces with more than three-quarters of that nation's populace.

The bottom line: A cap-and-trade system that favors secrecy over public disclosure – and Wall Street over consumers – now has the inside track to become the de facto law of the land, even without an act of Congress.

Posted under [Big Stories](#).

Tags: [allowance](#), [auction](#), [cap and trade](#), [carbon dioxide](#), [CO2](#), [emission](#), [public record](#), [Regional Greenhouse Gas Initiative](#), [RGGI](#), [secrecy](#)

Leave a Reply

Name (required)

Mail (will not be published) (required)

Website

CAPTCHA Code

