

# Regional Greenhouse Gas Initiative

an Initiative of the Northeast and Mid-Atlantic States of the U.S.

## ABOUT THE REGIONAL GREENHOUSE GAS INITIATIVE (RGGI)

### WHAT IS RGGI?

The Regional Greenhouse Gas Initiative (RGGI) is the nation's first mandatory, market-based program to reduce emissions of carbon dioxide (CO<sub>2</sub>).

The states participating in RGGI have established a regional cap on CO<sub>2</sub> emissions from the power sector and are requiring power plants to possess a tradable CO<sub>2</sub> allowance for each ton of CO<sub>2</sub> they emit.

### WHAT DOES RGGI DO?

**RGGI reduces CO<sub>2</sub> emissions** by establishing a regional cap on the amount of CO<sub>2</sub> that power plants can emit through the issuance of a limited number of tradable CO<sub>2</sub> allowances. This approach allows market forces to determine the most economic means of reducing emissions and creates market certainty needed to drive long-term investments in clean energy.

**RGGI lays the foundation for a North American carbon market.** The RGGI program has created the infrastructure for a market-based approach to regulating CO<sub>2</sub> emissions with strong market oversight.

The RGGI CO<sub>2</sub> emissions allowance tracking system and independent market monitor reports allow the public to view, customize, and download reports of CO<sub>2</sub> allowance market activity and RGGI program data.

**RGGI re-invests in the clean energy economy.** The RGGI participating states have chosen to auction nearly all of the CO<sub>2</sub> allowances (90 percent of CO<sub>2</sub> allowances in the first control period were distributed by auction) and to invest proceeds in clean energy and other consumer benefit programs including energy efficiency, renewable energy, direct bill assistance and greenhouse gas abatement programs. These investments reduce greenhouse gas emissions and generate important consumer benefits, including reducing energy bills, supporting electric system reliability, and spurring job growth.

**RGGI provides a model for other programs to reduce CO<sub>2</sub> emissions.** RGGI demonstrates that programs to reduce CO<sub>2</sub> emissions can benefit both the environment and the economy. RGGI CO<sub>2</sub> power sector emissions have declined more than 40% since 2005 while the regional economy has grown 8 percent, adjusted for inflation. Innovative aspects of the RGGI program include the CO<sub>2</sub> allowance auctions and strategic reinvestment of auction proceeds.

### RGGI Quick Facts

**States:** Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont

**Coverage:** Fossil fuel-fired power plants 25 megawatts or greater in size (currently 163 facilities region-wide)

**CO<sub>2</sub> Emissions Cap:** 86.5 million short tons in 2016, and declines 2.5 percent each year until 2020; two interim adjustments to the cap (2014-2020) to account for banked CO<sub>2</sub> allowances

**CO<sub>2</sub> Allowance Auctions:** Regional, held quarterly, open to all who qualify

**Compliance Period:** Three years, first compliance period January 1, 2009 – December 31, 2011; second compliance period January 1, 2012 – December 31, 2014; third compliance period January 1, 2015-December 31, 2017.

**CO<sub>2</sub> Emission Offsets:** Qualifying GHG reduction projects outside the electricity sector. Currently, power plants may use offsets to meet 3.3 percent of their compliance obligation.

**Auction Proceeds:** \$2.5 billion through June 2016. States reinvest auction proceeds in consumer benefit initiatives, including energy efficiency, renewable energy, direct bill assistance, and greenhouse gas abatement programs.

## **WHY DO THE RGGI STATES AUCTION CO<sub>2</sub> ALLOWANCES?**

Auctioning CO<sub>2</sub> allowances ensures that all parties have access to CO<sub>2</sub> allowances under uniform terms. At the same time, auctioning CO<sub>2</sub> allowances, rather than distributing them for free, realizes the value of the CO<sub>2</sub> allowances for reinvestment in strategic energy programs that save consumers money and create jobs.

Independent reports by the Analysis Group found that the investment of RGGI proceeds from the first control period is generating \$1.6 billion in net economic benefit, and the investment of RGGI proceeds from the second control period is generating \$1.3 billion in net economic benefit.

## **WHAT IS THE RGGI CAP?**

The RGGI cap is the total number of CO<sub>2</sub> allowances issued by participating states, and establishes a regional budget for CO<sub>2</sub> emissions from the power sector. The RGGI cap for 2016 is 86.5 million short tons of CO<sub>2</sub> per year. The RGGI cap then declines 2.5 percent each year from 2016 to 2020. The RGGI states also include two interim adjustments to the RGGI cap (2014-2020) to account for banked CO<sub>2</sub> allowances. The 2016 RGGI adjusted cap is 64.6 million allowances.

## **HOW CAN MARKET PARTICIPANTS OBTAIN CO<sub>2</sub> ALLOWANCES?**

Market participants can obtain CO<sub>2</sub> allowances at quarterly CO<sub>2</sub> allowance auctions or in the secondary market, such as the Intercontinental Exchange (ICE), or via over-the-counter transactions.

## **HOW DO POWER PLANTS COMPLY WITH RGGI?**

RGGI compliance occurs in three-year control periods. Each RGGI-regulated power plant must submit CO<sub>2</sub> allowances equal to its CO<sub>2</sub> emissions at the end of each three-year control period. The first control period began on January 1, 2009, and extended through December 31, 2011. The second control period began on January 1, 2012, and extended through December 31, 2014. The third control period began on January 1, 2015 and extends through December 31, 2017.

Starting in the third control period, each CO<sub>2</sub> budget source must hold allowances equal to 50 percent of their emissions during each interim control period (the first two calendar years of each three-year control period). Each CO<sub>2</sub> budget source must hold allowances equal to 100 percent of their remaining emissions for the three-year control period at the end of the three-year control period.

## **WHAT ROLE DO OFFSETS PLAY IN RGGI?**

An *offset* represents project-based greenhouse gas emissions reductions or carbon sequestration achieved outside of the capped electricity sector. Offsets provide regulated power plants with compliance flexibility, and can create significant environmental and economic co-benefits for offset project sponsors (such as landfill operators or farmers). RGGI participating states currently allow regulated power plants to use a carefully chosen group of qualifying offsets to meet up to 3.3 percent of their CO<sub>2</sub> compliance obligation. Examples of eligible offset project categories include projects that capture or destroy methane from landfills or through agricultural manure management operations. Both of these projects reduce emissions of the potent greenhouse gas methane.

**To learn more about how RGGI works visit the RGGI website at: <http://www.rggi.org>**

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