

# 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 principal human-caused greenhouse gas.

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 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 each chosen to auction nearly all CO<sub>2</sub> allowances and to invest proceeds in consumer benefit programs to build a clean energy economy. Overall, participating states are investing 63 percent of RGGI auction proceeds in programs to improve end-use energy efficiency and accelerate the deployment of renewable energy technologies. These investments reduce greenhouse gas emissions and generate important consumer benefits, including lower energy bills, greater electric system reliability, and more jobs.

**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. Innovative aspects of RGGI, including allowance auctions and strategic reinvestment of auction proceeds, are influencing the development of other cap-and-trade programs, including the Western Climate Initiative (WCI) and the European Union Emissions Trading Scheme for CO<sub>2</sub> (EU-ETS).

### RGGI QUICK FACTS

**States:** CT, DE, MA, MD, ME, NH, NY, RI, VT

**Coverage:** Fossil fuel-fired power plants 25 megawatts or greater in size (currently 209 facilities region-wide)

**2012 CO<sub>2</sub> Emissions Cap:** 165 million short tons

**Timing of CO<sub>2</sub> Reductions:** 2009-2014, cap stabilizes emissions; 2015-2018, cap declines by 2.5 percent per year for total reduction of 10 percent

**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

**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 (limit on use increases to 5–10 percent of compliance obligation under specified conditions)

**Auction Proceeds:** \$952 million through December 2011. Overall, 80 percent invested in consumer benefit programs, including energy efficiency, renewable energy, direct energy bill assistance and other greenhouse gas reduction 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 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.

## **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. From 2012 to 2014, the RGGI cap is 165 million short tons of CO<sub>2</sub> per year. Beginning in 2015, the cap will decrease by 2.5 percent per year, for a total reduction of 10 percent by 2018.

## **WILL RGGI AFFECT RETAIL ELECTRICITY PRICES?**

The cost of CO<sub>2</sub> emissions allowances is a very small part of overall electricity bills. On average, the cap on CO<sub>2</sub> emissions accounted for 0.24 to 0.61% of average residential electricity bills across the RGGI region in 2010. Based on typical household electricity usage, that translates into 46 cents per month for residential consumers. This very small increase is offset by strategic reinvestment of CO<sub>2</sub> allowance proceeds in energy efficiency measures which reduce demand for electricity and give households and businesses control over their energy bills.

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

Market participants can obtain CO<sub>2</sub> allowances in quarterly CO<sub>2</sub> allowance auctions or through various secondary markets, including the Chicago Climate Futures Exchange (CCFE) and the Green Exchange.

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

RGGI compliance occurs in three-year control periods. At the end of each control period, each regulated power plant must submit one CO<sub>2</sub> allowance for each ton of CO<sub>2</sub> emitted over the preceding three years. The first control period began on January 1, 2009, and extends through December 31, 2011. The second control period began on January 1, 2012, and extends through December 31, 2014.

## **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 compliance flexibility for regulated power plants, and 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 and how states are investing in the clean energy economy visit the RGGI website at: <http://www.rggi.org>**