May 2012 Request for Stakeholder Comments on Program Review

I. PURPOSE

The states participating in the second Regional Greenhouse Gas Initiative (RGGI) control period are requesting stakeholder comment on the 2012 program review. The comprehensive 2012 program review is part of RGGI's initial design and the states' ongoing commitment to ensure the environmental integrity of the RGGI program and the long-term development of the RGGI market. To support the program review, the states have been:

- Gathering analytical material on topics the states may address in the program review, such as the CO_2 allowance budget and flexibility mechanisms
- Developing electricity sector IPM modeling and soliciting feedback from stakeholders
- Conducting Learning Sessions with experts and stakeholders on key program design elements such as flexibillity mechansims and electricity markets and imports
- Developing IPM potential scenarios for modeling and requesting comments from stakeholders on such modeling
- Preparing to conduct economic analyses of the IPM potential scenarios
- Gathering information and soliciting stakeholder feedback on RGGI program operations
- Publishing additional materials for stakeholder comment such as a whitepaper on power sector CO_2 emissions reductions from 2005 to 2009

For more information on program review and to review stakeholder comments, visit http://www.rggi.org/design/program_review.

As the states continue to review stakeholder comments and develop economic analyses of various program design options, the states are requesting stakeholder comments on the program design elements described in Section III below. The following outlines only potential changes or modifications under evaluation by the RGGI states. No decisions have been made on what has been previously presented or on what is presented in this document and no final decisions with respect to program review have been made.

II. SUBMISSION OF WRITTEN COMMENTS

States are requesting stakeholders provide written comments to info@rggi.org by May 31, 2012. All written comments submitted will be posted at www.rggi.org by June 4, 2012. Comments should be organized by topic.

III. OFFSETS

To date, there have been no completed consistency applications for offsets, no projects have been registered, and no CO_2 offset allowances have been issued for RGGI. The states have been evaluating the offsets program to identify why this occurred, if there are any potential opportunities for improvements to the program, and if there are potential opportunities to make more offsets available in the RGGI region while maintaining environmental integrity.

As a result of evaluating the items above, the states are requesting stakeholder feedback on some potential improvements to the RGGI offset program as follows.

A. Potential Changes to Existing RGGI Offset Project Categories

The states are exploring if any changes should be made to the existing five project standard types (Agricultural Methane, Afforestation, Landfill Methane, Sulfur Hexafluoride (SF_6), & End-Use Energy Efficiency).

For the Agricultural Methane, Afforestation and Landfill categories, other programs or registries have developed standardized protocols. For these offsets categories, the states are exploring whether to modify existing RGGI standards; adapt the language from another protocol or program (e.g. California's Air Resources Board, Climate Action Reserve, American Carbon Registry); and/or accept approved offset credits from other programs.

For the Sulfur Hexafluoride (SF_6) and End-Use Energy Efficiency categories no existing standardized protocols have been identified by the states and the states are considering whether to modify the existing RGGI standards.

B. Other Existing Protocols for Further Consideration

The states have received stakeholder comments that additional project category types should be accepted under RGGI, and are evaluating potential protocols for consideration. Protocols that the states are exploring for further consideration include, but are not limited to:

- Forestry Management
- U.S. Ozone Depleting Substances (ODS)
- Wetlands Restoration and Conservation

C. Potential Changes to Offset Program Components

Permissible Percentage of Compliance Obligation & Offsets Triggers

Currently, the amount of CO_2 offset allowances eligible to be used for compliance may not exceed 3.3% of the tons of CO_2 emissions for a control period, unless: there has been a stage one trigger event (5% used for compliance); or there has been a stage two trigger event (10% used for compliance).

Stakeholders have commented that the offsets prices triggers are complicated and should be simplified. The states are considering whether to make any changes to the percentage of offsets eligible for use for compliance and the simplification of the trigger methodology, such as using auction clearing prices to determine a price trigger event.

Geographic Expansion

Currently, eligible domestic offset projects must be located in either a RGGI participating state or in a US state or jurisdiction in which a cooperating regulatory agency has entered into a memorandum of understanding (MOU) with the appropriate regulatory agencies of all participating states.

If a stage two trigger event has occurred, then currently the RGGI participating states may also award CO_2 offsets allowances for certain international CO_2 emissions credit retirements. In order to broaden the availability of offset projects that can be accepted under RGGI, the states are considering potential changes to this requirement.

Eligibility of Projects that received Renewable Energy Certificates

Currently, CO_2 offset allowances are not awarded to an offset project that includes an electric generation component, unless the project sponsor transfers legal rights to any and all attribute credits generated from the operation of the offset project that may be used for compliance with a Renewable Portfolio Standard or other regulatory requirement, to the regulatory agency or its agent. The states are considering whether this additionality requirement should be changed.

Questions for Stakeholders:

1) Please provide your comments on including existing protocols from other registries or programs and potential changes to existing RGGI offset standards.
   - What should the states consider when evaluating existing protocols and evaluating categories for which a standardized protocol has not been identified?
   - Are there any existing standard protocols that you recommend the states explore?
   - Do you have any suggested changes to the existing RGGI offset project standards that the states should consider?

2) Please provide your feedback on potential additional protocols that the states are exploring for further consideration including, potential benefits or barriers to adoption,

suggestions for existing protocols, considerations for developing RGGI-specific protocols.

3) What are the implications of changing the percentage limits for offsets that can be used to meet compliance?

4) What are the implications of changing the requirement regarding accepting offset projects outside of the RGGI region? What should the states consider when evaluating potential changes to this requirement?

5) Do you have any specific suggestions for streamlining or improving the efficiency of the existing administrative processes of the offset program?

IV. COST CONTAINMENT RESERVE (CCR) DESIGN

The states are working with stakeholders and experts to evaluate the use of a CCR as a flexibility mechanism. The states incorporated a CCR in several of the potential IPM modeling scenarios that were discussed at the March 20th stakeholder meeting.

Many stakeholders commented that the states should continue to evaluate a CCR as a flexibility mechanism along with the evaluation of the CO_2 allowance budget and that more details are needed to adequately assess the use of a CCR. As the states consider implementing a cost containment allowance reserve, they are looking for stakeholder comments on the following.

Questions for stakeholders:

1) What are the potential advantages or disadvantages of auctioning allowances from a CCR versus offering them through a fixed priced sale?

2) The quarterly CO_2 allowance auctions are open to all qualified participants. Should all qualified participants remain eligible to purchase the CCR allowances?

3) Please provide your comments on the potential mechanisms for distributing CCR allowances if the auction clearing price exceeds the CCR trigger price including:
   - Release the CCR allowances “within the auction”
   - Conduct a separate follow-up auction for the CCR allowances
   - Release the additional CCR allowances at the next scheduled quarterly auction

   What do you see as the potential advantages or disadvantages of these potential mechanisms?

4) Do you have any comments on any administrative changes to the auction qualification process that might be necessary as a result of adding a CCR?

5) Currently, the CCR was modeled as limited to no more than 10 million allowances a year based upon certain price triggers. What are your comments on the appropriate size of the CCR?

6) Do you have any comments on the administrative process for CCR allowances that are not used at the end of the year?

7) What are your comments on how the price triggers should interact across all the potential RGGI design elements, including the length of the compliance period, expansion of offsets usage for compliance and the CCR?

8) What are your comments on the mechanisms states should use to determine price triggers, such as auction clearing prices?

V. <u>CONTROL PERIOD</u>

The states are evaluating the current three year control period (and extension to a four year period if a stage two trigger event occurs) to determine if there are opportunities for improvement, such as improving enforceability. Currently, compliance entities are required to provide allowances equal to emissions at the end of each three year control period. The states are requesting stakeholder comments as they evaluate potential changes to the control period and compliance process.

Questions for stakeholders:

1) Please provide your comments on the control period and compliance process, including comments on:

    - Current three year control period

    - A potential one year control period in which compliance entities would be required to provide allowances equal to emissions annually.

    - A potential modified annual process in which compliance entities would provide allowances for a portion of their annual compliance obligation for each of the first two years of a control period. In the third year, compliance entities would provide allowances for the remainder of their compliance obligations.

2) What portion of allowances should be required for the interim compliance in the modified annual option?

3) What are your comments on the extension of the control period at certain price trigger event, including under the current program design and under a potential annual or modified annual compliance process?

VI. USE OF CURRENT MARKET RESERVE PRICE (CMRP)

The auction reserve price is the minimum bid price for a CO_2 allowance and an important mechanism for ensuring the competiveness of an auction. The states are evaluating the use of a CMRP as an option for establishing an auction reserve price. For those states for which it applies, the "current market reserve price" is eighty percent of the "current market price". The reserve price in each auction is the higher of the "minimum reserve price", currently \$1.93, or the "current market reserve price", if such a price has been established.

Questions for stakeholders:

1) What are your comments on the potential elimination of the CMRP as an option for establishing the auction reserve price?

2) If the states should maintain a CMRP, what are your suggestions for calculating a current market price and how it should be used?

Thank you for comments. Please also provide any additional comments you may have on program review.