

Preliminary Draft Model Rule Amendments

- Outline:
 - Size and Structure of the Cap
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 - Interim Control Period
 - Cost Containment Reserve (CCR)
 - Flexibility Mechanisms
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 - Reserve Price
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Size and Structure of Cap

- The proposed draft model rule contains placeholder language for allocation years 2014-2020. The size and direction of the cap beyond 2020 will be determined at a future date.
- The states anticipate that they will continue to maintain the original 2.5% per year reduction to the regional RGGI cap.
- Potential cap decision making will be informed by electricity sector modeling and other program review analyses conducted by the states.



Size and Structure of Cap

The following presents each state's apportionment percentage of the regional cap.

State	Percent of Annual CO2 Regional Cap
Connecticut	6.5%
Delaware	4.6%
Maine	3.6%
Maryland	22.7%
Massachusetts	16.1%
New Hampshire	5.2%
New York	38.9%
Rhode Island	1.6%
Vermont	0.7%

In consideration of the modeling presented this morning, the states are seeking comments on the size and structure of the cap.



Interim Adjustment to the Base Budget to Account for Banked Allowances. Model Rule: (XX-5)

The states propose to address the bank of allowances held by market participants as two distinct components via an Interim Adjustment for Banked Allowances, when considering potential changes to the regional CO₂ emissions cap.

- Adjustment will be made for 100% of the first control period private bank of allowances over a 7 year period (2014 - 2020).
- Adjustment will be made for 100% of the second control period private bank of allowances over a 6 year period (2015 - 2020), after the size of the second compliance period bank is determined.
- Interim Adjustment for Banked Allowances: $(\text{Bank} / \text{Adjustment Period}) \times (\text{Ratio of each state's annual base budget to the total regional annual cap})$.
- Market participants may continue to bank allowances.

The states seek comment on this proposal.



Interim Control Periods

Model Rule: XX-1.2, XX-1.5, XX-4.1, XX-6.5, XX-7.2

To reduce the impact of potential non-compliance, the states propose draft model rule language to establish:

- A general requirement for sources to acquire and surrender allowances for a fixed percentage of annual emissions over each of the first 2 years of the control period.
- Final compliance true-up at the end of the 3-year control period.

The states seek comment on the proposed model rule language.



Cost Containment Reserve (CCR)

Model Rule: XX-1.2, XX-5.3, XX-9

The states propose the adoption of a CCR as a cost containment flexibility mechanism, with the following proposed model rule design elements:

- A fixed quantity of CCR allowances in addition to the cap, with annual replenishment as needed, up to the fixed quantity to ensure availability of allowances each year.
- The CCR allowances will be sold at any auction if demand for allowances at prices above the CCR trigger price exceeds the supply of non-CCR allowances, until all CCR allowances available for the year are sold.
- CCR allowances will only be sold at or above the CCR trigger price.



Cost Containment Reserve (CCR)

Model Rule: XX-1.2, XX-5.3, XX-9

In the current modeling states assume:

- An escalating CCR trigger price of \$5 in 2014, \$7 in 2015 - 2017, and \$10 in 2018.
- A CCR of 10M allowances.

The states seek comment on the proposed model rule language.



Flexibility Mechanisms

Model Rule: XX-1.2, XX-6.5, XX.10.3

To prevent undesirable market behavior caused by an overlap in flexibility mechanisms and to simplify the use of offsets, the states propose model rule language to:

- Retain a 3.3% offset limitation for compliance
- Remove international offsets
- Remove control period extension to 4 years
- Replace the price triggers and the resultant offset expansion by the CCR

The states seek comment on the proposed model rule language.



U.S. Forests Offset Protocol

Model Rule: XX-10

- The states are developing a RGGI U.S. Forests Offset Protocol. For those states that adopt this new protocol, it includes: Forestry Management, Avoided Conversion, and Reforestation.
- The new RGGI U.S. Forests Offset Protocol would be similar to the California Air Resources Board (CARB) U.S. Forest Offset Protocol.¹
 - RGGI may accept forestry offset projects that have been registered with the Climate Action Reserve.
- The states will require compliance with general offset requirements contained in the RGGI Model Rule including additionality, verification, and the application process, as appropriate.

The states seek comment on the proposed model rule language.

¹ See CARB Compliance Offset Protocol for U.S. Forest Projects: <http://www.arb.ca.gov/cc/capandtrade/protocols/usforestprojects.htm>



Offsets

Model Rule: XX-10.5

- **SF₆ Offset Category** - The draft model rule deletes the language referring to consistency applications associated with reduction in emissions of sulfur hexafluoride that were filed prior to 2009 in Section 10.5(b)(3) as those requirements are no longer applicable.
- **End-Use Energy Efficiency Offsets Category** - Draft model rule deletes language for offset projects commenced prior to January 1, 2009.

The states seek comment on the proposed model rule language.



Reserve Price

Model Rule: XX-1.2

To simplify the administration of the auction reserve price, the states propose model language to:

- Simplify the CPI adjustment, starting in January 2014, the minimum reserve price is set at \$2 and will adjust annually by 2.5%.

Note: the 2.5% annual adjustment was derived from an analysis of average CPI for the preceding decades, 3.0 and 2.6, in the 1990s and 2000s, respectively.

- Remove provisions in state regulations for a “current market reserve price”, where applicable.

The states seek comment on the proposed model rule language.



Miscellaneous

- The states propose the deletion of Model Rule language related to Early Reduction CO₂ Allowances (XX-5.3).
- Incorporation by Reference - The draft model rule contains updates for all documents incorporated by reference.

The states seek comment on the proposed model rule changes.

