RGGI 2012 Program Review: Summary of Recommendations to Accompany Model Rule Amendments

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort of nine Northeast and Mid-Atlantic states to regulate and reduce carbon dioxide (CO_2) emissions from the power sector. In accordance with each state's independent legal authority, Connecticut, Delaware, Maine, Massachusetts, Maryland, New Hampshire, New York, Rhode Island, and Vermont (Participating States) each commit to propose for statutory and/or regulatory approval revisions to their CO_2 Budget Trading Programs substantially consistent with the updated Model Rule released on February 7, 2013 (Updated Model Rule).

As called for in the original RGGI Memorandum of Understanding, the Participating States conducted a program review of the CO_2 Budget Trading Programs. Proposed amendments to the program have been incorporated in an Updated Model Rule that will guide each state as it follows its own statutory and/or regulatory procedures to propose updates to its CO_2 Budget Trading Program regulations.

The RGGI program review was a rigorous and comprehensive evaluation, supported by an extensive regional stakeholder process that engaged the regulated community, environmental nonprofits, consumer and industry advocates, and other interested stakeholders. The Participating States have been working with program review stakeholders since 2010, convening over 12 stakeholder meetings, webinars and learning sessions. The program review has sought to ensure RGGI's continued success – effectively reducing CO_2 emissions while providing benefits to consumers and the region.

The program review revealed:

- A significant excess supply of allowances relative to actual emission levels in the region.
- The current cost control measures in the program, which are based upon expansion of the percentage of offset allowances allowable for compliance, would likely be ineffective in controlling costs if the emissions cap is made binding.

In response to those findings, the Participating States are proposing to revise the regional cap and establish a Cost Containment Reserve (CCR), as outlined below and in the Updated Model Rule:

1. Revised Regional Cap: The Participating States will lower the regional CO_2 emissions cap to align the cap with current emissions levels while accounting for allowances held by market participants in excess of the quantity needed to demonstrate compliance.

    - The Regional Emissions Cap in 2014 will be equal to 91 million tons. The Regional Emissions Cap and each Participating State's individual emissions budget will decline 2.5% each year 2015 through 2020.

    - The Participating States will address the bank of allowances held by market participants with two interim adjustments for banked allowances. The first adjustment will be made over a 7-year period (2014-2020) for the first control period private bank of allowances and a second adjustment will be made over a 6-year period (2015-2020) for the 2012-2013 period private bank of allowances.

2. CCR: The Participating States will establish a cost containment reserve (CCR), which is a reserved quantity of allowances, in addition to the cap, that would only be available if defined allowance price triggers are exceeded. These allowances provided within the CCR will be equal to 5 million short tons in 2014 and 10 million short tons each year thereafter.

The Participating States have based their recommendations regarding such program elements as the cap level, the size and structure of the CCR, the approach to accounting for the allowances held by market participants in excess of the quantity needed to demonstrate compliance, and the CCR price triggers upon consideration of relevant information and analyses, including but not limited to:

- Retrospective analyses of CO_2 emissions trends;
- Electricity sector and CO_2 emissions modeling;
- Macroeconomic modeling;
- Customer electricity bills analyses; and
- Stakeholder engagement and comments.

The following principles will guide the Participating States in proposing individual state revisions to statutes or rules based on the Updated Model Rule, in working together to implement their CO_2 Budget Trading Programs, and in seeking to reduce greenhouse gas emissions in the region.

I. State Legislation and/or Rulemaking: Each Participating State commits to seek to establish in statute and/or regulation amendments to RGGI substantially consistent with the Updated Model Rule and to have that State's component of the regional program effective by January 1, 2014.

II. Unsold Allowances from 2012 and 2013: The Participating States do not intend to reoffer unsold 2012 and 2013 allocation year CO_2 allowances during the second control period. Retirement of 2012 and 2013 allocation year CO_2 allowances will occur at the end of the second control period, subject to each state's statutory and/or administrative process.

III. Program Review: The Participating States will conduct ongoing program evaluation to continually improve RGGI. The Participating States commit to commencing comprehensive program review no later than 2016 to consider program successes, impacts, potential additional reductions to the cap post-2020, and other program design elements.

IV. Emissions Leakage: In order to identify a workable policy on emissions associated with imported electricity, the states commit, over the course of the next year, to engage in a collaborative effort supported by RGGI state staff and informed by discussions with their respective ISOs, to identify and evaluate potential imports tracking tools, conduct further modeling to ascertain energy and price implications of any potential policy on emissions associated with imported electricity, and pursue additional legal research necessary, leading to a workable, practicable, and legal mechanism to address emissions associated with imported electricity.