RGGI Regional Greenhouse Gas Initiative
An Initiative of the Northeast & Mid-Atlantic States of the U.S.

MEMORANDUM

To: **Regional Greenhouse Gas Initiative (RGGI) Agency Heads**

From: **RGGI Staff Working Group**

Re: **Revised Staff Working Group Package Proposal**

Date: **August 24, 2005**

With this memorandum, we forward for consideration a revised Staff Working Group proposal on all key elements of a regional cap-and-trade program to reduce carbon dioxide emissions from power plants. In compiling this revised package, the Staff Working Group took into account recent discussions among state agency heads, as well as input from stakeholders in the Regional Stakeholder process to date. We believe the attached proposal reflects program choices that all participating states can advance toward implementation.

RGGI began with a historic agreement by the region's governors to tackle one of our most pressing environmental problems. Nearly two years ago, you established the Staff Working Group comprised of your staff representatives to develop a proposal that could turn this vision into a reality. The attached package proposal is the culmination of nearly two years of intensive effort by the Staff Working Group with regular input from stakeholders.

Our stakeholders have played a central role in the policy considerations that led us to the attached package proposal. Consistent with our extensive stakeholder outreach to date, we will solicit additional stakeholder input on the revised package over the next several weeks.

If you have any questions about the attached revised package proposal, please direct them through your representative to the SWG.

Revised Staff Working Group Package Proposal
(8/18/05)

The RGGI Staff Working Group offers the following revised package proposal for consideration for incorporation in a final Memorandum of Understanding among the participating RGGI states. This revised package proposal has taken into account the preferences expressed in discussions among the states over the past several months.

- Program Start Date and 2015 Review. The program will start in 2009. There will be a comprehensive review in 2015 to assess, among other things, program success in meeting emissions reduction goals, price impacts, the numerical limit on offsets, the viability of additional reductions after 2020, and the extent to which the program has caused increases in imports and associated emissions leakage.

- Reduction Goals: The cap will be implemented in two phases. Emissions will be stabilized at approximately 150 million tons from 2009 through 2015; followed by a 10% reduction between 2015 and 2020.

- Regional Cap Level and Apportionment: The initial cap level shall be set at 150,602,356 short tons of carbon dioxide, which is approximately equivalent to the average emissions of the highest 3 years between 2000 and 2004. Initial state emissions budgets will be:

Connecticut:	10,957,575 short tons
Delaware:	7,570,787 short tons
Maine:	5,492,902 short tons
Massachusetts:	25,335,204 short tons
New Hampshire:	8,645,460 short tons
New Jersey:	23,009,554 short tons
New York:	65,576,805 short tons
Rhode Island:	2,665,239 short tons
Vermont:	1,348,830 short tons
Total:	**150,602,356 short tons**

In developing state emissions budgets, consideration was given to the following factors: 2000-2004 emissions, electricity consumption, population, potential emissions leakage, and provision for new sources.

- Allowance Allocations. Decisions on allowance allocations will be left to each state, except:

  - All states agree to set aside 5% of their emissions budget for the regional Strategic Carbon Fund ("SCF"). The SCF shall be used to achieve additional environmental benefits through the development of projects that achieve supplemental greenhouse gas emissions reductions and carbon sequestration beyond that required to achieve the cap.

  - All states agree to propose—for legislative and/or regulatory approval—that 20% of the allowances will be allocated for a public benefit purpose. Public benefit purposes may include the use of the allowances to promote energy efficiency, to directly mitigate electricity ratepayer impacts, promote renewable energy technologies, and/or to stimulate or reward investment in technologies that will reduce emissions of carbon dioxide from power generation in the state.

- New Sources. New Source set-asides will be created at the discretion of each state.

- Potential Emissions Leakage. The states recognize the potential that a regional carbon constraint may lead to increased electricity imports and associated emissions leakage. The Strategic Carbon Fund will result in emissions reductions in addition to those that will be achieved by the cap. These additional reductions will help to offset potential emissions leakage. The states further agree to monitor electricity imports into the RGGI region on an ongoing basis, and evaluate the extent to which those imports may have been caused by RGGI. Monitoring shall include, among other things, publication of the amount of electricity imports on an annual basis and a commitment to continue to work together, within our respective state and regional bodies, to address any issues raised by the data. As part of the 2015 review of the program, states will consider the significance of any emissions leakage and whether additional measures to address emissions leakage should be implemented. States may agree to collectively pursue mitigation measures prior to the 2015 review, as warranted.

- Offsets. The program will have a robust offsets component, as follows:

  - Initial Types. From the start of the program, offset credits will be issued for the following qualified projects and/or actions within a participating RGGI state: landfill gas, sulfurhexaflouride (SF_6), afforestation and natural gas/home heating oil/propane end-use energy efficiency projects.

- Additional Types. Additional offset types will be added to the program over time. The MOU will direct the states to develop an offset standard for sustainable forestry management on a priority basis.

- EU Allowances and CDM Credits. Eligible offsets shall be expanded to include European Union Emissions Trading Scheme allowances and Clean Development Mechanism credits if the price of allowances reaches a set price per ton on a sustained basis.

- Limit on Use of Offsets. The amount of offsets that can be used for compliance in each compliance period will be limited to 50% of the difference between the projected business as usual emissions and the emissions cap. Specific numerical limits will be included in the MOU. Offsets will also be part of the 2015 review, to re-evaluate their role and to determine whether limits should be adjusted going forward in the program.