

THE REGIONAL GREENHOUSE GAS INITIATIVE

An Initiative of the Northeast and Mid-Atlantic States of the U.S.

RGGI 2016 Program Review

An Emissions Containment Reserve

November 21, 2016 Stakeholder Webinar

www.rggi.org



Summary

- An Emissions Containment Reserve (ECR) would:
 - 1) Make the cap more stringent if costs are lower than expected.
 - 2) Reduce the need for future bank adjustments.
- Important Considerations:
 - 1) An ECR would be a supply control mechanism, not a price control mechanism.
 - 2) It would not prevent prices from dropping below its trigger point.



Concept

The **Cost** Containment Reserve:

Increases Supply

IF

Costs are **High**

The **Emissions** Containment Reserve:

Decreases Supply

IF

Costs are **Low**



Concept

- The Emissions Containment Reserve (ECR):
A portion of the annual cap held in reserve if prices fall below a certain trigger point.

The Trigger:

The price point sufficiently far below expected prices that the RGGI states can conclude we over-estimated costs when setting the cap.

The Reserve Size:

The number of allowances withheld, set sufficient to achieve an alternate emission outcome (i.e. a specific, more stringent cap).



Purpose 1: Cost-Benefit Balance

- The “Correct Cap” balances Costs and Benefits of reductions.
- If reductions cost significantly less than we anticipated, then we got that balance point wrong.
- So if reductions cost less, the ECR would secure more of them.



Purpose 2: Automatic Bank Adjustment

- If the market is over-supplied, a bank may build up and prices may fall.
- If the bank is so large that it significantly depresses prices, the ECR would proactively adjust for the bank by reducing the cap.
- Bank adjustments like those RGGI has implemented in the past require several years to take effect.



Purpose: Supply, not Price

- If the ECR triggers, regulators set the emission outcome (the alternate cap); the market sets the price.
- The ECR would be a supply control mechanism, not a price control mechanism, because it would be a soft floor, not a hard floor.
- The trigger price would be an indicator of low costs, not the goal of the mechanism.

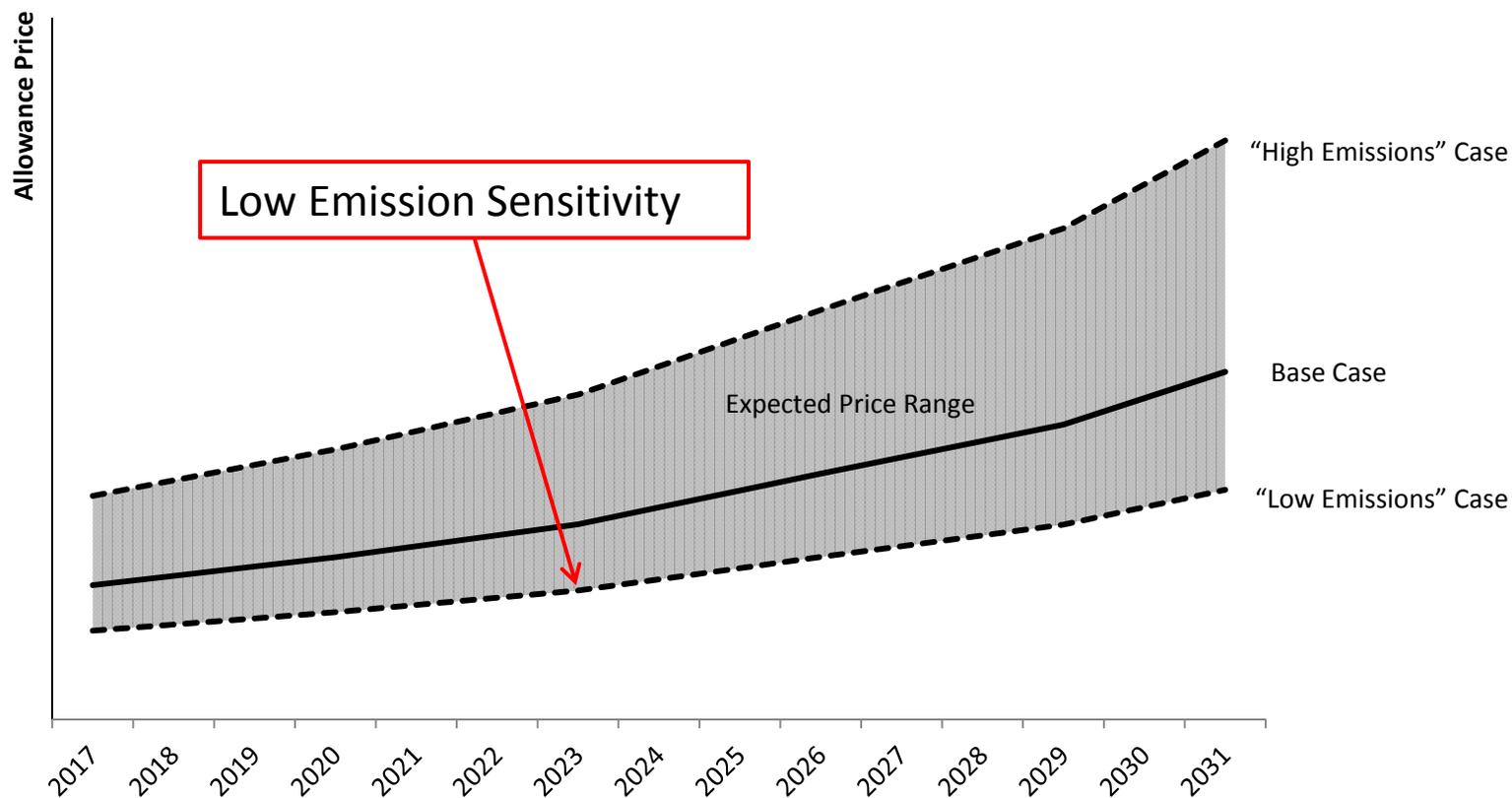


Design Considerations: Trigger

- The Trigger
 - The price point sufficiently far below expected prices that we can conclude we over-estimated costs when setting the cap.
- “Low Emissions” Assumptions:
 - Lower external cost factors (NG price, etc.) & more reductions from complementary policies.
 - Anything lower would be **unexpected**; suggests our projections were significantly wrong.



Design Considerations: Trigger

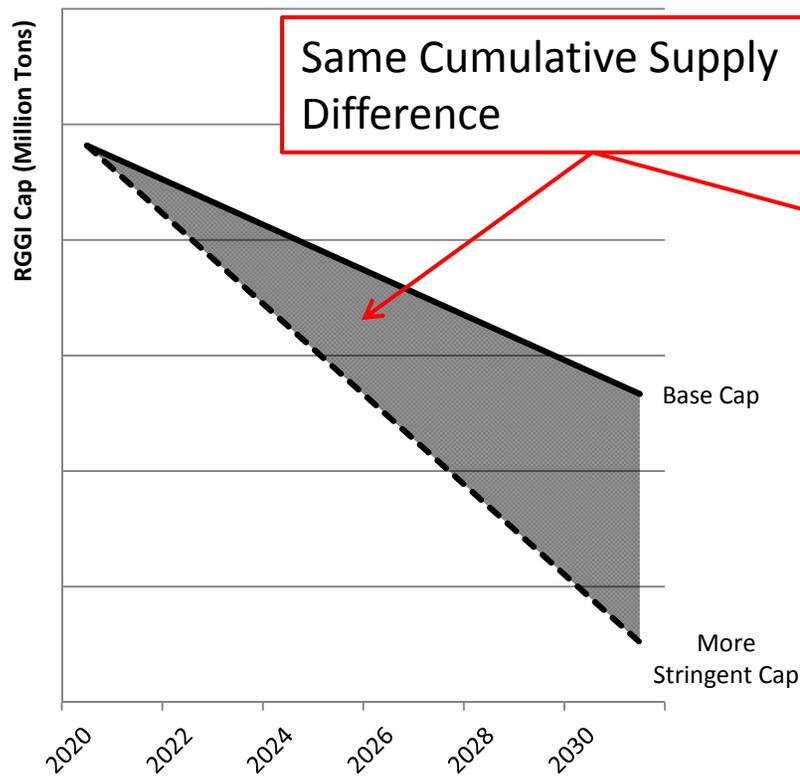


ECR Trigger could be set in reference to Low Emissions Sensitivity.

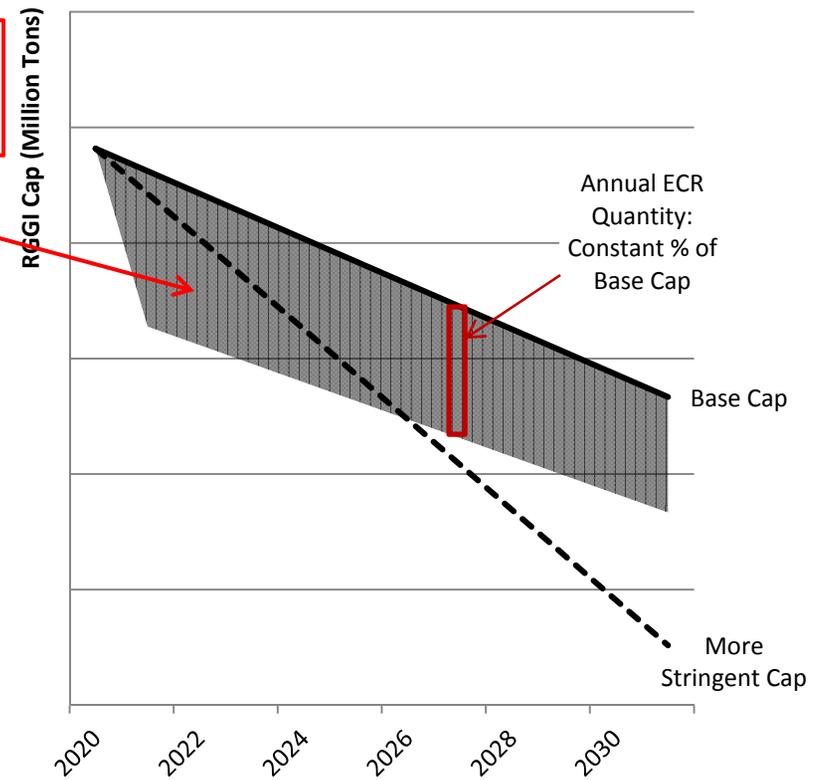


Design Considerations: Reserve Size

Step 1: Determine cumulative supply difference between base cap and more stringent cap across chosen time period



Step 2: Allocate that difference across years within that time period to make annual ECRs (example: fixed percentage of annual base cap)



The ECR and the Auction Reserve Price

The **ECR**

- Soft Price Floor
 - Limited number of allowances withheld below trigger
 - Price Outcome Uncertain
 - Emission Outcome Enforced

The **Auction Reserve Price**

- Hard Price Floor
 - All allowances withheld below trigger
 - Price Outcome Enforced
 - Emission Outcome Uncertain

The two are compatible when the ECR trigger is above the Auction Reserve Price.



Questions and Responses

