

COLLABORATIVE FOR RGGI PROGRESS

BACKGROUNDER ON THE COST CONTAINMENT RESERVE

April 2016

As part of the 2016 Program Review, RGGI states will need to decide whether to retain the Cost-Containment Reserve (CCR) going forward. The Program Review provides an opportunity to consider how well the CCR has functioned in practice and to consider how the federal Clean Power Plan and the potential for trading with other states might provide an additional or alternative way to achieve the goals of the CCR. Should the states decide to keep the CCR, the CCR must be designed to meet federal Clean Power Plan requirements. The Program Review provides an opportunity to consider other changes to the design of the CCR to better accomplish its goals. This background briefing reviews the possible goals for a CCR, the design and operation of the current RGGI CCR and poses questions about the CCR going forward.

Possible Goals for the Cost-Containment Reserve

- The CCR should dampen allowance price volatility during times of very high demand.
- The CCR should aid in keeping allowance prices lower than they might be without the CCR during times of very high demand.
- The CCR should protect the environmental integrity of the mass-based allowance budget.

The Current Cost-Containment Reserve

- The CCR was instituted as part of the 2012 RGGI Program Review and first took effect for 2014.
- The CCR is triggered when allowance prices at the RGGI auction exceed specified trigger prices. The trigger price was \$4 in 2014; \$6 in 2015; is \$8 in 2016 and will be \$10 in 2017. Each year after 2017 the trigger price increases by 2.5% per year.
- When the CCR is triggered, additional allowances are sold. In 2014, the additional amount was limited to 5 million allowances. From 2015 to 2020, up to 10 million additional allowances are sold each year when the trigger price is reached.
- Since 2014, the CCR has been triggered in each of 2014 and 2015, adding a total of 15 million allowances to the overall supply. The CCR has not been triggered in 2016 as of April 2016.

- The CCR raises RGGI’s mass-based cap when the trigger prices are reached. The table below shows the effect of the additional allowances on the RGGI emissions budget.

Year	Annual Emissions Budget (millions of short tons)	Allowance Trigger Price	Additional CCR Allowances (millions of short tons)	Percentage Increase in Annual Budget
2014	91	\$4	5	+5.5%
2015	88.725	\$6	10	+11.3%
2016	86.507	\$8	10	+11.6%
2017	84.344	\$10	10	+11.9%
2018	82.236	\$10.25	10	+12.2%
2019	80.180	\$10.51	10	+12.5%
2020	78.175	\$10.77	10	+12.8%

Key Questions for the 2016 Program Review

- Has the CCR functioned in the manner intended by decreasing price volatility and/or keeping allowance prices lower than they would have been in the absence of the CCR?
- If RGGI were to allow trading with other states implementing a mass-based trading program under the Clean Power Plan, would broader trading achieve the same goals without a CCR?
- Could the goals of the CCR be accomplished without increasing the annual RGGI emission budget by more than 11% each year?
 - What can be learned from other mass-based trading programs, such as California’s cap-and-trade program?
 - How can the RGGI cap plus available CCR allowances be designed to avoid exceeding RGGI’s emissions goals and the goals of the federal Clean Power Plan?
- Does the CCR make RGGI more or less attractive to other states as they consider trading with the RGGI region under the Clean Power Plan? Does the CCR inject uncertainty for potential trading partners?