

# Regional Greenhouse Gas Initiative

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

## Summary of RGGI Model Rule Updates: September 2017

---

The Regional Greenhouse Gas Initiative (RGGI) is composed of individual CO<sub>2</sub> Budget Trading Programs in each RGGI participating state. Each participating state's CO<sub>2</sub> Budget Trading Program is based on the RGGI Updated Model Rule (2013), which was developed to provide guidance to states as they implemented the RGGI program. RGGI participating states have been conducting a Program Review, which is a comprehensive evaluation of program successes, program impacts, the potential for additional reductions, imports and emissions leakage, and offsets.

Proposed amendments to the Model Rule were developed by the RGGI state staff as part of the Program Review. This effort was supported by an extensive regional stakeholder process that engaged the regulated community, environmental non-profits, and other organizations with technical expertise in the design of cap-and-trade programs.

A summary of the proposed amendments to the RGGI Program, as detailed in the Model Rule, are discussed below.

### **Size and Structure of Cap and Allowance Apportionment (XX-5.1)**

The regional emissions cap in 2021 will be equal to 75,147,784 tons and will decline by 2.275 million tons of CO<sub>2</sub> per year thereafter, resulting in a total 30% reduction in the regional cap from 2020 to 2030.

### **Budget Adjustments (XX-5.3)**

The Model Rule contains language to address the private bank of allowances through one additional, distinct budget adjustment.

- The Third Adjustment for Banked Allowances, would adjust the base budget for 100 percent of the pre-2021 vintage allowances held by market participants as of the end of 2020, that are in excess of the total quantity of 2018, 2019, and 2020 emissions. The third adjustment timing and algorithm is spelled out in the Model Rule and would be implemented over the 5-year period, 2021-2025, after the actual size of the 2020 vintage private bank is determined.

### **Cost Containment Reserve (XX-5.3(d) and XX-9)**

The Model Rule contains language for the continued use of a cost containment reserve (CCR) that will provide flexibility and cost containment for the program. The CCR would consist of a fixed quantity of allowances, in addition to the cap, that would be held in reserve, and only made available for sale if allowance prices exceed predefined price levels.

- The Model Rule contains language for an annual CCR allowance quantity of 10% of the regional cap beginning in 2021 and each succeeding year thereafter.

# Regional Greenhouse Gas Initiative

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

- Allowances from the CCR would be fully fungible.
- The CCR allowances would be made available immediately in any auction in which demand for allowances at prices above the CCR trigger price exceeds the supply of allowances offered for sale in that auction prior to the addition of any CCR allowances.
- If the CCR is triggered, the CCR allowances would only be sold at or above the CCR trigger price.
- The CCR Trigger Price will be \$13.00 in 2021 and rise at 7% per year, so that the CCR will only trigger if emission reduction costs are higher than projected.

## **Emissions Containment Reserve (XX-5.3(e) and XX-9)**

The Model Rule contains language for the creation and use of an emissions containment reserve (ECR) that will respond to supply and demand in the market if emission reduction costs are lower than projected. States will withhold allowances from circulation to secure additional emissions reductions if prices fall below established trigger prices. At this time, Maine and New Hampshire do not intend to implement an ECR. Allowances withheld in this way will not be reoffered for sale.

- The Model Rule contains language for an annual ECR allowance withholding limit of 10% of the budgets of states implementing the ECR.
- The ECR trigger price will be \$6.00 in 2021, and rise at 7% per year, so that the ECR will only trigger if emission reduction costs are lower than projected.

## **Offsets (XX-10.2 and XX-10.5)**

The Model Rule contains language that eliminates two offset categories, the “SF<sub>6</sub> Offset Category (XX-10.5(b))” and the “End-Use Energy Efficiency Offsets Category (XX-10.5(d)),” and updates and retains three categories that some States may continue to implement. Any awarded offset allowances would remain fully fungible across the states.

## **Miscellaneous**

### **Reserve Price (XX-1.2)**

The Model Rule retains language to increase the minimum reserve price by 2.5 percent each year.