

# THE REGIONAL GREENHOUSE GAS INITIATIVE

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

## RGGI Program Review-Program Design Concepts Stakeholder Webinar - October 18, 2012

[www.rggi.org](http://www.rggi.org)



# Outline

- Purpose
- Presentations on Program Concepts:
  - Treatment of Unsold Allowances
  - Consideration of Banked Allowances and Potential Cap Changes
  - Compliance Period (Interim True-up)
  - Cost Containment Reserve (CCR)
  - Flexibility Mechanism Triggers
  - U.S. Forests Offset Protocol
  - Reserve Price
  - Early Reduction CO<sub>2</sub> Allowances



# Purpose

- The states participating in the Regional Greenhouse Gas Initiative (RGGI) continue to conduct the comprehensive 2012 program review as part of RGGI's initial design, their ongoing commitment to ensure the environmental integrity of the RGGI program, and the long-term development of the RGGI market.
- To support the program review, the states have been:
  - Developing electricity sector IPM modeling and potential scenarios and soliciting feedback from stakeholders.
  - Conducting Learning Sessions with experts and stakeholders on key program design elements such as offsets, flexibility mechanisms, and electricity markets and imports.
  - Preparing to conduct economic analyses of the IPM potential scenarios.
  - Gathering information and soliciting stakeholder feedback on RGGI program operations.



## Purpose (2)

- As part of 2012 Program Review, for today's webinar the states have identified program design concepts, under consideration to be incorporated in the Model Rule, for which they request stakeholder feedback.



# Treatment of Unsold Allowances

As part of potential program changes, the states are considering the treatment of unsold allowances (allowances offered for sale at auction but not sold) going forward in the program.

- States intend to address the treatment of any unsold allowances.
  - Note: At the end of the first control period (2009-2011), each state decided not to reoffer unsold allowances from the first control period in the second control period.
- States are considering whether decisions about unsold allowances should be specified in advance (e.g. 1 year prior to implementation), at specified intervals (e.g. at the beginning of each year, each control period), or as needed.

States are requesting comments on the timing of any decisions that might address unsold allowances.



# Consideration of Banked Allowances and Potential Cap Changes

States are considering how the bank of allowances held by market participants should be factored into potential changes to the regional CO<sub>2</sub> emissions cap.

- Consideration will include the first control period private bank (estimated to be 47M).
- Market participants may continue to bank allowances in the second control period prior to any potential cap changes.
- The states intend to consider the amount of banked allowances when determining potential changes to the cap.

States are requesting comments on how the bank of allowances should be factored into decisions on revising the cap.



## Interim True-up

To reduce the impact of potential non-compliance and to align with federal emissions abatement programs, the states are considering modifying the CO<sub>2</sub> budget trading rules to create:

- A general requirement for sources to acquire and surrender allowances for a fixed percentage in the range of 75% to 85% of annual emissions over each of the first 2 years of the control period.
- Final compliance true-up at the end of the 3-year control period.

The states request comment on the implementation of an interim true-up for annual emissions. Please comment specifically on the implication of a fixed percentage in the range of 75% to 85% for interim true-up.



# Cost Containment Reserve (CCR)

The states are considering a CCR as a cost containment flexibility mechanism, with the following design elements:

- A fixed quantity of CCR allowances in addition to the cap, with annual replenishment as needed, up to the fixed quantity (e.g. 10M) to ensure availability of allowances each year.
- The CCR allowances will be sold at any auction if demand for allowances at prices above the CCR trigger price exceeds the supply of non-CCR allowances, until all CCR allowances available for the year are sold.
- CCR allowances will only be sold at or above the CCR trigger price.
- In previous modeling, the states used a CCR of 10M allowances, with an escalating trigger price of \$5 in 2014, \$7 in 2015 - 2017, and \$10 in 2018.



# Flexibility Mechanism Triggers

To prevent undesirable market behavior caused by an overlap in flexibility mechanisms (CCR and offset expansion) and to simplify the use of offsets, the states are considering:

- Retaining a 3.3% offset limitation for compliance
- Removing international offsets, and either:
  - Replacing the price triggers and the resultant offset expansion by the CCR
  - or
  - Developing one domestic offset expansion trigger at a price higher than the CCR trigger price



## Flexibility Mechanism Triggers (2)

In addition, to simplify the administration of the program, the states are considering the replacement of the potential extension of the control period to four years with other flexibility mechanisms (i.e. CCR).

- Currently, if allowance prices exceed \$10 (in 2005 constant dollars) the control period is extended from 3 to 4 years.

Please comment on:

- the design of the CCR.
- the replacement of the offset expansion triggers, including the use of international offsets, by the CCR.
- the appropriate expansion percentage, if offset expansion triggers were added in addition to the CCR, and the appropriate offset expansion price trigger (above the CCR price trigger).
- the extension of the control period.



# U.S. Forests Offset Protocol

- Based on feedback from stakeholders, the states are developing a RGGI U.S. Forests Offset Protocol including: Forestry Management, Avoided Conversion, and Reforestation (replacing the current RGGI Afforestation offset project category).
- The new RGGI U.S. Forests Offset Protocol would be similar to the California Air Resources Board (ARB) U.S. Forest Offset Protocol<sup>1</sup>
  - Provides consistency and transparency for offset project developers
  - Leverages work and research previously done by ARB and other experts
- States are considering requiring compliance with general offset requirements contained in the RGGI Model Rule including additionality, verification, and the application process, as appropriate.

Please comment on this approach.

<sup>1</sup> See ARB Compliance Offset Protocol for U.S. Forest Projects: <http://www.arb.ca.gov/cc/capandtrade/protocols/usforestprojects.htm>



# Reserve Price

To simplify the administration of the auction reserve price, the states are considering:

- Removing provisions in regulations for a “current market reserve price”, where applicable.
- Simplifying the CPI adjustment to an annual increase of 2.5%.

Note: the 2.5% annual adjustment was derived from an analysis of average CPI for the preceding decades, 3.0 and 2.6, in the 1990s and 2000s, respectively.

Please comment on these changes.



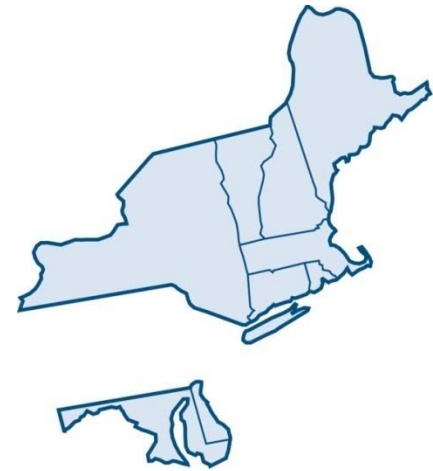
# Early Reduction CO<sub>2</sub> Allowances

- The states are considering the deletion of Model Rule language related to Early Reduction CO<sub>2</sub> Allowances.



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## Questions and Discussion



## Next Steps

- Written comments are requested by 4:00 PM ET on October 26<sup>th</sup>, 2012 and should be submitted via email to [info@rggi.org](mailto:info@rggi.org). All submitted comments will be posted at [www.rggi.org](http://www.rggi.org).



# Save the Date: November Stakeholder Meeting

- The next stakeholder meeting will review the ongoing electricity sector and macroeconomic modeling.

Date: Tuesday, November 20<sup>th</sup>, 2012

Location: Massachusetts Department of Energy Resources  
100 Cambridge Street, Boston, MA

