## Summary of Preliminary Draft Model Rule Changes
November 20th Stakeholder Meeting

The Regional Greenhouse Gas Initiative (RGGI) is composed of individual $CO_2$ Budget Trading Programs in each RGGI participating state. Each participating state's $CO_2$ Budget Trading Program is based on the 2008 RGGI Model Rule, which was developed to provide guidance to states as they implemented the RGGI program. RGGI participating states are currently engaged in a 2012 Program Review, which is a comprehensive evaluation of program successes, program impacts, the potential for additional reductions, imports and emissions leakage, and offsets.

The proposed amendments to the 2012 Draft Model Rule (draft model rule) are being developed by the RGGI state staff as part of the on-going Program Review. This effort is supported by an extensive regional stakeholder process that engages 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 to date, as outlined in the draft model rule, are discussed below.

### Size and Structure of Cap

The proposed daft model rule language maintains the original 2.5% per year reduction to the regional RGGI cap. Potential cap decision making will be informed by electricity sector modeling and other program review analyses conducted by the states. The following presents each state's apportionment percentage of the regional cap.

| State | Percent of Annual $CO_2$ Regional Cap |
|---|---|
| **Connecticut** | 6.5% |
| **Delaware** | 4.6% |
| **Maine** | 3.6% |
| **Maryland** | 22.7% |
| **Massachusetts** | 16.1% |
| **New Hampshire** | 5.2% |
| **New York** | 38.9% |
| **Rhode Island** | 1.6% |
| **Vermont** | 0.7% |

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## Allowance Apportionment (XX-5.1)

*Each state apportioned its budget based on the percentage indicated above from the regional cap.*

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

The draft model rule contains language to address the private bank of allowances through two distinct budget adjustments.

- The First Control Period Interim Adjustment for Banked Allowances (first adjustment), adjusts the budget for 100 percent of the first control period private bank of allowances (vintages 2009, 2010, & 2011) held by market participants as of the end of the first control period, that are in addition to the total quantity of first control period emissions. The first adjustment timing and algorithm is spelled out in the draft model rule and is made over the 7 year period 2014-2020

- The Second Control Period Interim Adjustment for Banked Allowances (second adjustment), adjusts the budget for 100 percent of the 2012 and 2013 vintage allowances held by market participants as of the end of 2013, that are in addition to the total quantity of 2012 and 2013 emissions. The second adjustment timing and algorithm is spelled out in the draft model rule and is made over the 6 year period 2015-2020 after the actual size of the 2012 and 2013 vintage private bank is determined.

## Cost Containment Reserve (XX-5.3(c) and XX-9)

The draft model rule contains language for the creation and 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 is only to be made available for sale if allowance prices were to exceed predefined price levels[1].

- The draft model rule contains language for an annual CCR withdrawal limit of X million allowances. The CCR would be initially be populated in 2014, and in

[1] In the modeling the states conducted in support of the program review effort, the states evaluated a CCR of 10M allowances, with a trigger price that escalates over time, starting at $5 in 2014, moving to $7 in 2015 - 2017, and rising to $10 in 2018.

subsequent years would be replenished only as needed to maintain the withdrawal limit.

- As written, allowances from the CCR would be fully fungible.
- As written the CCR allowances would be made available immediately in any auction where 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.
- As written, if the CCR is triggered the CCR allowances will only be sold at or above the CCR trigger price.

## Offset Trigger Mechanisms (XX-1.2 and XX-10.3)

The draft model rule deletes the existing offset price triggers, that raise the allowable percentage of offsets and that allow the use of international $CO_2$ emission credit retirements.

The allowable offset percentage would remain at 3.3%, and only those offset credits that satisfy all draft model rule requirements for a specific project category (including any new categories added) may be used for compliance. These changes are consistent with the decision to add a CCR mechanism and address the need for cost control in a much more transparent and predictable way.

## Control Period Extension (XX-1.2)

The draft model rule deletes the potential extension of the control period to four years and is replaced by the CCR.

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

The draft model rule contains language that results in the substitution of the current offset project category for “Afforestation” with a new forestry category to be known as “Sequestration of carbon due to reforestation, improved forest management or avoided conversion”.

A draft RGGI U.S. Forests Offset Protocol has been developed, based mainly on the California Air Resources Board (CARB) U.S. Forests Offset Protocol, to include:

- Improved Forest Management;
- Avoided Conversion; and

- Reforestation (which would replace the existing RGGI Afforestation category type).

Wherever possible, the draft model rule is intentionally staying consistent with the (CARB) to leverage work done by CARB and the Climate Action Reserve (CAR), because the CARB program is expected to support a domestic supply of these offsets, and to provide consistency.

In order to provide flexibility for states, state staff proposes to have a separate U.S. Forests Offset Protocol from the draft model rule with the intent that the draft model rule can incorporate the protocol by reference. States could choose to either incorporate the protocol by reference into state regulations, or choose to include the protocol language within state regulations.

The RGGI protocol would use a discounting approach, instead of the buffer account approach used by CARB, to address reversals and ensure permanence.  Forestry projects that have generated credits in a voluntary offset program would be permitted to transfer to the RGGI program, assuming that they meet all other RGGI requirements and there is no double-counting. The general additionality requirements of the model rule for existing RGGI offset categories are not being changed.

## $SF_6$ Offset Category (XX-10.5(b))

The draft model rule deletes the language referring to consistency applications associated with reduction in emissions of sulfur hexafluoride that were filed prior to 2009 in Section 10.5(b)(3) as those requirements are no longer applicable.

## End-Use Energy Efficiency Offsets Category (XX-10.5(d))

Draft model rule deletes language for offset projects commenced prior to January 1, 2009.

## Incorporation by Reference (XX-10)

The draft model rule contains updates for all documents incorporated by reference.

## Interim Control Periods  (XX-1.2,  XX-1.5, XX-4.1, XX-6.5, and XX-7,2)

The draft model rule creates interim control periods that include the following components:

The addition of new defined terms, including:

- "Interim Control Period," defined as each of the first two calendar years of each three-year control period; and

- "Excess Interim Emissions," defined as any emissions (multiplied by 0.XX) over the amount of allowances held at the end of each Interim Control Period.

- A new general requirement for sources to hold allowances to cover XX% of emissions for each Interim Control Period, subject to the existing true-up process and a March 1 deadline.

- The final compliance true-up at the end of the three-year control period will continue to require sources to hold allowances to cover 100% of the emissions for the three years.
    - The allowances already deducted to meet each of the two annual Interim Control Period obligations will be subtracted from the three-year compliance true-up obligation.

- Each ton of Excess Interim Emissions will be considered a violation, subject to the ordinary existing enforcement provisions of the relevant agency on an annual basis.
    - There will *not* be a "treble damages" provision for Excess Interim Emissions.
    - The existing "treble damages" provision, for any excess emissions at the end of the three-year control period, will remain unchanged.

- The deletion of existing triggers, "market settling period", and other regulatory terms related to the potential to extend the control period to four years.

## Miscellaneous

## Reserve Price (XX-1.2)

The draft model rule contains language to simplify the reserve price. The draft model rule proposes to increase the minimum reserve price by 2.5 percent each year and eliminates the text for current market reserve price.

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## Early Reduction Allowances (XX-5.3)

The draft model rule deletes the ERA provisions as they are no longer applicable to the program.