The Transportation & Climate Initiative
of the Northeast and Mid-Atlantic States

Overview of the Regional Greenhouse Gas Initiative

Background

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by ten Northeast and Mid-Atlantic states to limit greenhouse gas emissions. RGGI is the first mandatory, market-based CO_2 emissions reduction program in the United States.

The states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont are signatory states to the RGGI agreement. These ten states have capped CO_2 emissions from the power sector, and require a 10 percent reduction in these emissions by 2018. Power plants regulated under state RGGI programs account for approximately 95% of the region's total electric generation sector CO_2 emissions.

RGGI is composed of individual CO_2 Budget Trading Programs in each of the ten participating states. These ten programs are implemented through state regulations, based on a regional model rule and are linked through CO_2 allowance reciprocity. Regulated power plants can use a CO_2 allowance issued by any of the ten participating states to demonstrate compliance with the state program governing their facility. Taken together, the ten individual state programs function as a single regional compliance market for carbon emissions. The first compliance period for each state's linked CO_2 Budget Trading Program began January 1, 2009.

To reduce emissions of greenhouse gases, the RGGI participating states are using a market-based cap-and-trade approach that includes:

- Establishing a multi-state CO_2 emissions budget (cap) that will decrease gradually until it is 10 percent lower than at the start
- Requiring electric power generator to hold allowances equal to their CO_2 emissions over a three-year control period
- Providing a market-based emissions auction and trading system where electric power generators can buy, sell and trade CO_2 emissions allowances
- Using the proceeds of allowance auctions to support low-carbon-intensity solutions, including energy efficiency and clean renewable energy, such as solar and wind power

Employing offsets (greenhouse gas emissions reduction or sequestration projects outside the electricity sector) to help companies meet their compliance obligations

RGGI's phased approach means that reductions in the CO_2 cap will initially be modest, providing predictable market signals and regulatory certainty. Electricity generators will be able to plan for and invest in lower-carbon alternatives and avoid dramatic electricity price impacts.

RGGI was specifically designed to reduce carbon dioxide emissions from electricity generation, while minimizing impacts to electricity ratepayers and maximizing consumer benefits. RGGI reduces CO_2 emissions at the lowest possible cost while expanding the deployment of energy efficiency, renewable energy, and clean energy technologies. A key innovative aspect of RGGI is that nearly all CO_2 allowances issued by participating states will be auctioned instead of distributed for free to regulated power plants.

Reinvesting auction proceeds in the region provides significant consumer benefits. Reinvestment of proceeds in local economies helps businesses and homeowners control their energy costs and creates new jobs in the clean energy sector. Improving electricity end-use efficiency is a low-cost means of avoiding CO_2 emissions. End-use energy efficiency investments provide net economic benefits to ratepayers through bill savings, less need for investment in transmission and distribution, and lower wholesale electricity prices, especially during peak demand periods. By using proceeds from CO_2 allowance auctions to reduce electricity demand, RGGI reduces the cost of meeting the emissions cap and moderate CO_2 allowance prices. Consumer benefits realized through the strategic reinvestment of CO_2 allowance auction proceeds are expected to largely offset the direct effect of RGGI on retail electricity prices.

The RGGI auctions raise proceeds for state energy efficiency and clean energy programs, and support investment in clean energy technologies across the region. By boosting clean-technology and renewable energy innovation in the region, the participating states expect to keep wealth in local economies and increase local employment.

Outlook

Three aspects of RGGI's structure that may offer value to efforts among states in the region to address greenhouse gas emissions from the transportation sector are:

The RGGI organization is an efficient and proven vehicle for effective regional cooperation on development of state-based climate policy. The participating states have already established successful mechanisms for decision-making at the Agency Head level, development of policy options at the Staff Working Group level, stakeholder involvement, external communications, and fiscal management.

With an indirect relationship to the development of a Regional Low Carbon Fuel Standard (LCFS), the RGGI states have already begun engagement on development of important transportation related climate policy. The LCFS in itself goes hand-in-hand with other alternative fuel initiatives that the participating state may undertake (i.e. EV corridor demonstration project) in that it provides a regulatory impetus and inherent market signals for generation of climate-friendly fuels deployment.

With a cap on electric generating units already in place for the ten states participating in RGGI, there is a "ready made" opportunity to maximize energy efficiency through establishment of a regional EV corridor that enhances and supports individual state efforts to develop in-state EV recharging infrastructure for shorter passenger vehicle commutation.

Challenges

Should the Agency Heads decide to access the RGGI structure for purposes of collaborating on emissions reductions in the transportation sector, challenges will include:

- Development of a governance structure involving those states not participating in RGGI's cap-and-trade program (i.e. Pennsylvania) as well as those state Agency Heads currently not serving on the RGGI Board of Directors (i.e. Transportation Agency Heads);
- External communication of the intent of the Agency Heads for affiliation with RGGI;
- Securing independent funding for TCI activities.