

Regional Greenhouse Gas Initiative
Report to the Legislature
January 15, 2014

This Report was prepared pursuant to 30 V.S.A. § 255 (e) which states:

“By January 15 of each year, commencing in 2007, the department of public service in consultation with the agency of natural resources and the public service board shall provide to the house and senate committees on natural resources and energy, the senate committee on finance, and the house committee on commerce a report detailing the implementation and operation of RGGI and the proceeds collected and the expenditures made under this section, together with recommended principles to be followed in the allocation of funds.”

Background & Overview of the Regional Greenhouse Gas Initiative

The Regional Greenhouse Gas Initiative ("RGGI") is a cooperative effort by Northeastern and Mid-Atlantic states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont) to reduce carbon dioxide emissions – a greenhouse gas that contributes to global climate change. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The RGGI program requires fossil fuel fired electric generating units serving a generator with a nameplate capacity of 25 MW or larger to purchase allowances for their CO₂ emissions. Regionally, units of this size are responsible for approximately 95% of CO₂ emissions from the electric generation sector.

Vermont committed to participate in RGGI when Governor Douglas signed the RGGI Memorandum of Understanding (MOU) along with the governors of the other participating states. The Vermont Legislature then enacted statutory provisions to implement the RGGI program in Vermont. Both 30 V.S.A. § 255 and the RGGI MOU directed the Public Service Board (hereafter, the Board) and the Agency of Natural Resources (ANR) to participate in the RGGI program.

The RGGI states distribute CO₂ allowances primarily through regional auctions. Subsequently, Vermont has chosen to allocate the proceeds from the sale of allowances to fund Vermont programs that promote thermal energy process fuels efficiency services. Proceeds from the sale of carbon credits are deposited into the Electrical Efficiency Fund established under section 203a of 30 V.S.A. § 255 (d).

In 2013 a rule change was proposed and subsequently adopted, pursuant to 10 V.S.A. §558 and 30 V.S.A. §255. The amendment was to the Vermont CO₂ Budget Trading Program Regulations,

which implemented the Regional Greenhouse Gas Initiative (RGGI) in Vermont, to reflect revisions made to the RGGI model rule. The RGGI states updated the model rule^a to incorporate recommendations that resulted from a comprehensive program review, including a decision to lower the regional cap from 165 million tons to 91 million tons in 2014 and maintain a 2.5% annual cap reduction thereafter. Also included in this model was a mechanism to further reduce the total number of allocations available through to 2020. This mechanism was put into place to account for the “banked” allowances purchased during previous auctions. The amendments modify Vermont’s base CO₂ budget for 2014-2020; establish interim control periods; expand the forest offset category to include reforestation, improved forest management, and avoided conversion. It is anticipated that this change will increase the purchase price for allowances, resulting in increased proceeds. Vermont’s share of the proceeds from the sale of the CO₂ allowances constitutes 0.73% of the total proceeds earned.

Regional Annual CO₂ Emissions Budget (All Participating States; Modeled)

Year	Old Model Allocation	New Model Allocation	Percentage Change
2014	165,000,000	71,833,333	-56.5%
2015	160,875,000	69,833,333	-56.6%
2016	156,853,125	67,833,333	-59.9%
2017	152,931,797	62,833,333	-58.9%
2018	149,108,502	62,833,333	-57.9%
2019	145,380,789	62,833,333	-56.8%
2020	141,746,270	62,833,333	-55.7%

The model allocations (shown above) or “caps” are to be adjusted to better reflect banked allowances held by market participants before the new cap is implemented. For 2014 the RGGI adjusted cap for the nine states involved is 82.8 million allowances for the first control period with a second interim adjustment to be announced on March 17, 2014. This second adjustment is to be applied to each state’s annual CO₂ allowance budget for 2015-2020.

^a http://www.rggi.org/docs/ProgramReview/FinalProgramReviewMaterials/Model_Rule_Summary.pdf

Auction Results for 2011-2013

CO₂ Allowance Auction Results - All Participating States, 2011-13

Auction Number	Auction Format	Allocation Year	Quantity Offered	Quantity Sold	Clearing Price
11-14	Sealed Bid - Uniform Price	2011	176,942,728	94,400,523	\$1.89
15-18	Sealed Bid - Uniform Price	2012	146,782,507	86,863,000	\$1.93
19-22	Sealed Bid - Uniform Price	2013	153,355,902	153,355,902	\$2.92 ^[1]
Total			477,081,137	334,619,425	\$2.38 ^[1]
[1] Weighted Average Price					

CO₂ Allowance Auction Results - Vermont, 2011-13^b

Auction Number	Allocation Year	Quantity Sold	Clearing Price	Total Proceeds
11-14	2011	669,673	\$1.89	\$1,265,681.97
15-18	2012	682,510	\$1.93	\$1,317,244.30
19-22	2013	1,152,896	\$2.93 ^[1]	\$3,366,456.32
Total		2,505,079	\$2.37 ^[1]	\$5,949,352.59
[1] Weighted Average Price				

In sum, Vermont participated in twelve (12) market-based auctions for carbon allowances from 2011 through 2013 and sold over 2,505,000 allowances for a total of more than \$5.9 million. Approximately \$5.8 million of this has been transferred to the Electrical Efficiency Fund, as directed by 30 V.S.A. §§ 255(d) and 203a.

^b Detailed auction results http://www.rggi.org/docs/Auctions/22/VT_Proceeds_By_Auction.pdf

Disbursement of Vermont RGGI Proceeds by Year, 2011 – 2013

Disbursement of Vermont RGGI Proceeds 2011 auctions

Total Proceeds	\$1,265,681.97
Administrative Costs	\$27,778.00
Trustee Costs	\$4,000.00
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Net Proceeds	\$1,233,903.97

Discussion: ANR requested and received Board approval for reimbursement for administrative costs directly related to RGGI participation, including staff time and travel, totaling \$20,803. PSB travel costs directly attributable to the administration of RGGI totaled \$6,975.

Per the Public Service Board’s July 18, 2008 Order, costs associated with the RGGI Trustee are paid from RGGI auction proceeds. The costs for the Trustee are \$1,000 for quarterly administrative costs.

The remaining RGGI auction proceeds of \$1.23 million were deposited into the Electrical Efficiency Fund.

Disbursement of Vermont RGGI Proceeds 2012 auctions

Total Proceeds	\$1,317,244.30
Administrative Costs	\$53,298.00
Trustee Costs	\$4,000.00
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Net Proceeds	\$1,259,946.30

Discussion: ANR requested and received Board approval for reimbursement for administrative costs directly related to RGGI participation, including staff time and travel, totaling \$51,346. PSB travel costs directly attributable to the administration of RGGI totaled \$1,952.

After \$4,000 in trustee costs, the remaining \$1.26 million of auction proceeds were deposited into the Electrical Efficiency Fund.

Disbursement of Vermont RGGI Proceeds 2013 auctions

Total Proceeds	\$3,366,456.32
Administrative Costs	Pending
Trustee Costs	\$4,000.00
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Net Proceeds	Pending

Discussion: To date, ANR has requested and received Board approval for reimbursement for administrative costs directly related to RGGI participation, including staff time and travel, totaling \$42,411. PSB travel costs directly attributable to the administration of RGGI have totaled \$465 to date. At year end, the Public Service Board is currently awaiting any further requests for administrative reimbursements from the fourth auction.

It is expected that roughly \$3.3 million of proceeds will be deposited into the Electrical Efficiency Fund from the 2013 auctions.

Voluntary Renewable Set-Aside Program for RGGI

A July 18, 2008 Public Service Board Order directed the creation of a set-aside program that would allow for the retirement of RGGI allowances in an amount that reflects the offsetting effects on CO₂ emissions associated with voluntary renewable electricity purchases. The purpose of this program is to allow providers of voluntary renewable pricing programs to continue to claim that participation in such programs results in CO₂ reductions. The ability to make such claims of CO₂ reductions holds the potential to lead to greater demand for those programs and thus increase electricity generated from renewable means. (One such program is Green Mountain Power's "cow power" program.) To date Vermont has retired more than 12,000 allowances.