Testimony to the Joint Energy Committee: RGGI Update
Peter Walke, Deputy Secretary, Agency of Natural Resources
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Overview

Vermont Legislature enacted statutory provisions to implement the RGGI program in Vermont (30 V.S.A. § 255). The ANR and Public Utility Commission (Commission) have been tasked by statute to participate and implement the RGGI program.

Background & What RGGI does

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by Northeastern and Mid-Atlantic States to establish a multi-state cap-and-trade program, with a market-based emissions trading system, to reduce carbon dioxide (CO_2) emissions from the region's electricity generating utilities.

The governors of participating states have signed the RGGI Memorandum of Understanding (MOU) to implement RGGI, beginning in 2005.

There are currently nine states participating in RGGI:

Connecticut (2005)	New Hampshire (2005)
Delaware (2005)	New York (2005)
Maine (2005)	Rhode Island (2007)
Maryland (2007)	Vermont (2005)
Massachusetts (2007)	*New Jersey (2005, withdrew 2011/2012)*

The RGGI states have established a regional cap on CO_2 emissions from the power sector, and require certain fossil-fuel fired power plants (25 MW or greater), in participating states, to possess a tradable CO_2 allowance for each ton of CO_2 they emit. These are known as regulated sources. Currently, there are 168 regulated sources region-wide, incorporating over 450 generating units.

The RGGI participating states have implemented a regional auction to sell CO_2 allowances to regulated sources.

Each participating state is allocated a certain number of allowances to bring to market. Vermont is currently allocated approximately 0.7% of the total allowances.

- The 2014 CO_2 emissions cap was 91 million short tons (roughly equal to emissions in that year), and this cap declines 2.5% each year from 2015-2020.

- The RGGI emissions cap was initially set at 188 million short tons per year. The cap has been reduced 45%.

- Since 2014 emissions have been approximately 6% lower than the cap. In 2016, the regional base cap was 86.5 million tons.

Each year, allowances equal to the carbon dioxide emissions cap are sold at quarterly, regional auctions by the participating states. Compliance entities, investors, environmental groups and any other financially qualified party can and do participate in the auctions.

To date, 37 auctions (9/6/17) have been held, with over 2.7 billion dollars in auction proceeds in the region through September 2017.

Proceeds from the CO_2 allowance auctions are returned to states and invested in consumer benefit programs to improve energy efficiency, reduce greenhouse gas emissions, and accelerate the deployment of renewable energy technologies.

RGGI in Vermont

There are two RGGI regulated sources in Vermont

- Green Mountain Power
- Burlington Electric Department

In 2016, these Vermont entities emitted (and surrendered allowances for) 2,678 tons of carbon dioxide.

The Burlington Electric Department and Green Mountain Power facilities are No.2 fuel oil fired gas turbine electric generating plants. They are run as peak load units, so emissions from these facilities (and their RGGI allowance obligations) are relatively low.

Representatives from the PUC and ANR are involved in RGGI administration. Currently, PUC Commissioner Sarah Hofmann and ANR Deputy Secretary Peter Walke serve on the RGGI Board. Deputy Secretary Walke serves as Secretary to the Board.

In Vermont, RGGI auction proceeds are managed by the Public Utility Commission (PUC). As per statute and commission order, after disbursements to cover administrative expenses, Vermont auction proceeds are deposited into the Electric Efficiency Fund for building efficiency programs managed by Efficiency Vermont. The PSB also has authority to authorize allowance retirements.

Recent Changes

On August 23rd, the RGGI states announced agreement on proposed program design changes to be implemented beginning in 2021

The RGGI states are a diverse group, which differ in the makeup of their energy sectors and in their state-specific needs and goals. At the same time, the RGGI states recognize the importance of coming together to ensure a strong future for a program that has demonstrated its success over the past decade.

The proposed changes are a consensus proposal which reflects and supports these state-specific needs.

The RGGI states held a public stakeholder meeting on September 25th, presenting materials including a draft Model Rule.

The RGGI states anticipate releasing a revised Model Rule which could incorporate any updates made in consideration of stakeholder input. The RGGI states may also release additional economic analysis or other supplemental materials.

Once the final proposed Model Rule is announced, the states would move forward with state-specific statutory and/or regulatory processes.

Proposed Changes

- The proposed changes will ensure continued power sector emissions reductions, providing for a 30% cap reduction by 2030, relative to 2020 levels. This proposal supports the RGGI states' overall greenhouse gas reduction goals, through a market-based system that has been shown to be cost-effective and economically beneficial.

- The implementation of an emissions containment reserve (ECR) will generate still more emissions reductions if emissions reduction costs are lower than projected, by withholding allowances from distribution if prices fall below established triggers.

- The RGGI states also propose refinements to the CCR and ECR sizes and trigger prices, which will bring them into greater consistency with market dynamics.

    - The states propose for the CCR to be sized at 10% of the annual regional cap beginning in 2021.

    - The states propose for the ECR to be sized at 10% of the annual state budgets of those states which are participating in the ECR. At this time, Maine and New Hampshire do not intend to implement an ECR.

        - In practice this proposal means that the annual ECR size would be a little more than 9% of the annual regional cap, compared to 10% for the CCR.

    - The CCR trigger price will be $13.00 in 2021, and rise at 7% per year. The ECR trigger price will be $6.00 in 2021, and rise at 7% per year. This trajectory means that the CCR or ECR would trigger only if emissions reduction costs were higher or lower than projected.

The RGGI states have said that they plan to commence the next program review in the year 2021. This would allow the states to have some initial observations on the functioning of the new design elements, and to evaluate the program in the context of the latest information and energy trends observable at that time.

See Program Review Talking Points for more specifics.

History of allowance price

Since the inception of the program in 2009, the allowance price has varied from a low of $1.86 in 2010 to a high of $7.50 in 2015. The latest auction clearing price (September 2017) was $4.35.