

2018 Regional Greenhouse Gas Initiative Annual Report

Report to the Legislature from the Public Service Department

January 15, 2019

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 Utility Commission shall provide to the House Committee on Commerce and Economic Development, House Committee on Energy and Technology, House Committee on Natural Resources, Fish, and Wildlife, Senate Committee on Finance and Senate Committee on Natural Resources and Energy 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 nine 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 – from electricity generation. 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 with a nameplate capacity of 25 MW or larger to purchase and retire allowances equal to the amount of CO₂ emitted by the unit. Regionally, generation units of this size are responsible for approximately 95% of CO₂ emissions from the electric generation sector. In Vermont, there are two facilities subject to this program – the City of Burlington Electric Department’s Lake Street/Penny Lane facility, and Green Mountain Power Corporation’s Berlin 5 facility.

Vermont committed to participate in RGGI in 2007 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 Utilities Commission (PUC) and the Agency of Natural Resources (ANR) to participate in the RGGI program.

The RGGI states individually decide how to distribute CO₂ allowances, with most of the allowances sold through the quarterly centralized auctions. Vermont sells nearly all its allotment of allowances through the auction and allocates the net proceeds from the sale of

allowances to fund Vermont programs that promote thermal energy and process fuels efficiency services. Proceeds from the sale of allowances are deposited into the Electrical Efficiency Fund pursuant to 30 V.S.A. § 209(e)(1)(B).

Auction Results for 2018

CO₂ Allowance Auction Results - All Participating States, 2018

Auction Number	Auction Format	Quantity Offered	Quantity Sold	Clearing Price
39	Sealed Bid - Uniform Price	13,553,767	13,553,767	\$3.79
40	Sealed Bid - Uniform Price	13,771,025	13,771,025	\$4.02
41	Sealed Bid - Uniform Price	13,590,107	13,590,107	\$4.50
42	Sealed Bid - Uniform Price	13,360,649	13,360,649	\$5.35

Total
^[1]Weighted Average Price \$4.41 ^[1]

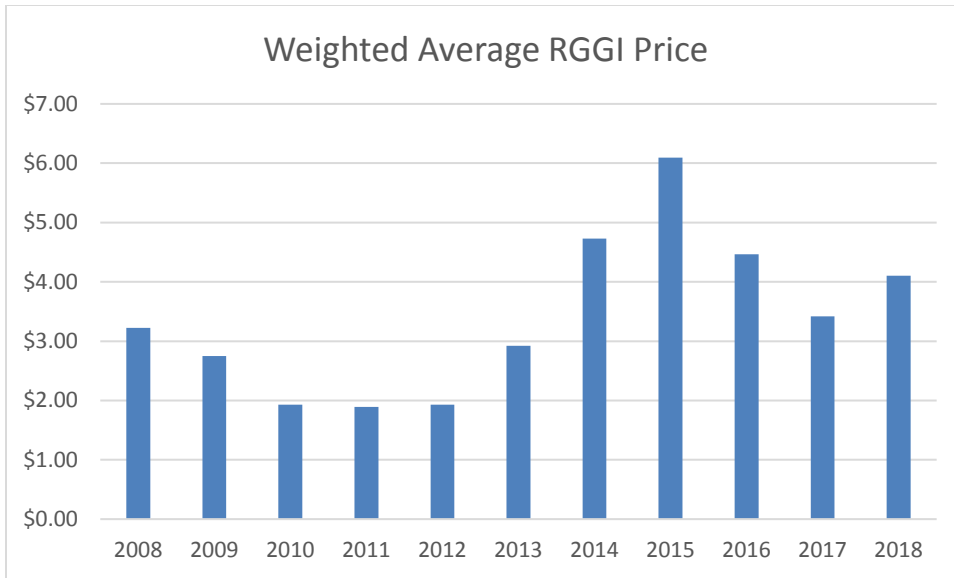
CO₂ Allowance Auction Results - Vermont, 2018^a

Auction Number	Quantity Sold	Clearing Price	Total Proceeds
35	110,837	\$3.79	\$420,072
36	110,837	\$4.02	\$445,565
37	110,836	\$4.50	\$498,762
38	110,836	\$5.35	\$592,973

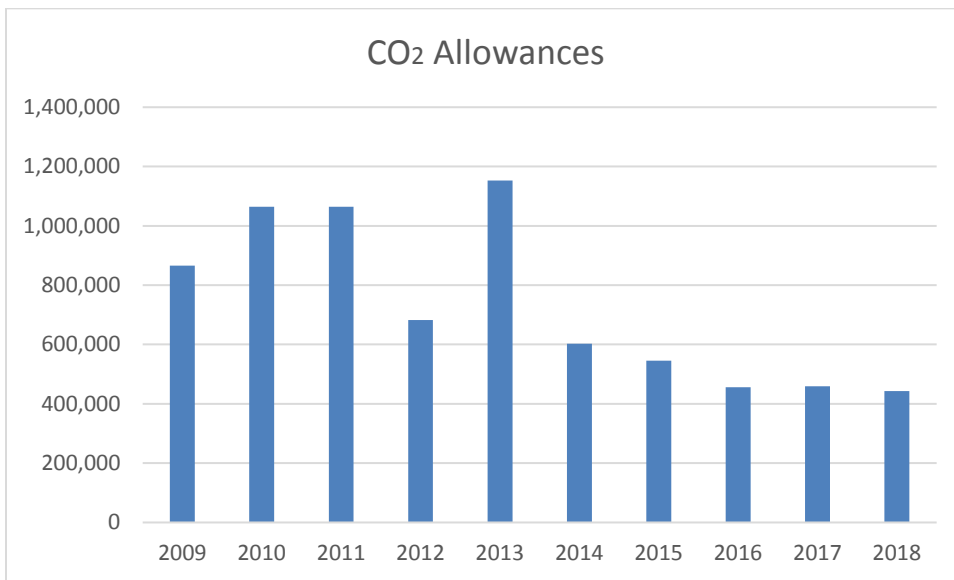
Total 443,346 \$4.41¹ \$1,957,372
^[1] Weighted Average Price

In sum, Vermont participated in four (4) market-based auctions for carbon allowances in 2018 and almost 450,000 allowances for a total of more than \$1.9 million.

^a Detailed auction results <https://www.rggi.org/Auctions/Auction-Results/Prices-Volumes>



The weighted average price of the allowances in 2017 was \$3.42, in 2018 the price was \$4.41, this resulted in a \$388,149 increase in revenue from 2017 to 2018.



As described in previous reports the RGGI market was redesigned, in part, to reduce the total number of allowances in the marketplace, which resulted in an increase in the individual allowance price. This caused a spike in revenue in 2015 which has since corrected to the current levels, averaging approximately \$1.8 million per year for the past three years.

Disbursement of Vermont 2018 RGGI Proceeds

Total Proceeds	\$1,957,371.57
Administrative Costs	\$60,716.18 ^b
Trustee Costs	\$4,000
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Net Proceeds	\$1,782,655.39

Pursuant to statute and the PUC's April 2, 2014, Order which modified the established process for Vermont's participation in the RGGI program, ANR and the Department of Public Service ("Department") have the opportunity to request that appropriate and reasonable administrative costs associated with their administration of RGGI be paid from the auction proceeds. In addition, ANR and the Department may request funds to "stimulate or support investment in the development of innovative carbon emissions abatement technologies that have significant carbon reduction potential."

To date, ANR has requested and received PUC approval for reimbursement for administrative costs directly related to RGGI participation, including staff time and travel, totaling \$60,716.18 from auctions 39 through 41. No request has yet been made for reimbursement from auction 42 at this time; however, the Department understands that a request of approximately \$20,000 (based on prior requests) will be forthcoming from ANR. The remaining balance of approximately \$1.76 million will be deposited into the Electrical Efficiency Fund from the 2018 auctions.

Voluntary Renewable Set-aside Program

On April 2, 2014, the PUC issued an Order governing the Vermont voluntary renewable set-aside program for RGGI.

As specified in the April 2, 2014, Order, the set-aside for voluntary renewable programs is available to programs offered by Vermont electric utilities and other qualifying entities that purchase and retire renewable energy credits (RECs) on behalf of Vermont customers. An applicant may submit a written request to the PUC to retire a specified number of CO₂ allowances in the voluntary purchase set-aside account.

In a letter dated June 29, 2016, Green Mountain Power Corporation (GMP) requested that the PUC retire 5,706 CO₂ allowances in the voluntary purchase set-aside account for 2015, and in a letter dated July 3, 2017, GMP requested that the PUC retire 5,062 CO₂ allowances in the voluntary purchase set-aside account for 2016. In response to GMP's June 29, 2016,

^b Represents only administrative costs for auctions 39 through 41.

request and its July 3, 2017 request, the PUC on May 18, 2018 approved the retirement of 9,730 CO₂ allowances in the voluntary set-aside account. (See Case No. 18-1405-PET)

Program Review

The nine currently participating RGGI states completed a comprehensive review of the program in late 2017. The review resulted in the release of a revised Model Rule in early 2018. The participating states agreed to a regional CO₂ emissions cap of 75,147,748 tons in 2021 and to a cap reduction of 2,275,000 tons per year through 2030, which will result in a total 30% reduction in the regional cap from 2020 to 2030. In the absence of an agreement by the states, the regional CO₂ emissions cap in 2021 would have been 78,175,215 tons with no annual decrease in the following years. The states also agreed to several measures to better align allowance supply with actual emissions, including adjusting the allowances auction when the auction clearing price meets a certain level. Additionally, the states agreed to reduce the 2021-2025 regional annual CO₂ budgets for 100% of allowances sold in excess of emissions in 2018-2020, similar to adjustments for excess allowances that have occurred previously. This measure addresses the issue of regulated facility emissions being lower than the annual caps in the years 2018-2020. The states will collectively withhold allowances from the auctions in 2021 through 2025 that will be equal to the number of allowances auctioned in 2018 through 2020 that were in excess of actual reported emissions for those years. To implement these changes, ANR updated its CO₂ Budget Trading Program Regulations, effective September 15, 2018, and the PUC is presently in the process of updating its Order implementing the RGGI auction procedures for Vermont (see Case No. 18-4145-INV). Finally, the participating states have been working with New Jersey and Virginia as they develop regulations that will allow these two states to participate in the RGGI program beginning in 2020.