Northeast Regional Greenhouse Gas Initiative

Presentation to

Pacific Northwest International Section of the Air & Waste Management Association

By

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RGGI Regional Greenhouse Gas Initiative
An Initiative of the Northeast & Mid-Atlantic States of the U.S.

Massachusetts
Division of Energy Resources

What Difference Could the State and the Region Make?

- MA state-wide emissions are comparable to the total emissions of whole countries (i.e. Portugal, Egypt, Austria, or Greece)
- If the New England/ Eastern Canadian Region was classified as a country, it would be the 12th largest emitter of GHG in the world
- With NY and NJ = 5th largest

MA Climate Protection Plan

"These are actions we can and must take now; if we are to have 'no regrets' when we transfer our temporary stewardship of this earth to the next generation."
[Governor Mitt Romney, May 6, 2004 upon release of the CPP]

Massachusetts is a part of the New England Governors and Eastern Canadian Premiers *Climate Action Plan* adopted in 2001.

The MA CCP affirms this plan and seeks to help meet the regional targets of:

- 1990 levels by 2010
- 10% below by 2020
- Reduce GHG emissions sufficiently to eliminate any dangerous threat to climate; current science suggests this will require reductions by as much as 75-85% below current levels

MA Climate Protection Plan

CCP includes 72 measures across areas of energy, transportation, state government, natural resources, and outreach/education

Why is this sound stewardship for MA without national action?

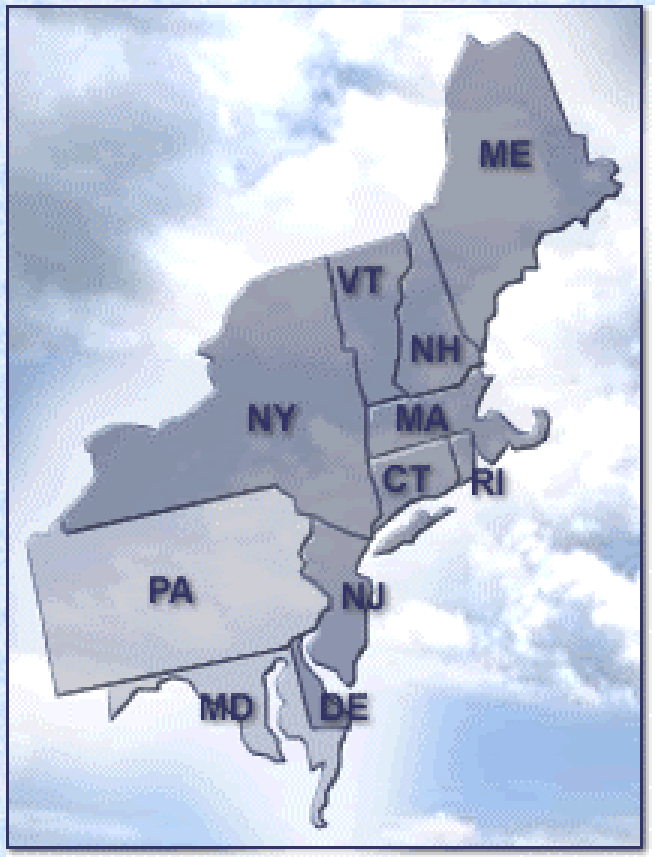
- Improve our regional economy, environmental health, and dependence on foreign oil by seeking higher efficiencies
- Enhance the state and regional strengths
- Recognize good actors and reward action and innovation

The Beginning of RGGI

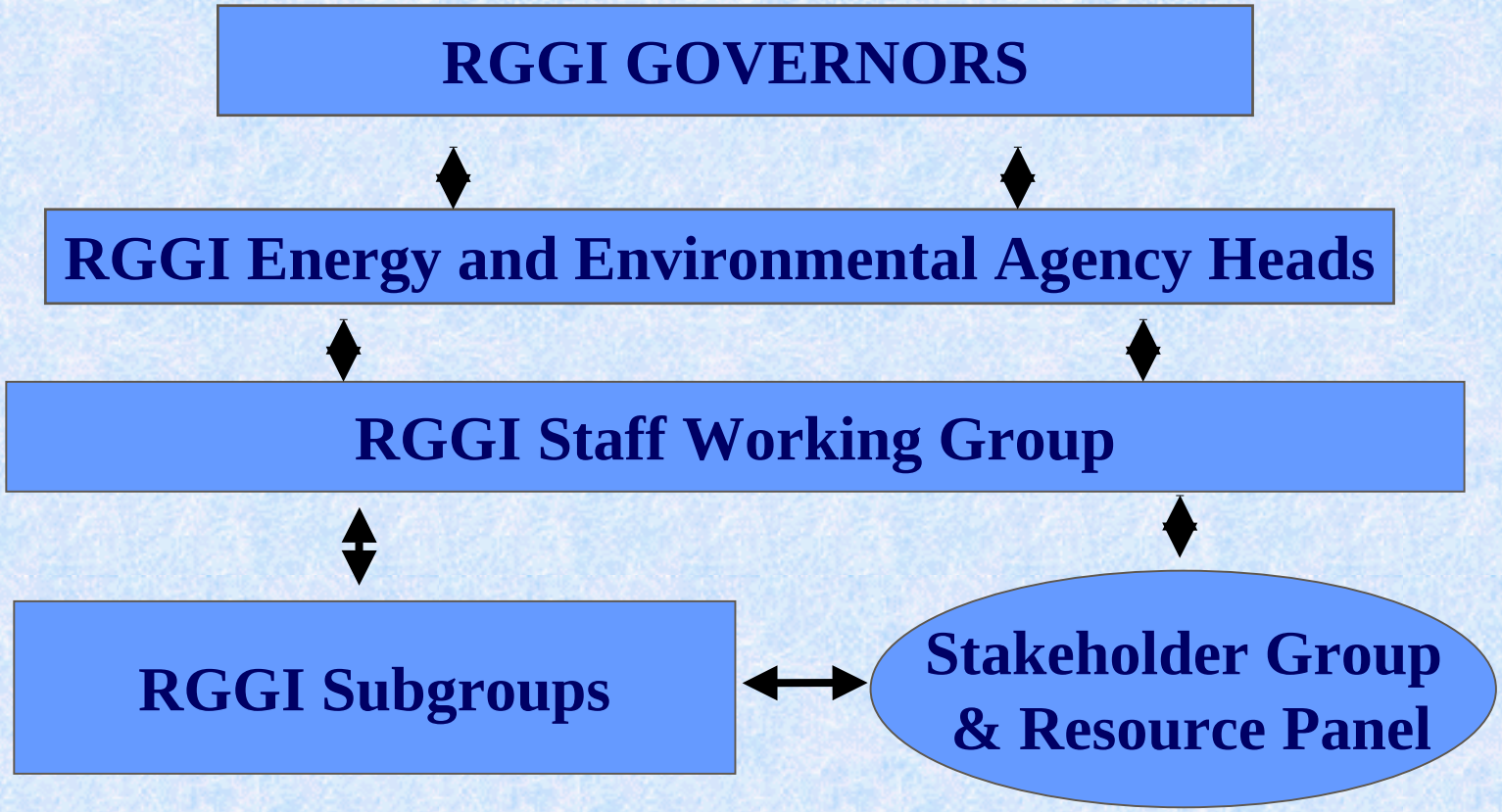
- April 2003 - New York Governor George Pataki sent letters to the 10 governors from Maine to Maryland, inviting their states' to develop a regional CO_2 cap-and-trade program
- July 2003 - positive responses from eight of those governors
- August 2003 - RGGI Staff Working Group formed with staff representatives from nine participating states' environmental and energy agencies (other states and ECP observing)
- September 2003 - Action Plan was endorsed by environmental and energy agency heads, laying out 18 month work plan

Participation

- **Participants**: ME, NH, VT, MA, RI, CT, NY, NJ, DE & District of Columbia
- **Observers**: MD, PA, New Brunswick, Quebec & Eastern Canadian Premiers



Structure and Process

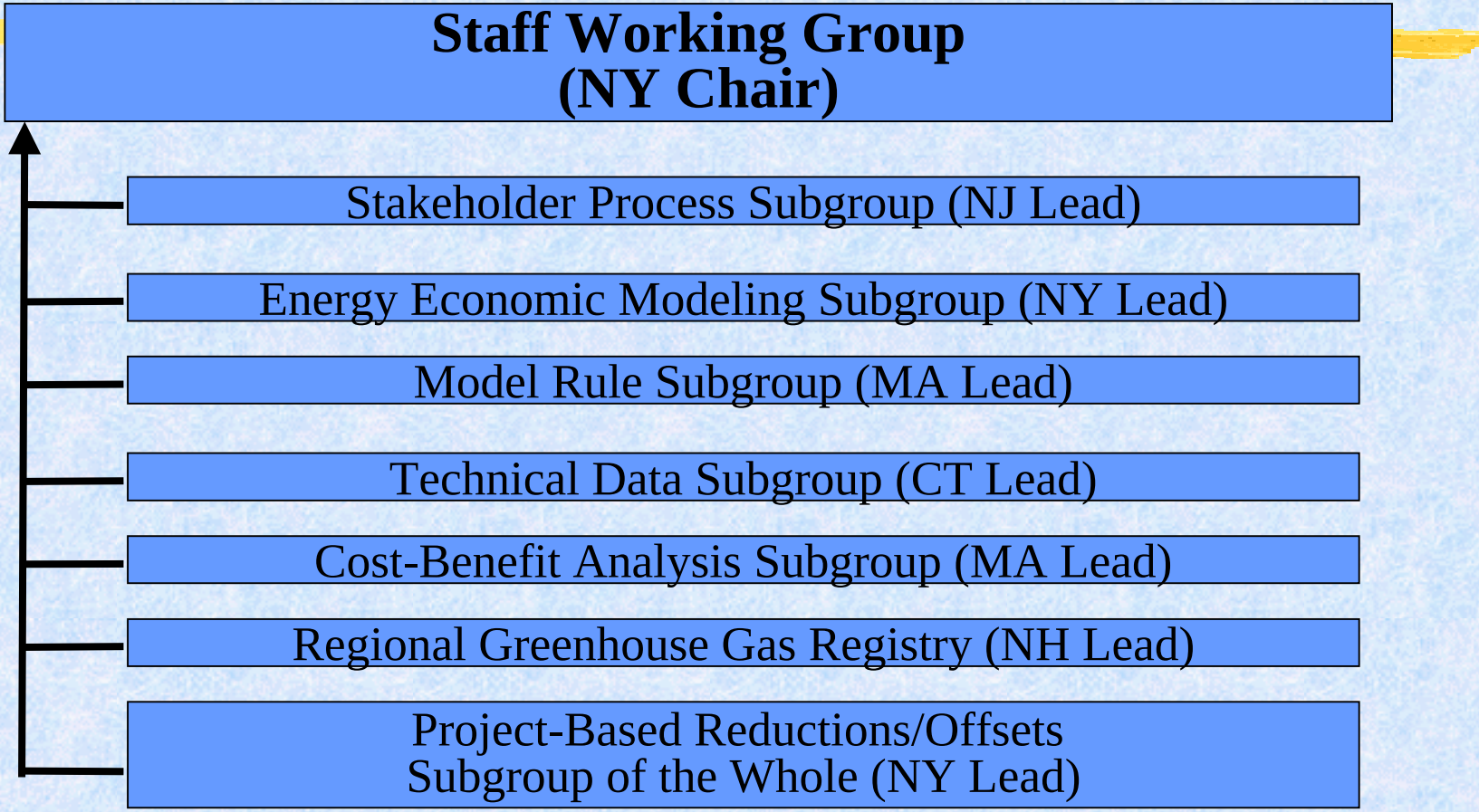


Initial Policy Foundation

The program goal outlined in the RGGI action plan endorsed by the RGGI agency heads on September 29, 2003, identified several key policy decisions.

- Develop a multi-state cap-and-trade program for greenhouse gas emissions (GHGs)
- Initially cover carbon dioxide (CO_2) emissions only
- Initially cover electric power plants only
- Agree on program design (model rule) by April 2005
- Consider expanding the program to other kinds of emission sources and gases in a future phase of the program

Staff Working Group



Stakeholder Group & Resource Panel

Stakeholders (24 members)

- Electric generators
- Electric distribution companies
- Energy efficiency and renewable energy advocates
- Comm./Industrial energy users
- Consumer interest organizations
- Environmental organizations

Resource Panel

- ISOs: New England, New York, PJM
- Research organizations: WRI, Pew, RFF
- Emissions traders: Natsource
- Energy assistance: Regulatory Assistance Project
- Environmental assistance: NESCAUM

Stakeholder Process

Stakeholder Group

- Monthly or bi-monthly facilitated meetings with Staff Working Group to review progress and policy development
- Resource Panel attends meeting
- RGGI web site to access documents and submit formal comments
- Stakeholder subgroup will provide close review of RGGI modeling tasks

General Public

- RGGI web site provides access to documents and opportunity to comment
- Public meetings (as needed to present key decision points or deliverables)
- Observe and input during Stakeholder Group meetings

State-level Stakeholder Processes

Program Design Principles

- Model mechanics on other successful cap and trade programs (SO_2, NO_x)
- Seek uniformity across states to facilitate interstate trading of allowances
- Start simple and develop over time, be expandable and flexible, permitting other states to join in
- Avoid interference with other emission trading programs and initiatives

Key Policy Issues & Questions

Program Applicability

- Electric generating units larger than 25 MW
  - > Accounts for over 95% of GHG emissions from sector
  - > Units have better historical data than smaller units
  - > Will other stationary sources be permitted to opt-in under the cap, and under what conditions?
  - > Second phase will consider broader applicability to include smaller electric generators as well as other sectors (large boilers, transportation, etc.)

Key Policy Issues & Questions

Emissions Cap and Allocations

Emissions Cap

- What will the collective regional CO_2 emissions cap be?
- How will the regional emissions cap be distributed to establish each state's cap?
- Will the cap be instituted once or phased in over time?
- How will the cap level be reassessed in the future?

Allocation of Allowances

- How will each state's cap be allocated? Will a uniform regional allocation method be chosen or will states choose different allocation methods?
- Will auctions, output-based, input-based, or another allocation method be chosen?
- Will allowances be allocated to generators, or can a load-based allocation method be used?
- Will allocations be made to non-emitting generators (e.g. renewables)?
- How will new, retired, and re-powered sources be handled?

Key Policy Issues & Questions

Flexibility Mechanisms

Offsets or Project-Based Reductions

- Will GHG emissions offsets or project-based reductions be credited toward compliance under the cap?
- If so, what offsets will be permitted? Emissions Reductions, Avoided Emissions, Sequestration.

Other Flexibility Mechanisms

- Should the banking or borrowing of allowances be permitted?
- How often will sources be required to settle allowances (i.e., "true-up" period)?

Pros and Cons

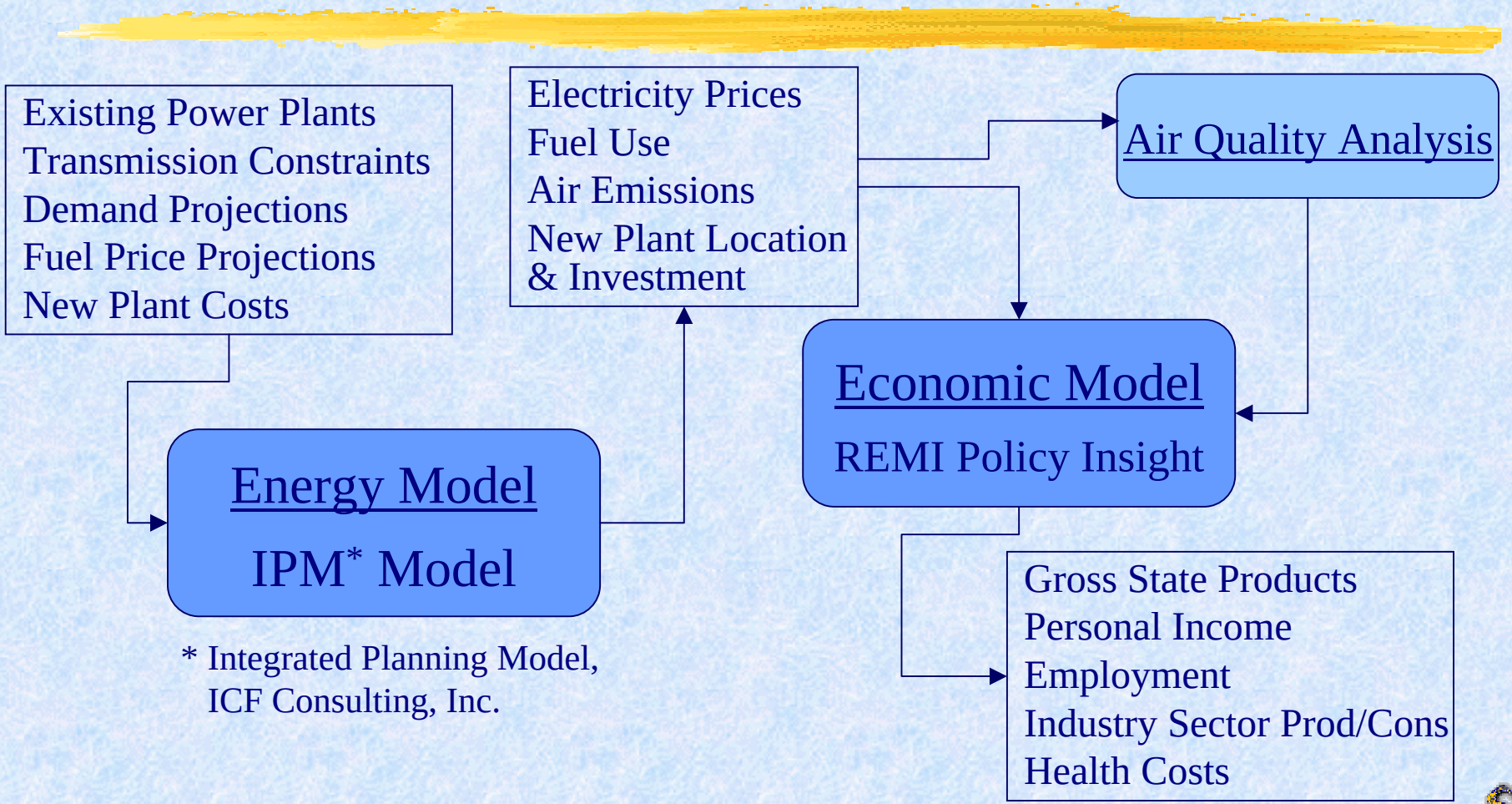
+ Provides flexible, less costly alternatives for compliance and environmental goals
+ Develops a knowledge base for program expansion to other sources/sectors
– Administrative complexities and costs
– Concern that offsets are real, verifiable, additional, and not double-counted

Key Policy Issues & Questions

Other Decisions

- Will there be interaction with other GHG Trading Systems?
- If leakage is shown to be an issue, what policy mechanisms are available to control or mitigate leakage?
- What measurement, monitoring and reporting requirements will apply to sources under the cap?
- What enforcement penalties will be imposed for noncompliance?
- How will ongoing administration of the program be financed?

Energy and Economic Modeling



Scenarios to be Modeled

- Benchmark and Reference Policy Scenarios
- CO_2 Cap Levels and Regional Trading Rules
- Policy, Structure, and Flexibility Options
- Model Rule Scenario

Useful Websites

- Northeast Regional Greenhouse Gas Initiative

  www.rggi.org

- MA Climate Protection Plan

  www.mass.gov/ocd

- MA Division of Energy Resource

  www.mass.gov/doer