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

Regional Greenhouse Gas Initiative

Frequently Asked Questions
(Updated 3/23/2006)

Recently Asked Questions about RGGI

What is the current status of RGGI?

On December 20, 2005, after a two-year design process that included extensive stakeholder and expert input, and detailed and comprehensive technical analyses by the states, the governors of seven states (CT, DE, ME, NH, NJ, NY & VT) agreed to move forward to propose implementation of RGGI in their states. That agreement is set out in a Memorandum of Understanding (MOU) that the states released on December 20, 2005.

As called for in the MOU, on March 23, 2006, the seven participating states issued a draft model regulation—called the "draft model rule". The draft model rule will be the subject of several stakeholder meetings, as well as a 60-day public comment period. These meetings will introduce stakeholders and the public to the draft model rule and permit stakeholders to ask questions and comment on the draft. Written comments will be accepted by the states through May 22, 2006. Information on stakeholder meetings is available at http://www.rggi.org/stakeholder_schedule.htm.

What will happen next in the implementation of RGGI in the states?

After the states have received stakeholder and public comment on the draft model rule, the comments will be carefully considered by the states for purposes of finalizing the model rule. The final model rule is slated for release in July 2006.

The final model rule will become the foundation for individual state rulemakings. In some states, such as New Hampshire, legislative approval will be sought before the rulemaking may begin. In other states, such as New Jersey and New York, the rulemaking may commence shortly after the model rule is finalized.

What is in the RGGI model rule?

The model rule sets out the proposed rules for the program in greater detail than was provided in the Memorandum of Understanding among participating states. The provisions are summarized in the document entitled "Summary of the Draft Model Rule", available on the RGGI website.

Frequently Asked Background Questions

What is the Regional Greenhouse Gas Initiative?

The Regional Greenhouse Gas Initiative (RGGI or "ReGGIe") is a multi-state regional initiative to design and implement a flexible, market-based cap-and-trade program to reduce carbon dioxide emissions from power plants in the Northeast United States. RGGI is the first mandatory cap-and-trade program in the United States aimed at reducing emissions of the gases that cause global warming.

What states are participating in RGGI?

The governors of the following seven states in the Northeast and Mid-Atlantic United States have signed an agreement to actively implement RGGI: Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, and Vermont. The governors of Massachusetts and Rhode Island actively participated in the design of RGGI and the negotiation of the Memorandum of Understanding among the states, but they have not yet agreed to implement the program.

How did RGGI get started?

RGGI was initiated in April 2003, when New York Governor George E. Pataki invited the governors of the Northeast states, from Maine to Maryland, to participate in the design of a mandatory cap-and-trade program to cover power plants. By September 2003, the six New England states, New York, New Jersey and Delaware were actively involved discussing the framework for such a program. The governors of Pennsylvania and Maryland chose to have their states observe the process.

What is a cap-and-trade program?

A cap-and-trade program is a flexible, market-based approach to achieving real emissions reductions at the lowest possible cost.

The design of RGGI, like any other cap-and-trade program, includes the following basic components:

- First, the states determine the emissions sources to be covered by the cap.
- Second, the states establish the total amount of emissions to be allowed from all of the sources, commonly referred to as the "emissions cap".
- Third, each state issues one allowance for each ton of emissions, up to the amount of the cap, and those allowances are distributed to the generators and the market.
- Lastly, every covered source is required to have enough allowances to cover its emissions at the end of each compliance period.

Sources that do not have enough allowances to cover their projected emissions can either reduce their emissions, buy allowances on the market, or generate credits through an emissions offset project. Sources that reduce their emissions and have excess allowances may either bank those allowances or sell them to other sources. Emissions trading guarantees that the most cost-effective reductions are implemented at the plants.

Frequently Asked Questions About the Way the Program Will Work

Is RGGI a mandatory program?

RGGI is a mandatory program. The power plants covered by RGGI must comply with program requirements. Failure to comply subjects a plant to enforcement by state environmental enforcement authorities.

What pollution sources are covered by the program?

In general, RGGI will cover electric generating units that have a nameplate capacity equal to or greater than 25 megawatts and burn more than 50% fossil fuel. Some specific source exemptions may apply, such as for units that burn biomass as a majority fuel, or sources that sell less than 10% of the electricity they generate to the grid.

What emissions reductions will the program achieve?

RGGI will stabilize emissions from the power sector at approximately current levels from the start of the program in 2009 through the beginning of 2015. From 2015 through 2018 emissions will decline, achieving a 10% reduction in 2018. In addition, some of the program reductions will be achieved outside the electricity sector through emissions offset projects.

What are offset allowances?

Offsets allowances (or "credits") are certified emissions reductions or carbon sequestration that take place outside the electric generating sector in eligible project areas that meet the program requirements.

May a source rely entirely on offsets to meet its obligation?

No. Initially, a source will be permitted to cover up to 3.3% of its emissions with offsets—an amount that is approximately 50% of the projected average emission reduction obligation under the program. This means that a significant portion of the reductions under the program must occur at the power plants.

The program is designed to allow sources to use more offsets allowances if the cost of carbon allowances exceeds prescribed thresholds. If the cost of allowances reaches $7 per ton on a sustained basis, for example, sources will be permitted to cover up to 5.0% of their emissions with offsets allowances. If the cost per ton exceeds $10, then sources may cover up to 20% of their emissions with offsets allowances.

What kinds of offsets may sources use to meet their obligations under the program?

Initially, offsets allowances may be issued to verified reduction projects anywhere in the United States in the following areas:

- Natural gas, heating oil & propane energy efficiency;
- Landfill gas capture and combustion;
- Methane capture from animal operations;
- Forestation of non-forested land;
- Reductions of sulfur hexafluoride (SF_6) emissions from electricity transmission & distribution equipment; and
- Reductions in fugitive emissions from natural gas transmission and distribution systems.

Offsets from non-participating states may be awarded a one ton credit for each two tons of verified reductions.

How often do sources have to cover their emissions with allowances?

The states have agreed that sources should cover their emissions with allowances every three years. The three-year compliance period will allow weather-related "spikes" in emissions to be smoothed out over a longer averaging time. Because the impacts of carbon dioxide emissions are primarily long-term in nature, this temporal flexibility is possible.

In addition, the states have provided for a "safety valve" that would further extend the compliance period by one year at a time if the allowance price reaches $10 for a sustained period. This safety valve is designed to help prevent allowance price spikes while at the same time ensuring emissions reductions.

How will the emissions allowances be distributed into the emissions market?

The emissions allowances under RGGI will be distributed to sources, or otherwise into the open emissions market, by each participating state, as the state deems appropriate. The states have agreed that at least 25% of the emissions allowances will be allocated to a "consumer benefit or strategic energy purpose".This means that revenue from the sale of 25% of the allowances will be used to support energy efficiency, renewable energy, innovative energy technologies or consumer rebates. This sale of allowances may be achieved through an auction, although states will have discretion in the specific method used for distributing this portion of allowances.

Frequently Asked Questions About the Potential Impacts of the Program

What are the benefits of the RGGI Program?

The RGGI program provides numerous benefits to the participating states, including:

- Reductions in emissions of gases that cause or contribute to global warming. Starting on the path to lower emissions now puts the participating states ahead of others that will have to do more later.

- Measures taken today to improve efficiency and reduce emissions help avoid more expensive measures taken later to address the challenge of climate change.

- A more efficient electric generating sector means less waste and less dependence on foreign sources of energy. It also means a less-polluting electric generating sector—both in terms of carbon dioxide emissions and emissions of other pollutants, such as mercury, nitrogen oxides and sulfur dioxide.

- RGGI will promote non-emitting forms of electric generation, such as renewable energy.

- The market-based program will stimulate the development of new technologies to scrub carbon from the emissions stream, and store carbon where it will not be harmful to the climate.

- The program will directly drive new energy efficiency investments in the region, both in end-use electricity and natural gas, heating oil and propane efficiency. More efficiency means fewer dollars spent on energy and less dependence on foreign oil and gas.

- Actions taken to address the challenge of climate change will avoid the costs of doing nothing to ward off more significant changes in climate.

How much will the RGGI program cost?

The potential costs of RGGI have been carefully analyzed by a highly respected analyst used widely by the electric industry as well as the federal government. The analyses have been thoroughly vetted through extensive stakeholder involvement over the course of two years.

- The program is expected to have modest price impacts. Using natural gas price projections widely accepted by industry analysts, regional average retail price increases range from 0.3% to 0.6% in 2015, across all rate classes. Even under a "high gas price" scenario using gas prices that are higher than mainstream analysts expect, projected retail electricity price impacts range from 1.7% to 3.2% in 2015, across all rate classes.[1]

- These figures represent modest potential price increases when viewed in the context of recent electricity price increases that are almost exclusively the result of higher fuel costs.

- Projected direct electricity bill impacts due to RGGI range from $3 - $16 per average household annually in 2015.[2]

- Improvement in end-use energy efficiency over time, due to both RGGI and other state energy policies, is projected to produce average household bill savings that exceed the price impact of the RGGI program.

[1] This scenario also projects that eleven large new coal-fired power plants (11,500 MW) are built in the Northeast in response to higher natural gas prices, which represents an unlikely outcome. The bulk of the higher price impact in this scenario is due to the construction of these new plants.
[2] Based on a weighted average of projected household bill impacts across the RGGI region.