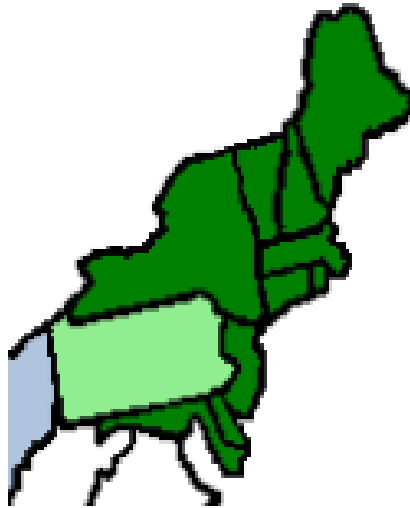


Cap and Trade Design and Lessons from Regional Programs: *The RGGI Experience*

Innovative Approaches to Climate Change Policy: Workshop on State-Federal Interactions

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RGGI Basics



- First mandatory cap-and-trade program for CO₂
- 10 States: MA, RI, NJ, NH, VT, ME, NY, CT, MD, DE (PA observing.)
- Program covers power generators \geq **25 MW**
- More than 200 power plants
- Current cap = 188 million tons (2009 – 2014)
- Gradual 10% reduction (2015 – 2018) – based on 2000-02 emissions data
- Auction nearly **100%** of allowances
- First compliance period began Jan 1, 2009

RGGI Goals

- Stabilize and reduce GHG emissions
- Create a market for carbon
- Demonstrate a state-led regional program can work
- Provide a professional, predictable auction model
- Promote aggressive investment in energy efficiency and renewables
- Spur and inform federal action

RGGI Auction Experience

- Four successful auctions
- More than 110 million allowances sold
- Consistent results and stable prices
- 80% of allowances sold to compliance entities
- “Fair” “transparent” “competitive” (Market Monitor)
- RGGI Allowance Tracking System developed
- Active Secondary Trading Market

RGGI Auction Results

	Auctions #1-3 Sep 08- Mar 09	Auction #4 Jun 09
States participating	6 - 10	10
Allowance Price	\$3.07 - \$3.51	\$3.23
Allowances sold	75.5 million	30.9 million
Qualified Bidders	50 - 69 entities	54 entities
Winning bidders	42 – 46 entities	48 entities
Total proceeds	\$262.3 million	\$104.2 million

RGGI/Waxman-Markey Bill Comparison

- Bill contains many RGGI elements:
 - Quarterly auctions that include future-year vintage allowances
 - Open to all market participants
 - Bid limits and disclosure of relationships between bidders
 - Monitors markets to prevent market manipulation
 - Uses a reserve price

RGGI/Waxman-Markey Bill Comparison

- Moratorium 2012-2017 and allowance trade-in
- Increasing use of auctions to distribute allowances
- Mechanisms for protecting consumers
- Invest directly in efficiency.

Where are the Auction Proceeds Going?

- Mostly: Energy efficiency upgrades and renewable energy investments
- Also: Consumer benefit programs
- Energy and consumer-focused programs lower long-term demand for energy and allowances, lowering program costs.
- States spending on energy efficiency through energy audits, weatherization, air sealing, and improved equipment efficiency.

Safeguards in the RGGI Auctions

- Auction design elements discourage manipulation
 - Bid limits and reporting of relationships among bidders
 - Uniform-price, sealed bid auction format
 - Open participation rules

Oversight and Market Monitoring

- Post-Auction Activities
 - Initial Report from market monitor prior to certification
 - “Post-settlement” report
 - Periodic reports on secondary market
 - Analysis could support enforcement

RGGI Offsets

- RGGI allows limited use of offsets
 - 5 pre-approved categories:
 - Real, additional, verifiable, enforceable, and permanent.
 - 3.3%, 7% and 10% price triggers
- 2 step application process
 - Consistency
 - Monitoring and verification
- Application materials at rggi.org

The Five RGGI Offset Categories

- Landfill methane capture and destruction
 - Agricultural manure management
 - Reduction in emissions of sulfur hexafluoride
 - Reductions due to end-use energy efficiency
 - Sequestration of carbon due to afforestation
-
- International allowances and credits may be used after a sustained high allowance price.

What's Next for RGGI?

- Additional Sectors for Cap and Trade?
- Areas of collaboration:
 - Low carbon fuel standard (LCFS)
 - Transportation
 - GHG reporting
- Additional States? FL?

RGGI: Lessons for Federal Policy

- Auctions work; Market monitor role needed
- Strategic investment of auction proceeds is essential
- Offsets: Strict rules ensure integrity
- Complementary policies needed to achieve goals

Federal Program

- RGGI - model for federal action
- RGGI - unprecedented collaboration between states and energy/environmental agencies
- Federal program should include:
 - Strong state-federal partnership
 - State role in: monitoring, reporting, permitting, energy efficiency, siting & building renewables
 - Revenue at least at the RGGI level
 - Build on success of state GHG programs

Questions?

- RGGI: www.rggi.org (links to state programs)
- MA Department of Environmental Protection:
 - <http://www.mass.gov/dep/air/climate/index.htm>
- MA Department of Energy Resources
 - <http://www.mass.gov/doer/>

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