

FACT SHEET

In re: Proposed Amendments to Air Pollution Control Regulations No. 46 “CO₂ Budget Trading Program” and Air Pollution Control Regulations No. 47 “CO₂ Budget Trading Program Allowance Distribution”

Need for adoption of amendments to the Rhode Island CO₂ Budget Trading Program Regulations No. 46 and No. 47

The Regional Greenhouse Gas Initiative (RGGI) is composed of individual CO₂ Budget Trading Programs in each RGGI participating state. Each participating state’s current CO₂ Budget Trading Program is based on the RGGI Updated Model Rule (2013), which was developed to provide guidance to states for implementation of the RGGI program. RGGI participating states have conducted a 2016 Program Review, which is a comprehensive evaluation of program successes, program impacts, the potential for additional reductions, imports and emissions leakage, and offsets.

Amendments to the Model Rule were developed by the RGGI state staff as part of the Program Review. This effort was supported by an extensive regional stakeholder process that engaged the regulated community, environmental non-profits, and other organizations with technical expertise in the design of cap-and-trade programs.

Introduction

As a result of the program review process described above, the Department of Environmental Management proposes to amend the Rhode Island CO₂ Budget Trading Program Regulations to incorporate the changes made in the RGGI Model Rule.

Overview

Summary of the proposed RGGI Regulations Amendments:

1. Size and Structure of Cap and Allowance Apportionment

The regional emissions cap in 2021 will be equal to 75,147,784 tons and will decline by 2.275 million tons of CO₂ per year thereafter, resulting in a total 30% reduction in the regional cap from 2020 to 2030.

2. Budget Adjustments

The Model Rule contains language to address the private bank of allowances through one additional, distinct budget adjustment.

- The Third Adjustment for Banked Allowances, would adjust the base budget for 100 percent of the pre-2021 vintage allowances held by market participants as of the end of 2020, that are in excess of the total quantity of 2018, 2019, and 2020 emissions. The third adjustment timing and algorithm is spelled out in the Model Rule and would be implemented over the 5-year period, 2021-2025, after the actual size of the 2020 vintage private bank is determined.

3. Cost Containment Reserve

The Model Rule contains language for the continued use of a cost containment reserve (CCR) that will provide flexibility and cost containment for the program. The CCR would consist of a fixed quantity of allowances, in addition to the cap, that would be held in reserve, and only made available for sale if allowance prices exceed predefined price levels.

- The Model Rule contains language for an annual CCR allowance quantity of 10% of the regional cap beginning in 2021 and each succeeding year thereafter.
- Allowances from the CCR would be fully fungible.
- The CCR allowances would be made available immediately in any auction in which demand for allowances at prices above the CCR trigger price exceeds the supply of allowances offered for sale in that auction prior to the addition of any CCR allowances.
- If the CCR is triggered, the CCR allowances would only be sold at or above the CCR trigger price.
- The CCR Trigger Price will be \$13.00 in 2021 and rise at 7% per year, so that the CCR will only trigger if emission reduction costs are higher than projected.

4. Emissions Containment Reserve

The Model Rule contains language for the creation and use of an emissions containment reserve (ECR) that will respond to supply and demand in the market if emission reduction costs are lower than projected. States will withhold allowances from circulation to secure additional emissions reductions if prices fall below established trigger prices. Allowances withheld in this way will not be reoffered for sale.

- The Model Rule contains language for an annual ECR allowance withholding limit of 10% of the budgets of states implementing the ECR.
- The ECR trigger price will be \$6.00 in 2021, and rise at 7% per year, so that the ECR will only trigger if emission reduction costs are lower than projected.

5. Offsets

Rhode Island will not accept CO₂ emissions offset project applications. All eligible CO₂ offset allowances awarded by any other participating RGGI state will be accepted by Rhode Island for compliance purposes. The use of CO₂ offset allowances is constrained to 3.3 percent of a power plant's CO₂ compliance obligation for each control period.

6. Reserve Price

The Model Rule retains language to increase the minimum reserve price by 2.5 percent each year.

Demonstration of Need

As mentioned above, RGGI is composed of individual CO₂ Budget Trading Programs in each RGGI participating state. Each participating state's CO₂ Budget Trading Program is based on the RGGI Model Rule, which was developed to provide guidance to states for implementation of the RGGI program. Changes to the Model Rule are being adopted in each of the RGGI participating states to change the RGGI program beginning in 2021. Rhode Island is proposing these changes to maintain consistency with the other RGGI participating states.

Alternative Approaches Considered

No alternate approaches were considered due to the regional nature of the CO₂ Program. Changes developed in the RGGI Model Rule are being incorporated into the Rhode Island Regulations, which were based on the original RGGI Model Rule.

Identification of Overlapped or Duplicated State Regulations

The Office of Air Resources has identified no state regulations that overlap or duplicate the proposed amendments.

For more information or copies of the proposed amendments contact:

Dena Gonsalves, Senior Air Quality Specialist
Rhode Island Department of Environmental Management
Office of Air Resources
235 Promenade Street
Providence, RI 02908
(401) 222-2808 ext. 7017
dena.gonsalves@dem.ri.gov
Or, visit the DEM website at www.dem.ri.gov