



FACT SHEET

In re: Proposed amendments to 250-RICR-120-05-46, 'CO₂ Budget Trading Program & 250-RICR-120-05-47, 'CO₂ Budget Trading Program Allowance Distribution'

Introduction

The Rhode Island Department of Environmental Management (RIDEM) is proposing to revise 250-RICR-120-05-46, '[CO₂ Budget Trading Program](#)' and 250-RICR-120-05-47, '[CO₂ Budget Trading Program Allowance Distribution](#)' to align with the revisions to the CO₂ Budget Trading Program's Model Rule as an outcome of a Third Program Review.

Background

The Regional Greenhouse Gas Initiative (RGGI) became the first mandatory cap-and-trade program to limit carbon dioxide (CO₂) emissions in the United States in 2009. CO₂ is a principal human-caused greenhouse gas (GHG) that contributes to climate change. The states that participate in this regional program include RI, CT, DE, MA, MD, ME, NH, NJ, NY and VT. Electric power generators (i.e. power plants) with a capacity of 25 megawatts or greater located in the states participating in RGGI are required to obtain a number of CO₂ allowances equal to the number of tons of CO₂ they emit. A CO₂ allowance represents a limited authorization to emit one short ton of CO₂, as issued by a respective state.

RGGI distributes CO₂ allowances to the market primarily through quarterly regional auctions. Through March 2025, RGGI has conducted 67 successful auctions with cumulative auction revenue totaling approximately \$9 billion dollars. The money generated at auction is invested by states back into their communities. Each state directs its own strategy for the investment of auction proceeds. States invest the auction proceeds in a variety of consumer benefit programs. Rhode Island primarily invests in energy efficiency and conservation, renewable energy technologies and clean energy programs. To date, auction proceeds have generated approximately \$184 million for Rhode Island.

In 2008, as this program was being developed by the states, a RGGI Model Rule was developed and each participating state used this model rule as a template to promulgate independent regulations. The Implementation of the Regional Greenhouse Gas Initiative (RGGI) Act (R.I. Gen. Laws 23-82-4) states RIDEM will establish the rules and regulations for the state's participation in RGGI. RIDEM promulgated the first set of RGGI regulations in 2008.

The RGGI participating states conduct periodic, comprehensive Program Reviews to evaluate RGGI's impacts, set future program goals, and consider updates to evolve the program. This review process is essential to RGGI's ongoing success driving emissions reductions and delivering benefits across the region. Each Program Review includes consideration of state-specific emission reduction requirements, public meetings to gather input on program design, and technical analysis and modeling of the region's economy and electricity sector. The First and Second Program Reviews, completed in 2013 and 2017, respectively, resulted in changes that have strengthened and improved RGGI's market-based system, providing emissions and health benefits to the region.

The RGGI participating states launched their Third Program Review in Fall 2021 and was completed in Summer 2025. As a result of this review, the states will set the program on a track to help all participating states meet climate goals.

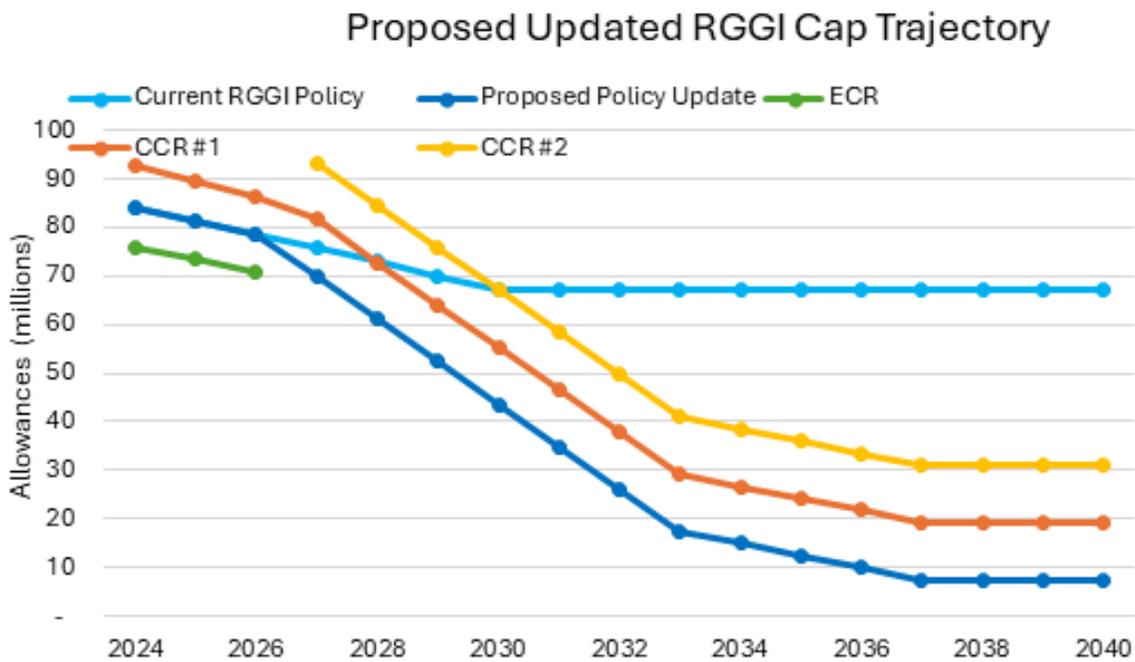
Description of Proposed Amendments

All the proposed changes to the RGGI program outlined below will begin January 1, 2027.

- **Updated Regional Cap Trajectory:** The RGGI states will implement an updated regional cap trajectory that will provide up to 91% in additional cap reduction by the year 2037, relative to the 2024 cap. The base updated regional cap trajectory will take effect in 2027 and be set to decrease by approximately 10% annually, relative to

the 2024 cap (on a trajectory towards 0 allowances by 2035). This regional cap trajectory will be set to continue to 2033. Then, beginning in 2034, the regional cap trajectory will change to a more gradual decrease of approximately 3% annually, relative to the 2024 cap (on a trajectory towards 0 allowances by 2040). This regional cap trajectory will be set to continue to 2037. Setting the regional cap beyond 2037 will be addressed at the next RGGI Program Review, to begin no later than 2028. This updated regional cap will help the RGGI states achieve ambitious emissions reductions quickly while maintaining affordable electricity prices and allowance availability for necessary emissions through 2037.

- Updated Cost Containment Reserve:** To ensure availability of RGGI allowances to meet grid reliability needs and protect against cost volatility, the states will update the Cost Containment Reserve (CCR), a reserve of allowances that can be made available at an auction if the auction clearing price exceeds a predetermined trigger price. Beginning in 2027, a second tier of CCR allowances will be available at auction at a 50% higher trigger price than the existing first tier of CCR allowances. This additional CCR allowance tier will ensure the availability of allowances to meet grid reliability needs, while the higher trigger price will mitigate against the release of a windfall of allowances. If the entire first tier of CCR allowances are released and sold in every year, the updated regional cap trajectory will provide a 77% cap reduction by the year 2037, relative to the 2024 cap. If both tiers of CCR allowances are released and sold in every year, the updated regional cap trajectory will still provide a 63% cap reduction by the year 2037, relative to the 2024 cap.



This figure compares the current regional cap trajectory (light blue) with the proposed updated cap trajectory (dark blue). The orange and yellow lines display the total updated regional cap if all allowances are released from the proposed first and second Cost Containment Reserves, respectively.

- Increased Minimum Reserve Price:** The RGGI states will raise the minimum reserve price, the lowest price at which RGGI allowances may be sold at auction. In current RGGI design, the Emissions Containment Reserve (ECR) is a reserve of allowances that can be withheld from an auction if the auction clearing price falls below a predetermined trigger price. The RGGI states will remove the ECR mechanism and replace it with an increased minimum reserve price of \$9.00 in 2027 that will increase thereafter at a rate of 7% annually, matching the existing Emissions Containment Reserve (ECR) trigger price trajectory. As a result, rather than a certain number

of allowances being withheld if the auction price falls below a set trigger price, all allowances will be withheld below that price.

- Removal of Offsets from RGGI Design: The participating states which still accept offset applications will no longer award or otherwise distribute offset allowances. During this Program Review, stakeholders raised concerns that offset allowances allow covered sources to meet their compliance goals without reducing emissions. RI among other RGGI states stopped accepting offset applications as a result of the Second Program Review in 2017.
- Commitment to the Fourth RGGI Program Review: The RGGI states are further committing to begin a Fourth Program Review no later than 2028. The Fourth Program Review will provide an early opportunity to evaluate the performance of the changes agreed to in the current review and to adjust the program if needed to ensure its continued success in contributing to a reliable, affordable, clean electricity supply.

Demonstration of Need

The proposed amendments to the state's CO₂ Budget Trading Program regulations will enable Rhode Island to maintain its status as a "Participating state" in this regional emissions reduction program. In addition, RIDEM is proposing to update these regulations to meet its statutory mandate under R.I.G.L. § 23-82-4, Implementation of the Regional Greenhouse Gas Initiative Act.

Alternative Approaches Considered

No alternative 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.

Determination of Significant Adverse Economic Impact on Small Business or Any City or Town

The Office of Air Resources has determined that the proposed regulation will not have a significant adverse economic impact on small businesses and/or any city or town.

For more information regarding the proposed amendments please contact:

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Or visit the Proposed Regulations section of the DEM website at: <http://www.dem.ri.gov/documents/regulations/>