

# CARBON MARKET BUSINESS BRIEF

## REGIONAL GREENHOUSE GAS INITIATIVE (RGGI)

### RGGI AT A GLANCE

Years in operation	First compliance period: 2009-11 Second: 2012-14 Third: 2015-17 Fourth: 2018-20 Fifth: 2021-23
Overall cap & trajectory	RGGI's 2021 adjusted cap is 75.15 million short tons (68.2 million metric tCO <sub>2</sub> ), declining at a rate of 2.275% annually through 2030.
Target(s)	30% below the 2020 cap by 2030
Emissions reduced to date	47% fall in emissions from 2008-17
Sectors covered	Fossil -fuel powered electric generation with an installed capacity of 25MW or greater
GHGs covered	CO <sub>2</sub>
# of covered entities	164
Allocation method	Majority of CO <sub>2</sub> allowances are issued by each RGGI state and distributed through quarterly regional CO <sub>2</sub> allowance auctions using a single-round, sealed-bid uniform-price format. Auctions are open to all parties with financial security, with a maximum bid of 25% of volume on offer per quarterly auction.
Trading rules	<p><b>Price Control Measures:</b> The RGGI Model Rule sets a reserve price for auctions, which acts as a de factor floor price. The reserve price in 2020 is US\$2.32, and is multiplied by 1.025 each year, rounded to the nearest whole cent. The programme also has a Cost Containment Reserve (CCR), which releases allowances to the market when prices surpass a pre-determined threshold, set at \$10.77 in 2020 then rising to \$13 in 2021 and increasing annually by 7% thereafter.</p> <p><b>Market Control Measure:</b> Allowances must be retired after the end of each three-year compliance period. From 2021, the programme will feature an Emissions Containment Reserve (ECR) which will remove allowances from circulation, if the price falls below \$6/ton; this threshold increases by 7% each year. Maine and New Hampshire do not intend to participate in the ECR.</p>
Use of offsets and linking	Use of offsets is limited to 3.3% of a covered entity's compliance obligation for each control period. RGGI has its own offset protocols and registry for projects based within RGGI jurisdictions, unless an MOU is signed with another state under the Model Rule. Awarded offset allowances remain fungible across the RGGI states.

Other features	<p>Allowances can be banked for later use. RGGI includes interim adjustments to the cap (2014-2020) to account for banked CO2 allowances</p> <p>The 2012 Program Review established two cap adjustments to account for privately held allowances, a third bank adjustment is established in the 2017 revised Model Rule over a five-year period (2021-25), based on the size of the bank at the end of 2020.</p>
Penalties for non-compliance	Penalties for non-compliance are set by each state. In the case of excess emissions, compliance allowances for three times the amount of excess emissions have to be surrendered in future periods.
Use of revenues	State-specific, but major categories of, programmes include: energy efficiency, renewable energy, greenhouse gas abatement, and direct bill assistance.

## MAJOR DEVELOPMENTS

Since the release of the 2017 Model Rule, all but one state – New York – have passed the necessary rules or legislation to implement the changes that will come into effect 1 January 2021. New York officials have indicated they will have the rules in place for that start date.

RGGI also officially grew in 2020 with the formal re-admittance of New Jersey into the programme, following its exit in 2011. In addition, Virginia, after a number of stalled efforts, will join RGGI in January 2021. The state's first attempt to join in 2019 – by Governor Executive Order – was blocked by the Republican controlled legislature. Democrats took control of the legislature following elections in November 2019 and the legislation to join RGGI was signed by Governor Tom Wolf in April 2020.

In addition to establishing the emissions trading programme, the Virginia legislation also establishes a Renewable Portfolio Standard (RPS), energy efficiency standards, and advances offshore wind and solar and distributed generation.

Looking ahead to 2021, Pennsylvania also intends to join RGGI, following the passage of legislation by the Democratic-controlled state legislature. Pennsylvania's Department of Environmental Protection has been given the authority to fast-track its rulemaking process to update the RGGI rule. A Virginia and Pennsylvania entry into the programme represents more than a doubling of RGGI market size for 2021.

In 2019, Martin Suuberg, Massachusetts Commissioner of Environment, assumed the role of RGGI Inc. Chairperson. Former Chairperson, Ben Grumbles from Maryland, is currently RGGI Inc. Vice-Chairperson.

## MARKET COMMENTARY

RGGI allowance pricing was consistent and relatively strong over the first few months in 2020. December 2020 futures opened the year at \$5.83/ton and traded between \$5.81 and \$6.04 through the beginning of March. Amid global economic concerns relating to COVID-19 and depressed emissions covered under the programme, pricing fell sharply and to a low of \$4.40/ton on 19 March. However, this softness did not persist and prices recovered over the course of several days; at the time of writing in mid-April, December 2020 futures were at \$5.75/ton.

This strength in pricing follows a drop in emissions, as 2019 levels came in roughly 17% under 2018 in the RGGI region. Lighter emissions totals were reflected in the secondary market in 2019, but traded up to as close out 2019 near \$6.00/ton and remained there until the outbreak of COVID-19. Volumes were also strong in 2019, with ICE reporting a 24% increase in exchange-traded volumes year-on-year, with approximately 261 million RGGI allowances changing hands in 2019.

The 47th RGGI Auction cleared at a price of \$5.65/ton on 11 March and generated \$91,577,160.55 in revenue for the states. This was the highest clearing price for a RGGI auction since 2015.

As previously mentioned, the RGGI Model Rule will introduce some significant changes post-2020. The private bank

adjustment, ECR and CCR should contribute to what continues to be a robust market and assist the RGGI states in achieving their strong emissions reductions goals. These regulatory changes, coupled with new additions to the collective, should prove to maintain a healthy RGGI programme.



**FIGURE 1**  
RGGI December Settlement

## USEFUL LINKS

[RGGI Inc](#)

[ICAP RGGI profile](#)

[10-year review of RGGI, Acadia Center](#)

## REFERENCES

[Governor of Virginia press release](#)

[Governor of Pennsylvania press release](#)

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