September 2025

REGIONAL GREENHOUSE GAS INITIATIVE (RGGI) AT A GLANCE

Years in operation	• First compliance period: 2009-11 • Second: 2012-14 • Third: 2015-17 • Fourth: 2018-20 • Fifth: 2021-23 • Sixth: 2024-26
Overall cap and trajectory	2024 adjusted cap is 69.4 million tons. (The unadjusted cap is 84.1 million tons). Beginning in 2027, the cap will drop to 69.8 million tons of CO2, with no bank adjustment available. From 2027 through 2033, the cap will decrease annually by an average of 8.5 million tons, representing approximately 10.5% of the 2025 budget. Following this period of relatively steep decline, from 2033 to 2037, the rate of reduction softens, with allowances decreasing by an average of 2.3 million tons annually, which is approximately 3% of the 2025 budget. This trajectory is projected to reduce the regional power sector emissions to just under 10 million tons by 2037.
Target(s)	30% below the 2020 cap by 2030 Regional power sector emissions under 10 million tons by 2037
Emissions reduced to date	46-50% reduction in CO2 emissions from covered power plants since its inception.
Sectors covered	Fossil-fuel powered electric generation with an installed capacity of 25 MW or greater
GHGs covered	CO2
Number of covered entities	Between 200 and 260 excluding Pennsylvania.
Allocation method	Majority of CO2 allowances are issued by each RGGI state and distributed through quarterly regional 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	RGGI Allowances must be retired after the end of each three-year compliance period. The 2025 Model Rule fundamentally alters the lower bound of the allowance market by replacing the Emissions Containment Reserve (ECR) with an increased Minimum Reserve Price (MRP). As of 2027, the minimum price at which allowances may be sold at auction will be $9.00, a significant increase from the $2.62 in 2025. This MRP will also increase by 7% annually thereafter. This change means that no allowances will be sold below this established price floor, providing a stronger and more direct lower bound price signal to power generators.
Use of offsets and linking	While limited offset are available in the current RGGI programme, in 2027, RGGI will no longer issue new offset allowances, as the new model rule scraps offsets completely.
Price containment	The Cost Containment Reserve (CCR) functions as a reserve of allowances that become available for sale only if auction clearing prices exceed a predetermined trigger price (currently $17,03, increases by 7% per year), signaling higher than anticipated demand.
Emissions	The Emissions Containment Reserve will not be a part of the RGGI Programme after 2027. The ECR is replaced, in part, by the MRP. Previously, the ECR mechanism allowed for

containment	allowances to be withheld from an auction if the clearing price fell below a specific trigger (ECR price is currently $7.86, increases by 7% per year), aiming to prevent prices from dropping too low.
Penalties for non-compliance	Penalties for non-compliance are set by each state. In the case of excess emissions, allowances for three times the amount of excess emissions have to be surrendered in future periods.
Use of revenue	State-specific, but major categories of programmes include: energy efficiency, renewable energy, greenhouse gas abatement, and direct bill assistance.

The Regional Greenhouse Gas Initiative (RGGI) Third Program Review: Analysis of the 2025 Model Rule

Summary

On July 3, 2025, the Regional Greenhouse Gas Initiative (RGGI) concluded its Third Program Review, releasing an updated CO2 Budget Trading Program Model Rule. This review process was the longest one yet. It commenced back in February 2021, since then periods of activity and engagement have been punctuated by months of silence from the participating states.

The 2025 Model Rule introduces a strengthened regional CO2 emissions cap, establishing a more aggressive declining trajectory through 2037. Concurrently, market stability mechanisms have undergone revision: the Cost Containment Reserve (CCR) is expanded to a two-tier structure, and the Emissions Containment Reserve (ECR) is eliminated and replaced by an increased Minimum Reserve Price (MRP). A notable shift in compliance strategy involves the discontinuation of new offset allowances from 2027, thereby reinforcing a focus on direct emissions reductions within the power sector. Furthermore, a new policy dictates that any unsold allowances from quarterly auctions will be permanently withdrawn from the market, rather than being reserved for future sales.

These programmatic changes will see the regional cap decline to just under 10 million tons by 2037. RGGI has a proven track record, having already achieved a 46-50% reduction in CO2 emissions from covered power plants since its inception. According to the States, the updated rule is designed to foster greater stability and predictability for market participants, including power producers and developers of new electricity resources, while simultaneously bolstering price protection for consumers. Their economic modeling suggests that strengthening the program will not lead to an increase in electricity prices; instead, the strategic investment of auction proceeds, which have exceeded $9 billion to date, is anticipated to generate over $20 billion in energy bill savings for ratepayers.

Introduction to the Regional Greenhouse Gas Initiative (RGGI)

The Regional Greenhouse Gas Initiative (RGGI), inaugurated in 2009, holds the distinction of being the United States' pioneering multi-state program dedicated to curbing CO2 emissions from power plants. It operates on a market-based "cap-and-invest" framework, wherein participating states impose limits on CO2 emissions from fossil-fuel-fired electric power generators with capacities of 25 megawatts or greater. It is important to note that New York maintains specific applicability criteria for its regulated sources.

Under this system, CO2 allowances are issued, with the vast majority distributed through regional auctions. The proceeds generated from these auctions are then strategically reinvested by the states into a diverse portfolio of energy and consumer programs. These investments primarily target energy efficiency initiatives, the deployment of clean and renewable energy technologies, and direct bill assistance for consumers. Since its inception, CO2 emissions from covered power plants across the RGGI region have decreased by approximately 46-50%. RGGI's design has always included a periodic program review. These reviews are designed as checkpoints,

allowing RGGI states to assess program successes, identify areas for improvement, and ensure the initiative remains effective and adaptable to evolving conditions. Prior to the most recent update, two comprehensive program reviews were completed in 2013 and 2017, with the latter resulting in the 2017 Model Rule. The next review is slated to begin in 2028.

Detailed Revisions to the 2025 CO2 Budget Trading Program Model Rule
The 2025 CO2 Budget Trading Program Model Rule introduces several revisions designed to strengthen the Regional Greenhouse Gas Initiative's effectiveness and adaptability. These changes focus on emissions reduction, market stability, and program integrity.

A Strengthened Emissions Cap Trajectory (2027-2037)
A cornerstone of the 2025 Model Rule is the tightened regional CO2 emissions cap, which establishes a more aggressive declining trajectory through 2037.

Beginning in 2027, the cap will drop to 69.8 million tons of CO2. From 2027 through 2033, the cap will decrease annually by an average of 8.5 million tons, representing approximately 10.5% of the 2025 budget. Following this period of relatively steep decline, from 2033 to 2037, the rate of reduction softens, with allowances decreasing by an average of 2.3 million tons annually, which is approximately 3% of the 2025 budget. This trajectory is projected to reduce the regional power sector emissions to just under 10 million tons by 2037.

This new cap trajectory represents a substantial acceleration compared to the 2017 Model Rule, which had established a regional emissions cap to decrease available allowances by approximately 10 million tons of CO2 between 2025 and 2030, starting at around 80 million tons and stabilizing at 70 million tons thereafter. The updated cap is intended to align more closely with participating states' ambitious decarbonization goals, many of which aim for full decarbonization of the electricity sector by 2035 or 2040.

A notable aspect of this revision is the mechanism for managing the existing bank of privately held allowances. The previous declining emissions trend had led to a substantial accumulation of banked allowances, estimated at around 67 million tons as of July 2025, nearly equivalent to the current annual cap of approximately 80 million tons. Unlike previous program reviews where "bank adjustments" (sharp reductions in the allowance cap) were implemented to absorb oversupply, the 2025 Model Rule does not plan for such an adjustment. Instead, the new, steeper cap trajectory is expected to naturally absorb this substantial allowance bank.

Market Stability Mechanism Changes

Revised Cost Containment Reserve (CCR)
The existing CCR structure has been revised to reflect the State’s desire to manage cost volatility. The CCR functions as a reserve of allowances that become available for sale only if auction clearing prices exceed a predetermined trigger price (currently $17,03, increases by 7% per year), signaling higher than anticipated demand. The new Model Rule not only increases the overall size of the CCR but also introduces a second tier of CCR allowances, which becomes accessible at a higher trigger price than the first.

From 2027, the CCR will be enlarged to approximately 11.75 million allowances per year, a notable increase from the previous single-tier structure. This expanded reserve is now split into two price tiers. In 2027, the trigger price for the first tier is set at $19.50, while the second tier becomes available at a trigger price of $29.25. Both trigger - prices increase by 7% annually. The inclusion of a two-tier CCR, and the increase in the total number of CCR allowances available, provides a ‘soft’ cap on prices, allowing for a phased release of additional allowances to mitigate price spikes.

Replacement of Emissions Containment Reserve (ECR) with Increased Minimum Reserve Price (MRP)
The 2025 Model Rule fundamentally alters the lower bound of the allowance market by replacing the Emissions Containment Reserve (ECR) with an increased Minimum Reserve Price (MRP). Previously, the ECR mechanism allowed for allowances to be withheld from an auction if the clearing price fell below a specific trigger (ECR price is currently $7.86, increases by 7% per year), aiming to prevent prices from dropping too low.
Under the new rule, the ECR is eliminated. Instead, an increased MRP is implemented, matching the existing ECR trigger price trajectory. As of 2027, the minimum price at which allowances may be sold at auction will be $9.00, a significant increase from the $2.62 in 2025. This MRP will also increase by 7% annually thereafter. This change means that no allowances will be sold below this established price floor, providing a stronger and more direct lower bound price signal to power generators. This mechanism is intended to ensure that the carbon price remains sufficiently robust to incentivize continued investment in emissions reductions and clean energy technologies.

Removal of Offset Allowances
The 2025 Model Rule introduces a significant change by removing offset allowances from the RGGI compliance framework. Historically, some state programs within RGGI had permitted the use of offset allowances, which represented greenhouse gas reductions achieved outside the direct scope of the power sector as an alternative means for entities to comply, in part, with RGGI requirements. Only one offset project has ever been used in this way, so they can't be considered a big part of the program, but given the ramp up in RGGI prices in the last 2 years, it is possible offsets would have played a bigger role in the future.

Effective 2027, RGGI will no longer issue new offset allowances. It seems like a missed opportunity to provide flexibility and cost effectiveness in reducing GHG emissions.

Management of Unsold Allowances
A new policy regarding unsold allowances has been incorporated into the 2025 Model Rule. RGGI auctions are conducted quarterly, with the total allowances offered at each auction designed to align with the annual cap. Moving forward, participating states have committed to withdrawing any outstanding allowances that are not sold at auction.

Critically, these unsold allowances will not be reserved for later auctions within the same calendar year. The implication of this policy is that the actual annual emission rate achieved under the program will be lower than the nominal cap, as fewer allowances will ultimately be available for use. This mechanism provides an additional layer of emissions reduction, demonstrating a proactive approach to ensuring that the program's environmental objectives are met, and potentially exceeded, by dynamically adjusting the available supply of allowances based on market demand.

Anticipated Impacts and Strategic Implications
RGGI has a well-established history of success in reducing emissions. Since its inception, CO2 emissions from covered power plants in the region have declined by approximately 46-50%. This reduction has been, in part, attributed to the compliance costs associated with carbon allowances, which have incentivized utilities to shift away from coal-fired power generation towards natural gas and, increasingly, renewable energy sources. Beyond CO2, RGGI has also been associated with reductions in other harmful pollutants, such as Nitrogen Oxide (NOx) and Sulfur Dioxide (SO2). The continued tightening of the cap is expected to reinforce these positive environmental and public health outcomes.

State-Level Regulatory Amendments
The publication of the Third Review and the updated Model Rule does not create immediate obligations for source

entities. Instead, the responsibility now shifts to the individual participating states, which must implement or amend their existing regulations to align with the requirements of the 2025 Model Rule. This process is anticipated to be completed by January 1, 2027. This decentralized approach, where each state adopts independent regulations based on the Model Rule, has been a core design element of RGGI since its inception, allowing for regional compatibility while accommodating state-specific legal and policy frameworks.

State-Specific Dynamics and Challenges
The RGGI program operates within a complex landscape of state-specific policies and ongoing legal challenges that can influence its reach and effectiveness.

The participation of Pennsylvania and Virginia, for instance, remains subject to ongoing litigation and political dynamics. Pennsylvania officially joined RGGI in 2022, but court challenges have delayed enforcement, though they resumed in 2024. Virginia's participation is also in limbo due to pending court rulings concerning a 2023 attempt by its Governor to withdraw from the program, a move that has been legally contested. These legal uncertainties underscore the political and judicial scrutiny that market-based climate programs can face, and their resolution will significantly impact the overall regional emissions cap and market dynamics. In 2022, Pennsylvania's emissions constituted 42.5% of the total CO2 emissions of all RGGI states, with Virginia contributing another 13%, highlighting the substantial impact of their full and stable participation.

Conclusion
The Regional Greenhouse Gas Initiative's 2025 Model Rule, emerging from the Third Program Review, represents an evolution rather than revolution in regional carbon market design. In this polarized time it is perhaps not surprising that 10 individual jurisdictions took so long to come together around the changes to the program. The tightening of the emissions cap, the enhancements to market stability mechanisms, and the removal of new offset allowances collectively underscore a complicated political environment for state's cap and invest initiatives, while also showing that the RGGI states are determined to keep the program up and running.
The program's design, characterized by its periodic review process, enables it to remain responsive to dynamic energy markets, technological advancements, evolving climate science, and an, at times, hostile political environment. The demonstrated ability to reduce emissions while simultaneously delivering substantial economic benefits to consumers and communities, without increasing electricity prices, reinforces the viability of market-based climate policies.

USEFUL LINKS

RGGI Inc. Website Welcome | RGGI, Inc.
RGGI Program Key Elements, Elements of RGGI | RGGI, Inc.
RGGI Program Review Website (July 2025), Program Review | RGGI, Inc.
RGGI Report on 2023 Investment Proceeds (July 2025), 2025_07_16_RGGI_Proceeds_Report_Release.pdf
ICAP RGGI Dashboard, USA - Regional Greenhouse Gas Initiative (RGGI) | International Carbon Action Partnership

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