

RGGI Allowance Allocations & Auction Proceeds Distribution Plans

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Two of the main design elements of a cap and trade program are: 1) the allocation of allowances (permits to emit CO₂) and 2) the use of proceeds from allowance auctions. In the Regional Greenhouse Gas Initiative (RGGI) these two design elements are largely determined by member states, so long as parameters of the 10-state Memorandum of Understanding are met, including a requirement that 25% of allowance value support a “consumer benefit or strategic energy purpose.”

The first part of this document provides background on RGGI through the 5th allowance auction, including descriptions of common allowance allocations. The second part of the document (beginning on page 3) provides detailed analysis of allocations and auction proceeds distribution plans for each state.

RGGI Auction Results

	Auctions 1-4	Auction 5	Totals to-date
Connecticut	\$18,718,498	\$4,052,085	\$22,770,583
Delaware	\$8,044,331	\$1,797,539	\$9,841,870
Maine	\$11,623,982	\$1,883,428	\$13,507,410
Maryland	\$72,369,609	\$12,424,386	\$84,793,995
Massachusetts	\$59,427,741	\$10,223,116	\$69,650,857
New Hampshire	\$12,482,660	\$2,767,655	\$15,250,316
New Jersey	\$47,319,194	\$4,206,966	\$51,526,160
New York	\$127,869,789	\$27,429,289	\$155,299,078
Rhode Island	\$5,955,596	\$1,022,455	\$6,978,051
Vermont	\$2,745,349	\$471,320	\$3,216,669
Total	\$366,556,748	\$66,278,239	\$432,834,987

Auction Proceeds to Efficiency & Clean Energy

RGGI states have decided to auction at least 86% of allowances for public benefit. A majority of the revenue raised through RGGI auctions, and through the direct sale of allowances under certain state set-asides, will be channeled to energy efficiency programs at the state and local level. This funding will support proven electric and fossil fuel efficiency programs that save consumers money and reduce the cost of RGGI program by lowering demand for energy and for allowances. Auction revenues are being used for a number of activities that vary among states, but include:

- Energy efficiency programs
- Low-income weatherization
- Low-income heating assistance
- Clean energy research and development

RGGI Energy Efficiency Funding

	Revenue	Energy Efficiency Share	Projected Energy Efficiency Funding
Auctions 1-4	\$366,556,748	65.8%	\$241,181,537
Auction 5	\$66,278,239	62.4%	\$41,362,098
Total	\$432,834,987	65.3%	\$282,543,636

Note: Figures reflect state spending plans (for information on spending to-date see state-specific info. after page 2)

Allocations

In addition to auctioning allowances for public benefit, RGGI states are supporting other policies with allocations of allowances. The following allocation categories describe programs existing in one or more

states. Though details and nomenclature may differ slightly between states, the objectives of these allocation set-asides are similar.

Auction – All States – allowances to be auctioned are offered for sale in a regional auction administered by RGGI, Inc., using an online platform developed by World Energy Solutions (see www.rggi.org for additional information). Auction proceeds are returned to states to support state-specific programs.

Voluntary Clean Energy – All States but DE - this set-aside supports renewable energy by accounting for emissions reductions attributable to voluntary purchases of renewable energy by consumers (i.e. “green power” purchases). Customers pay a premium for voluntary renewable energy in expectation of displacing fossil fuel electricity and reducing emissions. The cap must therefore be adjusted downward in proportion to voluntary renewable energy purchases in order to reflect consumer expectations, and to avoid offering surplus allowances to fossil fuel producers who generate *less* electricity as a result of voluntary renewable energy purchases. If the cap were not adjusted downwards, generators of fossil-fuel electricity could actually *increase* emissions per kilowatt hour and still remain below the cap. Allowances in voluntary clean energy set-asides are removed from the cap and retired in proportion to actual voluntary renewable energy purchases.

Long-Term Power Purchase Agreement (PPA) – CT, MD & NY – this set-aside protects generators with long-term PPA’s from having to absorb the costs of RGGI over the contract period. To be eligible generators must demonstrate that they cannot recover allowance costs from consumers or electricity markets. Eligible units may purchase allowances at a set price (\$2 per ton in CT), or be provided allowances for free, as is the case in MD and NY. (Note: in NY only generators with an emissions rate at or below that of natural gas—1100lbs/MWh—are eligible; in MD generators must demonstrate financial hardship to be eligible). Allowances purchased from the Long-term PPA set-asides may only be used for compliance and cannot be resold.

Combined Heat and Power (CHP) – CT, ME & NJ – allowances are awarded or sold at a fixed price to Combined Heat and Power (CHP) units that utilize thermal energy for heating or industrial processes. In general only 30-35% of the energy in fossil fuels is utilized to generate electricity and the rest is wasted as heat. CHP units utilize the ‘excess’ thermal energy and thus produce more useful energy per unit of fuel. This efficiency is rewarded with allowances that account for the emissions avoided by *not producing* heat anew at the end use facility. An example might be a natural-gas plant that generates electricity and provides steam for an industrial application.

Allowance Conversion – MA & NH – both Massachusetts and New Hampshire had pre-existing emissions regulations, and this set-aside allows for conversion of old allowances to the RGGI program. In MA two allowances from the previous program (310 CMR 7.00) can be exchanged for one RGGI allowance, whereas in New Hampshire allowances from the previous program (Env-A 2900) can be traded 1:1 for RGGI allowances.

Industrial Exemptions – MD & DE – in Maryland and Delaware certain emitters have been exempted from RGGI and allowances corresponding to their emissions will be permanently retired. The Delaware City Refinery, which contains a 180MW generation plant, is exempted, and in Maryland units that sell less than 10% of generated electricity onto the grid are exempted, provided that they complete a detailed climate action plan showing projected reductions.

Allocation to Emitters – DE – Delaware has decided to allocate 33% of its annual allowance budget to emitters. This allocation will decrease annually and cease in 2014.



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