

# CT Allowance Allocations and Use of Auction Proceeds



## Regional Greenhouse Gas Initiative

October 2008

Member states of the Regional Greenhouse Gas Initiative have independently determined how to allocate allowances (permits to emit CO<sub>2</sub>) and how to spend proceeds of allowance auctions. The following document describes Connecticut's allowance allocations and distribution of auction proceeds.

The finalized regulations (*Section 22a-174-3: Control of Carbon Dioxides Emissions*) are available at: [www.ct.gov/dep/lib/dep/air/regulations/mainregs/22a-174-31.pdf](http://www.ct.gov/dep/lib/dep/air/regulations/mainregs/22a-174-31.pdf).

### CO<sub>2</sub> Trading Program Annual Base Budget (Connecticut portion of the regional cap)

2009-2014	10,695,036 tons
2015	10,427,660 tons
2016	10,160,284 tons
2017	9,892,908 tons
2018	9,625,532 tons

### Allowance Allocations (sec. f, p. 23)

1.5%	Voluntary Clean Energy Purchase (VCEP) Set-aside Account—removed from cap total & retired
3.5%	Customer-side Distributed Resources (CDR) Set-aside Account—given to small power facilities
5%	Combined Heat and Power (CHP) Useful Thermal Energy Set-aside Account
up to 13%	CHP Long-term PPA (Power Purchasing Agreement) Set-aside Account
min 77%	Connecticut Auction Account

The *Voluntary Clean Energy Purchase Set-aside Account (VCEP)* accounts 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 too many allowances to fossil fuel producers who must 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 transferred to the VCEP are permanently removed from the Connecticut cap and retired.

Allowances from the *Customer-side Distributed Resources Set-aside Account* are awarded to small-scale (25-65MW) distributed generating units located at the facility of a retail end-user of electricity and deemed eligible by the Department of Public Utilities Control. Distributed generation is promoted because it reduces energy loss during transmission and increases grid reliability. An example might be a power plant located at a wastewater treatment plant that runs partially on digester gas generated at the plant.

Allowances from the *CHP Useful Thermal Energy Set-aside Account* are awarded 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.

The *CHP Long-term PPA (Power Purchasing Agreement) Set-Aside Account* seeks to support CHP generation at CHP units locked into long-term PPA's. To be eligible for allowances CHP units must have entered into a long-term PPA before January 1, 2001 and must demonstrate that they cannot recover allowance costs from consumers or electricity markets. Eligible units may purchase allowances at \$2 per ton, in quantities equal to the amount of emissions generated in the previous calendar year. Allowances purchased from the CHP Long-term PPA Set-Aside Account may only be used for compliance and cannot be resold.

Allowances allocated to the *Connecticut Auction Account* are offered for sale in a regional auction administered by a third party (World Energy Solutions, Inc.) and carried out using an online platform. For more information see [www.rggi.org](http://www.rggi.org).

### Distribution of Auction Proceeds

Proceeds from the auction of Connecticut allowances will be directed to the uses below, up to a clearing price of \$5.00/ton. Any proceeds in excess of \$5.00/ton will be rebated to ratepayers. The first \$5.00/ton of auction proceeds will be distributed as follows:

- 7.5% shall be used to cover administrative costs of the RGGI program
- 23% shall be transferred to the Connecticut Clean Energy Fund to support the development of Class I renewable energy sources (solar, wind, fuel cell, landfill gas, ocean thermal, wave or tidal power, biomass, and small-scale (under 5MW) run-of-the-river hydropower)<sup>1</sup>.
- 69.5% shall be dedicated to energy efficiency, with programs overseen by the Energy Conservation Management Board (ECMB) and funding distributed as follows:
  - 75% to Connecticut Light & Power (CL&P)
  - 18.75% to United Illuminating (UI)
  - 6.25% to Connecticut Municipal Electric Energy Cooperative (CMEEC)

### Auction Process

Connecticut will auction a minimum 77% of its 2009-2014 annual allocation of 10,695,036 tons (for a 2009 auction total of 8,235,178 allowances). 2009 allowances will be sold at six auctions, the first of which takes place on September 25, 2008. 1,372,530 allowances will be offered at the September 25<sup>th</sup> auction and at each of five subsequent auctions in 2008-9.

Revenue distribution from the September auction is described in the table below. The clearing price of \$3.07/ton significantly exceeded the reserve price (below which allowances will not sell) of \$1.86 per ton. More details are available from RGGI, Inc. at [rggi.org/home](http://rggi.org/home).

	Administration	CT Clean Energy Fund	Energy Efficiency	Total
	<b>7.5%</b>	<b>23%</b>	<b>69.5%</b>	<b>100%</b>
\$3.07/ton	\$316,025	\$969,143	\$2,928,498	\$4,213,667

<sup>1</sup> For complete definition of Class I renewable energy sources, see CT Public Act No. 03-221. Available at: [www.cga.ct.gov/2003/act/Pa/2003PA-00221-R00HB-06428-PA.htm](http://www.cga.ct.gov/2003/act/Pa/2003PA-00221-R00HB-06428-PA.htm).



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