NORTHEAST POWER COORDINATING COUNCIL
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

RCC Meeting
September 6, 2006
Agenda Item 4.6

August 16, 2006

Members, Reliability Coordinating Committee
NPCC Officers

Ladies/Gentlemen:

Re: Regional Greenhouse Gas Initiative (RGGI) Status Report

On August 15, 2006, the participating states issued a model rule for the RGGI program. Under RGGI, seven Northeast states agreed to propose a cap-and-trade program to reduce carbon dioxide (CO2) emissions. Beginning in 2009, emissions of CO2 from power plants in the region would be capped at approximately current levels-121 million tons annually-with this cap remaining in place until 2015. The states would then begin reducing emissions incrementally over a four-year period to achieve a 10 percent reduction by 2019. Compared to the emissions increases the region would see from the sector without the program, RGGI is expected to result in an approximately 35 percent reduction by 2020.

This is the first mandatory cap-and-trade program for CO2 emissions in U.S. history. The states participating in RGGI are: Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont. The State of Maryland recently adopted legislation requiring Maryland to join RGGI by June 2007.

The model set of regulations details the proposed program, as outlined in the Memorandum of Understanding (MOU). The model rule will form the basis of individual state regulatory and/or statutory proposals to implement the program. The participating states will next proceed with seeking the required legislative or regulatory approvals to adopt the program. Pending the completion of this process, the RGGI program will take effect on January 1, 2009.

Attached, for your information, is the press release describing the model rule. Additional information on the RGGI program is available at: www.rggi.org.

Sincerely,

Phil Fedora

Philip A. Fedora
Director
Regulatory Affairs, Market Reliability

cc: NPCC Staff

For Immediate Release
August 15, 2006

States Reach Agreement on Proposed Rules for the Nation's
First Cap-and-Trade Program to Address Climate Change

The seven Northeast states participating in the Regional Greenhouse Gas Initiative, a multi-state program to reduce harmful climate-changing emissions from power plants, today released a model set of regulations to be proposed in each state to implement the program. The RGGI States also released an amendment to their December 2005 Memorandum of Understanding.

Under the Regional Greenhouse Gas Initiative (RGGI), seven Northeast states agreed to propose a cap-and-trade program to reduce carbon dioxide (CO_2) emissions, which are a major contributor to global warming. This is the first mandatory cap-and-trade program for CO2 emissions in U.S. history. The states participating in RGGI are: Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont. The State of Maryland recently adopted legislation requiring Maryland to join RGGI by June 2007.

In December 2005, the governors from the seven states entered into a historic memorandum of understanding specifying the general framework of the program. On March 23, 2005, the states released draft model regulations that outlined proposed specific requirements for the program. The draft rule was the subject of a 60-day comment period and two public meetings were held. The model set of regulations released today reflects and incorporates many of the comments received and provides detailed rules for the program. Each state will use the model rule as a starting point for obtaining legislative or regulatory approval of the program.

In response to comments received, the states also agreed to make certain minor modifications to their December 2005 memorandum of understanding. The states agreed to simplify the way the program will incorporate so-called "offset credits"—reductions of greenhouse gas emissions that are achieved outside the electricity sector such as at landfills, farming operations or certain other project sites.

In 2003, Governor Pataki initiated the RGGI process by sending a letter to the governors of the Northeast and mid-Atlantic states inviting them to pursue "a course of cooperation" and work together "to develop a strategy that will help the region lead the nation in the effort to fight global climate change." Since then, State representatives have been working to develop the program, which relies on a flexible, market-based approach to curb power plant emissions, while also promoting greater energy efficiency and energy independence.

Under RGGI, the seven states will launch a regional cap-and-trade system that utilizes emissions credits or allowances to limit the total amount of CO2 emissions. Beginning in 2009, emissions of CO2 from power plants in the region would be capped at approximately current levels—121 million tons annually—with this cap remaining in place until 2015. The states would then begin reducing emissions incrementally over a four-year period to achieve a 10 percent reduction by 2019. Compared to the emissions increases the region would see from the sector without the program, RGGI will result in an approximately 35 percent reduction by 2020.

Under the cap-and-trade program, the states will issue one allowance, or permit, for each ton of CO_2 emissions allowed by the cap. Each plant will be required to have enough allowances to cover its reported emissions. The plants may buy or sell allowances, but an individual plant's emissions cannot exceed the amount of allowances it possesses. The total amount of the allowances will be equal to the emissions cap for the region. Coal-fired, oil-fired, and gas-fired electric generating units with a capacity of 25 megawatts or more will be included under RGGI.

The RGGI states have agreed that at least 25 percent of a state's allowances are to be dedicated to strategic energy or consumer benefit purposes, such as energy efficiency, new clean energy technologies and ratepayer rebates. A power plant also could purchase these allowances for its own use. The funds generated from these sales will be used for beneficial energy programs.

The RGGI program allows power plants to utilize "offsets"—greenhouse gas emission reduction projects from outside the electricity sector—to account for up to 3.3 percent of their overall emissions. Offset projects provide generators with additional flexibility to meet their compliance obligations at the lowest cost. A power plant owner/operator will be allowed to select the lowest cost emission reductions and apply them to a portion of the plant's emissions requirement. Examples of offset projects include: natural gas end-use efficiency, landfill gas recovery, reforestation, and methane capture from farming facilities.

Under the model regulations and the MOU amendment, offset credits may come from anywhere in the United States, provided offset projects from outside of the participating states must take place under the regulatory watch of a cooperating agency in that state. States or other U.S. jurisdictions not participating in RGGI will need to enter into a memorandum of understanding with the RGGI state agencies and agree to take on certain administrative obligations to ensure the credibility of the offset projects.

The model regulations and the MOU amendment also streamline and simplify the so-called “safety valve” provisions of RGGI program, which are designed to ensure that the cost of allowances remains affordable. Under the program, if the average annual price of an emission allowance were to rise above $7, sources will be permitted to use offsets for up to 5 percent of a plant’s reported emissions. If the average price rises above $10, then sources will be permitted to use offsets for up to 10 percent of a plant’s reported emissions and offsets from international trading programs will be allowed. By allowing offsets to account for a greater percentage of emissions, the program will keep energy prices low while also achieving real reductions in climate changing emissions.

Any price impacts of this program are expected to be minimal. Estimates project that average household bills could increase by approximately $3-21 annually above what they otherwise would have been. The potential increases are projected to be at the low end of the range during the initial years of the program. However, it also is anticipated that RGGI will generate significant new investments in innovative and cleaner technologies and energy efficiency, which could lower electricity rates.

The participating states will next proceed with seeking the required legislative or regulatory approvals to adopt the program. Pending the completion of this process, the RGGI program will take effect on January 1, 2009.

For additional information on the RGGI program, please visit our web site at: www.rggi.org.