

RGGI and Carbon Trading

**James M. Van Nostrand
Executive Director
Pace Energy and Climate Center**

NJAEE 2009 Energy Futures Forum

May 19, 2009



Overview

- Regional Greenhouse Gas Initiative (RGGI)
- Federal Legislation

Regional Greenhouse Gas Initiative (RGGI)

- 10 Northeast and Mid-Atlantic states
- First mandatory market-based CO₂ emissions reduction program in US
- Will cap emissions from electric generation sector, then reduce 10% by 2018

RGGI (continued)

- How cap and trade works
- Three RGGI auctions:
 - September 25, 2008
 - December 17, 2008
 - March 18, 2009
- Next auction is June 17, 2009

RGGI (Continued)

- Auction Results
 - September 2008 auction
 - Six states participated
 - Auction price of \$3.07 produced \$38.5 million in auction proceeds
 - December 2008 auction
 - All 10 states participated, including New Jersey
 - Auction price of \$3.38 produced \$106 million in auction proceeds (\$15.3 million for New Jersey)

RGGI (Continued)

- Auction Results (continued)
 - March 2009 auction
 - Auction price of \$3.51 for vintage 2009 allowances (for 2009-2011 control period)
 - Produced \$110 million in auction proceeds (\$15.9 million for New Jersey)
 - Auction price of \$3.05 for vintage 2012 allowances (for 2012-2014 control period)
 - Produced \$6.6 million in auction proceeds (\$864,000 for New Jersey)

RGGI (Continued)

- Use of auction proceeds
 - Energy efficiency
 - Renewable energy
 - Assistance to low-income residents
 - Weatherization
 - Subsidies
- Carbon reduction technologies

New Jersey's Participation in RGGI

- Global Warming Response Act, (P.L. 2007, Chapter 340)
 - 60% of proceeds to Economic Development Authority
 - 20% to Board of Public Utilities
 - 20% to Department of Environmental Protection

RGGI - New Jersey (continued)

- EDA Share of Proceeds
 - Financial incentives for commercial, institutional and industrial entities to support end-use efficiency projects, new efficient electric generation facilities
 - Energy efficiency
 - Renewable energy
 - Combined Heat and Power (CHP)
 - Innovative carbon emissions abatement technologies

RGGI - New Jersey (continued)

- BPU Share of Proceeds
 - Energy efficiency in low-income and moderate-income residential sector, with a focus on urban areas
 - Emphasis on heat island effects
 - Reduce ratepayer impacts from implementation of RGGI
 - \$2.8 million from December auction to NJ Shares to assist electric customers facing disconnection

RGGI - New Jersey (continued)

- DEP Share of Proceeds
 - 10% for local governments to plan, develop and implement measures to reduce greenhouse gas (GHG) emissions
 - Including technical assistance
 - Energy efficiency
 - Renewable energy
 - Distributed generation
 - Land use planning

RRGI - New Jersey (continued)

- DEP Share of Proceeds
 - 10% for programs to enhance the stewardship and restoration of New Jersey's forests and tidal marshes
 - Provide opportunities to sequester or reduce GHG emissions

Federal Legislation

- Waxman-Markey's American Clean Energy and Security Act (H.R. 2454)
 - “ACES”
- Introduced Friday, May 15
- Over 900 pages in length
- Energy and Commerce Committee mark-up this week

ACES (Continued)

- Implements federal cap-and-trade program for GHG emissions
- Covers 87% of total U.S. emissions
- Reductions below 2005 levels of:
 - 17% by 2020
 - 42% by 2030
 - 83% by 2050

ACES (Continued)

- Allocation of emission allowances to accomplish 3 primary goals:
 - Protect consumers from energy price increases
 - Assist industry in transition to clean energy economy
 - Spur energy efficiency and clean energy technology

ACES (Continued)

- Allocation of emission allowances
 - 15% will be auctioned off
 - Proceeds distributed to low- and moderate-income families
 - Tax credits, direct payments
 - Remainder of allowances are given away

ACES (Continued)

- Allocation of “free” allowances
 - 35% to electricity sector
 - 30% for distribution companies, used to protect consumers from electricity price increases
 - 5% for merchant coal and long-term PPAs
 - Phased out over 5-year period from 2026 through 2030

ACES (Continued)

- Allocation of “free” allowances
 - 15% for carbon-intensive industries
 - Energy-intensive, trade-exposed industries
 - To cover costs from global warming protection program
 - Phased out after 2025 (unless President decides program still needed)

ACES (Continued)

- Allocation of “free” allowances
 - 10% to states for investments in renewable energy and energy efficiency
 - Reduces to 7.5% in 2017-2017
 - 6.5% in 2018-2021
 - 5% of allowances thereafter

ACES (Continued)

- Allocation of “free” allowances
 - 9% for local gas distribution companies
 - Used to protect consumers from natural gas price increases
 - Allowances phase out over 5-year period from 2026 through 2030

ACES (Continued)

- Allocation of “free” allowances
 - 5% for tropical deforestation projects
 - To prevent tropical deforestation and build capacity to generate international deforestation efforts
 - Reduces to 3% from 2026 through 2030
 - 2% from 2031 and thereafter

ACES (Continued)

- Allocation of “free” allowances
 - 3% for automakers for advanced technologies (e.g., electric vehicles)
 - Through 2017
 - Reduces to 1% from 2018 through 2025
 - Phased out thereafter

ACES (Continued)

- Allocation of “free” allowances
 - 2% for domestic adaptation purposes
 - Through 2021
 - Increases to 1% from 2022 through 2026
 - Increases to 8% in 2027 and thereafter
 - One-half used for wildlife and natural resource protection

ACES (Continued)

- Allocation of “free” allowances
 - 2% for international adaptation and clean technology transfer
 - Through 2021
 - Increases to 4% from 2022 through 2026
 - Increases to 8% in 2027 and thereafter
 - One half for adaptation, and one half for clean technology transfer

ACES (Continued)

- Allocation of “free” allowances
 - 2% to help electric utilities cover the costs of installing and operating carbon capture and sequestration (CCS) technologies
 - Through 2017
 - Increases to 5% in 2018 and thereafter

ACES (Continued)

- Allocation of “free” allowances
 - 2% for oil refineries
 - Phased out in 2026
 - 1.5% to states for programs to benefit users of home heating oil and propane
 - Phased out over 5-year period from 2026 through 2030

ACES (Continued)

- Allocation of “free” allowances
 - 1% for “Clean Energy Innovation Centers” at research universities and institutions for applied research on clean energy technologies
 - 0.5% for worker assistance and job training
 - Through 2021
 - Increased to 1% thereafter

ACES (Continued)

- Treatment of Offsets
 - ACES allows 2 billion tons of offsets per year
 - Actions taken to reduce emissions domestically in areas of economy not covered by market-based program, or for projects undertaken overseas
 - Split evenly between domestic and international offsets
 - In 2017, 1.25 of international offsets to cover 1 ton of domestic emissions

ACES (Continued)

- Implications for RGGI
 - ACES would preempt state and regional GHG cap and trade programs for 6-year period from 2012 through 2017 (Section 335)
 - Holders of RGGI allowances can exchange them for federal allowances at ratio that values RGGI allowances at the average auction price for them (Section 321)

ACES (Continued)

- Implications for RGGI (continued)
 - For example, if federal allowances cost \$16 and generator paid \$4 for RGGI allowance, generator would receive 1 federal allowance for every 4 RGGI allowances
- ACES applies only to allowances for period after 2012
- Does not apply to RGGI vintages 2009-2011

Contact Information:

James M. Van Nostrand
Executive Director
Pace Energy and Climate Center Pace
University School of Law
White Plains, NY 10603
(914) 422-4082
jvannostrand@law.pace.edu

