

What is the Regional Greenhouse Gas Initiative (RGGI)?

Background: What is Cap-and-Trade?

From: <http://www.pewclimate.org/docUploads/Climate101-CapTrade-Jan09.pdf>

--“Policymakers have many options as they consider how to achieve greenhouse gas (GHG) reductions, but two approaches are most prominent: traditional command-and control regulation, in which regulatory authorities direct how emissions limits will be achieved, and market-based approaches, which harness the forces of supply and demand to change behavior and achieve environmental goals. One proven market-based approach is cap and trade.

In a cap-and-trade program, the government determines which facilities or emissions are covered by the program and sets an overall emission target, or “cap,” for covered entities. This cap is the sum of all allowed emissions from all included facilities. Once the cap has been set and covered entities specified, tradable emissions allowances (rights to emit) are distributed (either auctioned, or freely allocated, or some combination of these). Each allowance authorizes the release of a specified amount of greenhouse gas emissions, generally one ton of carbon dioxide equivalent (CO₂e). The total number of allowances is equivalent to the overall emissions cap (e.g., if a cap of one million tons of emissions is set, one million one-ton allowances will be issued).

Covered entities must submit allowances equivalent to the level of emissions for which they are responsible at the end of each of the program’s compliance periods. Allowance trading occurs because firms face different costs for reducing emissions. For some emitters, implementing new, low-emitting technologies may be relatively inexpensive. Those firms will either buy fewer allowances or sell their surplus allowances to firms that face higher emission control costs. Since a ton of carbon dioxide (CO₂) emitted from one source has the same warming effect as a ton emitted from any other, the location of a given emissions reduction does not matter. By giving firms a financial incentive to control emissions and the flexibility to determine how and when emissions will be reduced, the capped level of emissions is achieved in a manner that minimizes overall program costs.”--

An analogy might be car ownership. If you choose to drive a large gas-hogging car, you pay more for gas. The cost of driving will be higher for you than for someone driving a more efficient car. In theory, if the cost of gas becomes high enough to cause you significant pain, you’ll switch to a more gas-efficient car and the total amount of pollution from automobiles will be reduced.

The Regional Greenhouse Gas Initiative: http://rggi.org/docs/RGGI_Fact_Sheet.pdf

The Regional Greenhouse Gas Initiative (RGGI) is the nation’s first mandatory, market-based program to reduce emissions of carbon dioxide (CO₂), the principal human-caused greenhouse gas. Ten states participate in RGGI: CT, DE, MA, MD, ME, NH, NJ, NY, RI, VT. They have established a regional cap on CO₂ emissions from the power sector and are requiring power plants to possess a tradable CO₂ allowance for each ton of CO₂ they emit.

RGGI auctions off these allowances on the open market. The revenue from these auctions is then used to fund energy efficiency and renewable energy programs. For example, the initial funding for Green Jobs/Green New York to fund energy efficiency projects in homes, small businesses, and not-for-profits came from \$112 million of RGGI funds. This link contains more information on the valuable clean energy programs made possible by RGGI: http://rggi.org/rggi_benefits.