

CARBON MARKET BUSINESS BRIEF

REGIONAL GREENHOUSE GAS INITIATIVE (RGGI)

RGGI AT A GLANCE

Years in operation	First compliance period: 2009-11 Second: 2012-14 Third: 2015-17 Fourth: 2018-20 Fifth: 2021-23
Overall cap & trajectory	RGGI's 2021 adjusted cap is 75.15 million short tons (68.2 million metric tCO ₂), declining at a rate of 2.275% annually through 2030.
Target(s)	30% below the 2020 cap by 2030
Emissions reduced to date	47% fall in emissions from 2008-17
Sectors covered	Fossil -fuel powered electric generation with an installed capacity of 25MW or greater
GHGs covered	CO ₂
# of covered entities	203
Allocation method	Majority of CO ₂ allowances are issued by each RGGI state and distributed through quarterly regional CO ₂ allowance auctions using a single-round, sealed-bid uniform-price format. Auctions are open to all parties with financial security, with a maximum bid of 25% of volume on offer per quarterly auction.
Trading rules	RGGI Allowances must be retired after the end of each three-year compliance period. Minimum Reserve Price: The RGGI Model Rule sets a floor price for auctions. In 2021 the floor price is USD 2.38 per short ton, increasing by 2.5% per year. Cost Containment Reserve: The programme also has a Cost Containment Reserve (CCR), which releases allowances to the market when prices surpass a pre-determined threshold, set at USD 13 in 2021 and increasing annually by 7% thereafter. Emissions Containment Reserve: From 2021, the programme featured an Emissions Containment Reserve (ECR) that removes allowances from circulation, if the price falls below USD 6, increasing by 7% thereafter. Maine and New Hampshire do not participate in the ECR.
Use of offsets and linking	Use of offsets is limited to 3.3% of a covered entity's compliance obligation for each control period through 2030. RGGI has its own offset protocols and registry for projects based within RGGI jurisdictions, unless an MOU is signed with another state under the Model Rule. RGGI currently allows offsets from 3 project types: landfill gas; forestry; and manure management. As of March 2021, only one LFG project has been approved to generate RGGI compliance credits.

Other features	Allowances can be banked for later use without restrictions. RGGI includes interim adjustments to the cap to account for banked CO ₂ allowances. The 2012 Program Review established two cap adjustments to account for privately held allowances, a third bank adjustment is established in the 2017 revised Model Rule over a five-year period (2021-25).
Penalties for non-compliance	Penalties for non-compliance are set by each state. In the case of excess emissions, compliance allowances for three times the amount of excess emissions have to be surrendered in future periods.
Use of revenues	State-specific, but major categories of, programmes include: energy efficiency, renewable energy, greenhouse gas abatement, and direct bill assistance.

MAJOR DEVELOPMENTS

Since release of RGGI's 2017 Model Rule, covering post-2020 tighter caps and system adjustments, all Member states have now adopted necessary regulation changes that came into effect on 1 January 2021.

Between 2021 and 2030, the RGGI cap will reduce regional power sector emissions by 30% compared to 2020 emissions cap. The RGGI bank adjustment will reduce allowances by 95,451,650 cumulatively between 2021-25, for an annual reduction of 19.09 million allowances.

The RGGI emissions containment reserve (ECR), a notable mechanism that started operating in 2021, represents an automatic adjustment mechanism to adjust the cap downward in response to lower-than-expected costs. If the RGGI price falls below \$6.00 in 2021, allowances will be removed from market circulation. Both ECR and CCR mechanisms, broadly supported by governments and market stakeholders, are poised to contribute to what continues to be a robust market while assisting RGGI states in achieving strong reduction targets.

RGGI has recently also welcomed the return of New Jersey in 2020 (which first exited in 2011) and new participation of Virginia in January 2021. Eyes are now on whether Pennsylvania will participate in RGGI starting in 2022. As of April 2021, the Pennsylvania Department of Environmental Protection has outlined proposed changes to its draft final RGGI cap and trade regulation which it aims to complete by end of 2021. Should Pennsylvania join, both its participation along with Virginia would represent a more than a doubling of RGGI market size compared to 2020.

In February 2021, RGGI announced its plan and timeline for the 2021 Program Review, representing the programme's third major review since its 2009 inception. The 2021 review, expected to result in additional reductions to cap post-2030 and potential design adjustments post-2025, will see publication of a "Preliminary Program Review Schedule" in late-summer 2021.

A major parallel policy development to RGGI evolution and expansion is the Transportation and Climate Initiative Program (TCI-P). On 1 March 2021, four participating jurisdictions – Connecticut, Massachusetts, Rhode Island and Washington DC – released a Draft Model Framework for the TCI-P, a regional cap-and-trade programme to address transportation emissions. Many design elements of the TCI-P are similar, if not identical, to RGGI's power sector programme including use of a supply-constraining ECR and price-limiting CCR. Release of the draft Model Rule follows the December 2020 MOU and announcement to create the TCI-P to reduce transportation emissions by at least 26% below 2022 levels by 2032.

Shifting to the US federal level, the Biden Administration has released a \$2 trillion infrastructure plan that is now making its way through Congress. The ambitious plan contains numerous climate change measures including development of a US Clean Energy Standard (CES). If this materialises, many states and market analysts believe that a federal CES could result in dramatically "bullish" impacts across RGGI, as other states look to this regional market as a mechanism to facilitate meeting clean energy targets.

MARKET COMMENTARY



FIGURE 1
RGGI historical prices
Source: ClearBlue

Pre-COVID, RGGI allowance pricing was consistent and relatively strong over the first few months in 2020, with December 2020 futures opening the year at \$5.83/ton and traded between \$5.81 and \$6.04 through the beginning of March. Amid global economic concerns relating to COVID-19 and depressed emissions covered under the programme, pricing fell sharply and to a low of \$4.40/ton on 19 March.

However, this softness did not persist and, as of April 2021 and now over a year into the pandemic, RGGI prices are in the \$7.80-8.00/t range. These prices are a notable increase since the programme's first 2021 quarterly auction (Auction #51) results were published in March, where over 23 million allowances were sold at a clearing price of \$7.60 with bids ranging from \$2.38 to \$12.86 per unit. Also noteworthy from this March 2021 auction is that CCR allowances were made available, but none were sold; and ECR allowances were available for withholding, but none withheld.

In terms of auction revenue generation, the March 2021 auction generated \$178.4 million for RGGI states to reinvest in "strategic programmes". To date, RGGI has generated nearly \$4 billion via its quarterly auctions, all of which has been reinvested into climate action and transitional support for communities, businesses and households across the RGGI participating states.

RGGI's second 2021 quarterly auction, scheduled for 2 June, will offer 22 million allowances, a 2.04% decrease from the March auction.

Prior to 2019, speculators played an arguably minimal role in the programme, but this changed in mid-2019 with these players "building up" long positions for allowances that peaked in mid-2019 before sharply declining in early 2020. However, in late 2020 through April 2021, speculators have entered/returned to RGGI and are actively building-up positions. Interestingly, not only are speculators now active on the secondary RGGI market but also increasingly participating in the quarterly actions.

USEFUL LINKS

- [RGGI Inc](#)
- [RGGI Principles to Accompany Rule Amendments](#)
- [ICAP RGGI Profile](#)
- [RGGI Market Monitor: Auction 51](#)
- [RGGI 2021 Program Review](#)

[TCI-P Draft Model Rule](#)

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