



DEP ISSUE PROFILE

Regional Greenhouse Gas Initiative (RGGI)

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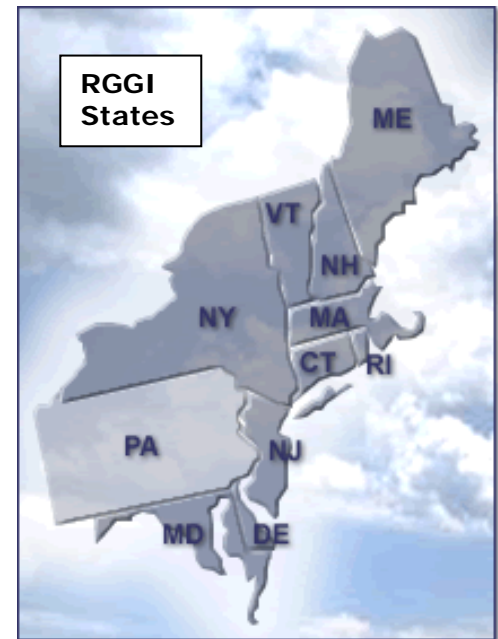
What is RGGI?

The Regional Greenhouse Gas Initiative, or RGGI (pronounced “Reggie”), is a cooperative effort by ten Northeastern and Mid-Atlantic states to reduce regional carbon dioxide (CO₂) emissions that are contributing to global climate change. CO₂ is a “greenhouse gas” (GHG) because it contributes to the sun’s warming of the earth’s surface. Human activity has increased the concentration of CO₂ in the atmosphere which is contributing to increases globally in average air and ocean temperatures, the melting of polar snow and ice, and a rising global average sea level. RGGI has established a goal of reducing carbon emissions from large fossil fuel-fired power plants in the RGGI region (the “RGGI power plants”) by 10% by the year 2018. These power plants comprise about 7 percent of the power sector emissions in the entire country. RGGI is the first regulation of global warming emissions in the United States. It is a flexible, market-based cap-and-trade program to achieve real greenhouse gas emission reductions at the lowest possible cost.

Carbon Trading Program and “Cap-and-Trade”

RGGI is a system that sets a maximum limit (or “cap”) on the total amount of carbon dioxide emissions that are allowed from the RGGI power plants. Each power plant then determines how to comply with this program, either with the purchase or trading of “allowances,” each allowance representing one ton of carbon dioxide emissions, or by reducing their amount of emissions either by implementing efficiency measures or by switching to lower carbon-containing fuels.

Based on baseline emissions from the RGGI power plants, the regional emissions cap for the ten-state RGGI region was set at 188 million allowances. Maine’s pro-rata share is about 6 million allowances. Beginning in 2015, there will be a 2.5% annual reduction until 2018. Allowances made available for sale will be sold at quarterly auctions, with some states (including Maine) conducting auctions starting as early as September 2008. The revenue from the sale of allowances will be used to reduce greenhouse gas emissions by funding projects that save both energy and money.



Background

Maine listed a regional cap-and-trade initiative as one of the most important and cost-effective actions the state could take to reduce GHG emissions in the 2004 *Maine Climate Action Plan*. Starting in 2005, Maine joined with New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Delaware, New Jersey, New York, and Maryland to sign agreements to participate in the RGGI process. Maine’s participation in RGGI was formalized in state law with the enactment of the Regional Greenhouse Gas Initiative Act of 2007 (Public Law 2007, chapter 317). RGGI is now serving as a model for similar agreements in the Western and Midwestern states, and could also serve as a model for a national cap-and-trade program.

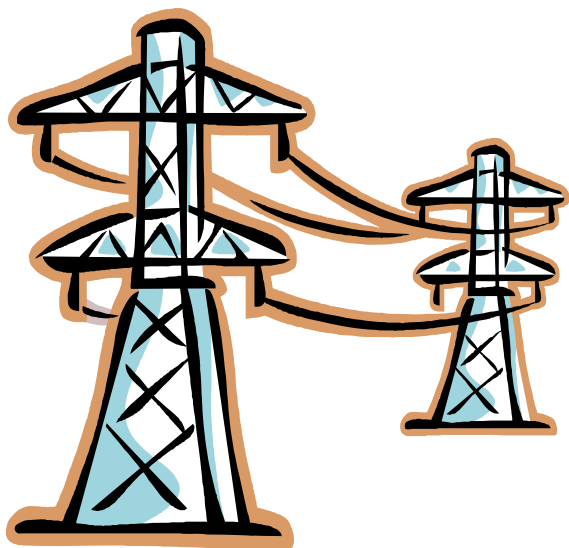
Benefits

The major benefit of RGGI is a reduction in greenhouse gas emissions throughout the region, thereby reducing our contribution to global climate change. But there will be other benefits, including a reduced reliance on imported fossil fuels and a greater investment in energy efficiency and renewable energy.

Participating states will stabilize carbon emissions from large power plants at base levels through 2014, and then reduce emissions by 2.5% per year from 2015 through 2018. Modeling forecasts have suggested that without

RGGI in place, emissions from power plants in the region would have grown by an additional 7% from 2009 to 2019. So compared to “business as usual,” RGGI is designed to cut emissions from the RGGI power plants by around 17%.

Each RGGI state will utilize the proceeds from the auction somewhat differently, but the common purpose is to provide incentives for energy efficiency programs, renewable energy stimulus efforts, and other measures that should ultimately lower the cost of electricity for consumers. Each RGGI state will allocate a minimum of 25% of the allowances to support programs that directly benefit consumers. Maine will be using nearly all of its allowance proceeds for energy efficiency (there is a maximum 2% “set-aside” for the voluntary purchase of renewable energy credits). Proceeds from the auctions will be deposited in the Energy and Carbon Savings Trust Fund, and these funds, by law, are to be held “for the purposes of benefitting consumers.” The trustees of the Energy and Carbon Savings Trust, along with the Maine Energy Conservation Board, will distribute the proceeds toward residential, commercial and industrial energy efficiency improvements that achieve the greatest greenhouse gas reductions.



RGGI will also provide benefits to other sectors of the economy, including agriculture, forestry, waste management, manufacturing, commercial businesses and construction. These sectors will eventually be eligible to receive funds for providing carbon offsets¹ and/or for making energy efficiency improvements, and the details of these initiatives are presently being designed. Examples of carbon offset projects include the “locking away” (sequestration) of carbon in forest areas, methane capture with proper manure management, and the capture of landfill methane gas for use or to generate electricity.

In the long run, improving energy efficiency should lower the consumption of electricity, thereby providing an economic benefit to all consumers and businesses that purchase electricity in Maine. New jobs will also be created as energy efficiency and renewable energy projects become more common and more robust.

How much is this going to cost?

A Maine-specific study of retail rates conducted for the Office of the Public Advocate concluded that there could be a small one-time increase in retail rates of electricity as a result of the sale of allowances to the RGGI power plants. If the allowances cost \$5 per ton² of carbon dioxide, the estimated cost per kilowatt-hour of electricity is expected to rise by one-quarter of a cent. This amounts to a 1.5% increase or \$15 on the annual electric utility bill for the average residential customer.

In order to protect consumers from any unanticipated increases in electrical rates as a result of the allowance auctions, any auction proceeds in excess of \$5 per ton of carbon dioxide sold will be returned as “RGGI relief” in the form of direct rebates as a credit on monthly utility bills.

If Maine had not become an active participant in the RGGI initiative, we would still be paying the small cost of RGGI without receiving any of its financial benefits. This is because Maine participates in a New England-wide electric market, and our electric rates are based on regional pricing. So, the costs of the RGGI allowances would have been included in our rates whether or not we received the auction revenues. As a participant, we will have revenue dedicated to energy efficiency and renewable energy projects that should lower the demand for electricity, leading to lower electrical costs for consumers and the creation of new jobs in Maine.

For more information on RGGI, you can visit www.maine.gov/dep/air/greenhouse/rggi.htm or www.rggi.org/.

¹ A “carbon offset” is a financial instrument that represents the reduction of one ton of CO₂ emissions. Carbon offsets can be purchased to comply with an emissions cap.

² This is the upper limit of the allowed auction price, above which rebates to ratepayers kick in. The actual price will be determined by the open auction bidding process.