Updated December 2023

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 2023 adjusted cap is 93.37 million short tons (84.7 million metric tCO2), declining at a rate of 2.275% annually through 2030. This excludes Pennsylvania as the state's regulation is currently under a court injunction. The ongoing programme review is very likely to significantly increase the cap declination rate. Current modelling is exploring net zero by 2035 or 2040.
Target(s)	30% below the 2020 cap by 2030 Likely to be adjusted downward following programme review.
Emissions reduced to date	54% fall in emissions from 2008-20
Sectors covered	Fossil-fuel powered electric generation with an installed capacity of 25 MW or greater
GHGs covered	CO2
# of covered entities	257 excluding Pennsylvania
Allocation method	Majority of CO2 allowances are issued by each RGGI state and distributed through quarterly regional 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, increasing by 2.5% per year. In 2023, the floor price is \$2.50/t. 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 \$14.88/t in 2023 and increasing annually by 7% thereafter.

	Emissions Containment Reserve: Since 2021, the programme has included an Emissions Containment Reserve (ECR) that removes allowances from circulation if the price falls below a specific threshold. The 2023 threshold is $6.87/t and 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 three project types: landfill gas; forestry; and manure management. As of September 2023, only one LFG project has been approved.
Other features	Allowances can be banked for later use without restrictions. However, RGGI includes interim adjustments to the cap to account for banked CO2 allowances. The 2012 Program Review established two cap adjustments to account for privately held allowances, while the 2017 revised Model Rule established a third bank adjustment 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, 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

In January 2022, the newly elected Governor of Virginia announced the state would be pulling out of the RGGI programme. Although Governor Glenn Youngkin announced that it would be an immediate withdrawal, this approach ran into legal hurdles and Virginia has now announced they will be leaving the programme at the end of 2023, which is also the end of the current compliance period. Compliance entities in the state will be required to meet all the requirements of the programme until Virginia formally withdraws.

Although Pennsylvania became a member of RGGI in April 2022, the state has yet to participate in an allowance auction because of ongoing legal challenges. On 1 November, Pennsylvania's Commonwealth Court ruled the state's plan to join RGGI as unconstitutional, halting the state from joining the programme. The court found that RGGI would constitute an illegal tax, concluding the state's Environmental Quality Board does not have legal authority to enforce RGGI. Governor Josh Shapiro intends to appeal the ruling, though it is unclear if he intends to maintain RGGI if overruled.

Participation by Virginia and Pennsylvania represent a more than a doubling of RGGI's market size compared to 2020 levels.

Between 2021 and 2030, the RGGI cap will reduce regional power sector emissions by 30% compared to the 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.

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 review has been on-going since then – making this the longest programme review to date. In late September 2023, the RGGI states held a public meeting to release electricity sector modelling that included modelling a cap reduction to net zero in 2035 and net zero in 2040 – representing significant potential increases to cap stringency. The review is expected to produce a draft model rule late this year or early in 2024, which would then need to go through each RGGI state's rulemaking or legislative process. The changes are expected to go into effect for 2025 at the earliest.

A major parallel policy development to RGGI evolution and expansion is the New York Cap and Invest programme (NYCI). This is the biggest development in the region since the Transportation and Climate Initiative fell apart in 2021.

New York State's Climate Leadership and Community Protection Act (CLCPA) mandates 100% zero emissions electricity by 2040. As part of the CLCPA, the New York Department of Environmental Conservation (DEC) has been directed to design and implement a cap and invest programme for carbon emissions. NY DEC started work on this in 2023 and has held seven webinars and three round tables to date looking at various aspects of the economy-wide programme. State officials expect to have a pre-rulemaking draft that lays out the direction that the state is headed with respect to the major components of the programme in late 2023. Following public comment on the pre-rulemaking, officials are expected to enter the formal rulemaking process in early 2024 with a goal of having a final rule ready for the start of the programme in 2025.

Market Commentary

After retreating from its post Virginia entry highs, the RGGI market remained flat throughout 2022 and early 2023 before making a solid comeback in the September 2023 auction, clearing at $13.85. This strength came on the news of a revival in the programme review. RGGI allowances shot past the CCR briefly, reaching $14.88 following the release of modelling showing that the RGGI states were looking at net zero 2035 and net zero 2040 scenarios.

RGGI's fifth compliance period comes to a close in December 2023. The need for compliance entities to true up and the continuing programme review process has put upward pressure on the price of RGGI allowances in the short term.

Meanwhile, 2024 will see changes in the makeup of the programme with Virginia officially departing. With the recent Commonwealth Court ruling, Pennsylvania is very unlikely to participate in the programme. In both cases, the market largely seems to have priced in this uncertainty and is more focused on the outcome of the programme review and on how the NYCI programme will account for RGGI allowances required to be held by NYCI participants.

Useful Links

RGGI Inc

ICAP RGGI Profile

RGGI Market Monitor: Auction 61

RGGI Third Program Review

September 2023 RGGI Review Presentation

NY DEC Cap-and-Invest Info

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