RGGI Regional Greenhouse Gas Initiative
An Initiative of the Northeast & Mid-Atlantic States of the U.S.

Regional Greenhouse Gas Initiative (RGGI) Offset Approach

EPRI Greenhouse Gas Offset
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Eligible Offset Categories

- End-use energy efficiency (building sector; excludes electric end-use efficiency)
- Afforestation
- Landfill gas capture & destruction
- Methane capture & destruction from animal manure management operations (anaerobic digesters)
- SF_6 leak reduction (electricity transmission & distribution sector)
- International carbon allowances & credits under limited circumstances (e.g., CDM, EUA)

RGGI Offset Design Approach

- Guidance from agency heads and stakeholders to pursue a benchmark/performance standard approach to additionality
- Allows project developers and interested stakeholders to understand program requirements up-front
  - sets a transparent standard for project evaluation
- Avoids administrative case law approach, increasing process transparency and reducing transaction costs

Rationale for Pursuing Standardized Approach

- Case-by-case evaluation of financial additionality can be problematic
- Process can be resource intensive, for both project developers and regulatory agency staff
- Selection of case-specific scenarios and variables is critical to outcome
- Subject to potential gaming: “tell me a good story”
- Difficult to accurately gauge the investment calculus of individual investors
  - Threshold investment decisions, such as IRR benchmarks, vary among investors and types of projects

RGGI Standardized Approach

- Use benchmarks and/or performance standards as proxies to infer financial additionality
- Examples:
  - Benchmark: qualitative eligibility criterion for a project that reasonably ensures that project is unlikely under standard market practice
    - For example, prohibition of receipt of both offset allowances and other attribute credits, such as RECs, to address likely current market drivers for categories of projects
  - Performance standard: projects that exceed the standard qualify as additional
    - Emission rate
    - Energy efficiency criteria
    - Market penetration rate

Challenges to Standardized Approach

- Subject to potential false positives and false negatives (as is case-by-case review approach)
  - Approval of non-additional projects
  - Rejection of additional projects
- Refinement of benchmarks and performance standards may be required over time to optimize balance of false positives/false negatives
  - Goal is provision of reasonable assurance that approved projects significantly exceed standard market practice
- Requires continuing evaluation of market conditions and periodic revisions to benchmarks and performance standards as market conditions change
  - Can't escape resource intensive nature of ensuring offset project quality

Overview of Model Rule Offset Components

Each eligible offset category has prescriptive requirements in the Model Rule, outlining in detail the following:

- Eligibility (includes category-specific additionality provisions)
- Project description
- Emissions baseline determination
- Calculation of emissions reductions (or net carbon sequestered)
- Monitoring and verification requirements

Operationalizing Additionality: General Criteria

- Project Initiation: Must apply no later than 6 months after project initiation (exception for projects undertaken between December 20, 2005 and December 31, 2008 -- must apply by June 30, 2009)
- Regulatory Additionality: No offset allowances awarded for actions that are required pursuant to any local, state or federal law, regulation, or administrative or judicial order
- Regulatory-plus Benchmark: Projects may not receive funding or other incentives from any state SBC program or from programs funded through the auction of CO_2 allowances
- Regulatory-plus Benchmark: For projects with electric generation component, project sponsors must transfer the legal rights to any attribute credits generated (except RGGI offset allowances) to state regulatory agency (RECs, etc.)

Operationalizing Additionality: Category-Specific Examples

<u>Landfill gas category approach:</u> Regulatory-plus (SBC and REC provisions) and category-specific benchmark

- Eligible projects limited to non-NSPS landfills. Non-NSPS limits to small landfills (< 2.5 million tons WIP design capacity)
  - Small landfills face institutional and financial barriers (capital rationing) to development of LFG projects
  - Projects at non-NSPS landfills are typically small scale and require incentives to be considered viable

Operationalizing Additionality: Category-Specific Examples

Building energy efficiency category approach: Regulatory-plus and performance standards

- 2006-2008: Energy efficiency performance standard
  - Efficiency criteria for equipment and prescriptive requirements for non-equipment measures (e.g., building materials and practices)
- 2009 and later: Market penetration performance standard
  - Must demonstrate that energy conservation measures implemented as part of eligible projects have a market penetration rate of less than 5%
    - Market threshold beyond which rapid market diffusion typically witnessed
    - Market threshold below which technologies/measures are considered "emerging"
- Other performance standards:
  - Best practice equipment sizing and installation guidelines
  - Whole-building performance requirements for new buildings and whole-building retrofit projects
    - Promotes integrated approach to building energy performance; avoids cream skimming for projects in absence of consideration of whole-building performance

Operationalizing Additionality: Category-Specific Examples

SF_6 category approach: Performance standard

- Emissions rate performance standard – tied to weighted average 2004 entity-wide emissions rate for EPA SF_6 Partnership members by region
  - Applicants also required to demonstrate that they will be expanding current SF_6 management actions and/or expanding the scope of current management actions in order to qualify
- Entity-wide emissions rate must be below the performance standard for entity to qualify. Addresses the following:
  - Utilities should be required to implement basic SF_6 management good practice in order to qualify (avoid "cream skimming")
  - Prevents penalizing EPA Partners for past best practice in relation to non-Partners

For more information...

- **Model regulatory requirements specified in RGGI Model Rule available at** http://www.rggi.org

- **Contact me if you have questions**

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