STATE OF VERMONT
PUBLIC SERVICE BOARD

STAFF REPORT AND RECOMMENDATION
RE: IMPLEMENTATION OF A VERMONT TRUSTEE
FOR THE REGIONAL GREENHOUSE GAS INITIATIVE

I. INTRODUCTION

Vermont has agreed to participate in the Regional Greenhouse Gas Initiative, including the development of a cap-and-trade program for carbon dioxide ("CO_2") that includes the auction of CO_2 allowances. The Public Service Board ("Board") has been directed by statute to select a Trustee to manage Vermont's CO_2 allowances and disburse the proceeds resulting from the auctions according to principles set forth in statute. After a series of workshops, Board staff have developed this Report and Recommendation that addresses the following three issues: (1) a model for a Trustee; (2) a procedure for disbursing auction proceeds; and (3) a process for retiring CO_2 allowances in proportion to participating in voluntary renewable programs. Additionally, staff recommend that the existing Energy Efficiency Utility fiscal agent be appointed as the Trustee.

II. BACKGROUND

In 2005, Vermont joined the Regional Greenhouse Gas Initiative ("RGGI"), an effort among ten states to cap and reduce CO_2 emissions from fossil-fuel-fired electric generation facilities with a nameplate capacity of 25 MW or greater. An overview of RGGI, and Vermont's participation in that process, is included as Appendix One of this Report.

Section 255 of Title 30, Vermont Statutes Annotated, was enacted in 2005[1] and amended in 2008[2] and requires the Agency of Natural Resources ("ANR") and the Board to establish a process to participate in the RGGI auction. In particular, Section 255 states:

> to provide the maximum long-term benefit to Vermont electric consumers, particularly benefits that will result from accelerated and sustained investments in energy efficiency and other low-cost, low-carbon power system investments, the public service board, by rule or order, shall establish a process to allocate 100 percent of the Vermont statewide budget of tradable power sector carbon credits and the proceeds from the sale of those credits through allocation to one or more trustees acting on behalf of consumers.[3]

Section 255 further provides several goals for the Board to consider in allocating the RGGI CO_2 allowances and the proceeds from the auction of such allowances.

On October 17, 2007, the Board issued a memorandum requesting comments from interested parties on how to comply with the mandates of Section 255. Over the course of several months, Board staff held three workshops and requested comments from interested parties regarding procedural and substantive issues related to the implementation of Section 255. Participants included staff from the Board, ANR, the Department of Public Service ("Department"), Vermont electric utilities, renewable energy providers, and other interested parties.[4]

The first procedural issue addressed by Board staff was whether the Board should implement Section 255 through an order or rule, as the statute provides the Board with discretion on the process of implementation. Interested parties were invited to comment on this issue; only one commenter recommended that the Board initiate a rulemaking, with all others recommending that the Board issue an order implementing Section 255. Based upon the comments of parties and staff's experience with both processes, staff recommend that the Board implement the provisions of Section 255 through an order, rather than a rule. An order provides a more efficient

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1. Public Act 123 (2005).

2. Public Act 92 (2008).

3. 30 V.S.A. § 255(c)(2).

4. Additional information regarding the Board's process can be found at http://www.state.vt.us/psb/document/RGGI/rggi.htm.

procedure, particularly as the RGGI process is new and could change over time as the Board and parties gain more experience with it. Given that it is typically easier and faster to alter an existing order than an existing rule, the increased flexibility of an order allows the Board to efficiently alter the program as needed, to better effectuate Section 255. If, after additional experience with the program, the Board determines that a rule is appropriate, it may initiate a rulemaking process in the future.

During the workshop process, it was agreed that the Department would convene a meeting of a sub-group of interested parties to develop a proposed Trustee model. After the second Board workshop, a meeting of the sub-group was held on May 2, 2008, to develop a proposed model for the Trustee ("Department Proposal"). The Department's proposal served as the basis for discussion of the Trustee model at the Board's third workshop, held on May 27, 2008.

The workshop participants concluded that a Trustee model is needed by mid-July, 2008, in order for Vermont to participate in the first RGGI auction in September; Board staff agreed to provide a report and recommendation to the Board describing the Trustee model for the workshop participants to review. It was agreed that workshop participants would have the opportunity to comment on staff's report and the Board would issue a final order based upon the report and participants' comments on that report.

III. Comments of Participants

Over the course of several months, participants discussed several issues related to Section 255. Below, staff summarize participants' comments regarding the following three issues: Trustee model; disbursement of proceeds from the auction; and set-asides for voluntary renewable programs.

Workshop Discussion of Trustee Model

The Department proposal set forth two models for the Trustee: (1) Model I – Consumer Trustee with Oversight Board; and (2) Model II – Fiscal Agent with Oversight Entity, Guided by the Public Service Board.

The first option proposed by the Department considers the establishment of a consumer trustee that includes an oversight board. The oversight board would include representatives from interested parties (including the Board, Department, and ANR) and would direct the Trustee on issues associated with the actual auctioning of Vermont's allowances and distributing auction proceeds as directed by 30 V.S.A. § 255(c)(2). The Trustee would be responsible for ensuring that the state's allowances are auctioned properly and that proceeds are distributed pursuant to overall direction provided by statute, the Board's allocation plan, and the oversight board.

The Department's second option consists of designating an entity that would provide oversight and guide the RGGI process in a role similar to the Board's current Energy Efficiency Utility ("EEU") contract administrator. Under this model, the entity could serve as an extension of the Board or the Department. Final discretion on all issues of material concern would reside with the Board. In addition to the oversight entity, a fiscal agent would be chosen to execute the ministerial work of implementing Board directives associated with the actual auctioning of Vermont's allowances and disbursing auction proceeds as directed by statute.

The Department's proposal also identified the following credentials and activities that the Department believed should be required of the Trustee. With regard to credentials, the Trustee should be bonded, and must hold financial and accounting credentials. The Trustee must demonstrate a high level of credibility and integrity and must have managerial skills sufficient to establish and manage formal institutional controls. With regard to responsibilities, the Trustee would be responsible for participation on behalf of Vermont in the RGGI auction and administering the disbursement of funds in compliance with 30 V.S.A. § 203a and § 255. The Trustee would also be responsible for monitoring the emission tracking system and assisting the tracking system operator in determining the number of allowances required by CO_2 emitters in Vermont. In addition, the trustee would be expected to provide reports to the Board and interested parties on Trustee activities, including periodic financial statements and independently audited annual financial reports, periodic reports on operating results compared to plan, and the status of cash balances.

The Department's proposal also articulated the following capabilities and responsibilities that the Department believed the Trustee should have with regard to energy and carbon markets.

In general, the Trustee should be familiar with the energy and carbon markets and understand the roles and responsibilities of Vermont and other regional market participants and parties with a shared interest in regional greenhouse gas issues. The Trustee would be responsible for monitoring auction results and providing general market analysis. The Department's proposal further proposed the Trustee would be responsible for (1) developing and implementing a marketing strategy for participation in the carbon auction, including the set-aside of allowances for voluntary renewable programs in the state, and (2) developing a risk management and mitigation plan to optimize the effectiveness of participating in RGGI.

Based on the discussions during the third RGGI workshop, workshop participants supported a hybrid approach to the two trustee models presented in the Department's proposal. Under this approach, the Board would appoint a Trustee similar to the Board's current EEU fiscal agent and would seek input from an Advisory Committee comprised of interested parties. The management of the RGGI allocations and auctioning of allowances would be ultimately the responsibility of the Board under Section 255.

Workshop Discussion of Disbursement of Proceeds

There was some limited discussion of how proceeds from the auction should be disbursed. All participants agreed that the auction proceeds should be used to pay costs associated with the Trustee and with Vermont's participation in the regional activities of RGGI. In addition, ANR suggested that its administrative costs associated with in-state implementation of RGGI could be reimbursed through auction proceeds. No participant objected to ANR's suggestion.

Workshop Discussion of Voluntary Renewable Programs

Several participants recommended that a certain number of CO_2 allowances be retired so that voluntary renewable programs could continue to claim that participation in such programs results in CO_2 reductions. Advocates of this approach stated that such a set-aside program would utilize less than one percent of allowances each year. No participant objected to a set-aside program that provided for the retirement of a limited number of allowances.

IV. Discussion

Board staff recommend that the Board implement Section 255 in the following manner.

Board Staff Recommendations for Trustee Model

Under Section 255(d), the Board,

> by rule, order, or competitive solicitation, may appoint one or more consumer trustees to receive, hold, bank, and sell tradable carbon credits created under this program. Trustees may include Vermont electric distribution utilities, the fiscal agent collecting and disbursing funds to support the statewide efficiency utility, or a financial institution or other entity with the expertise and financial resources to manage a portfolio of carbon credits for the long-term benefit of Vermont consumers.

Additionally, Section 255(c)(2)(B) directs the Board to

> employ an administrative structure that will enable program managers to perform any combination of holding, banking, and selling carbon credits in regional, national, and international carbon credit markets in a financially responsible and market sensitive fashion, and provide funds to defray the reasonable costs of the program trustee or trustees and Vermont's pro-rata share of the costs of the RGGI regional organization.

Board staff recommend that the Board implement a Trustee model based upon the hybrid approach developed at the third workshop. Staff do not believe that the Board could implement the Oversight Board model contained in the Department proposal, as the Board does not have the authority to delegate its decision-making ability to another entity, including an entity that is composed of the Board and other state agencies. The hybrid approach retains the authority of the Board to make decisions regarding the CO_2 allowances while institutionalizing the ability of interested parties, including other government entities, to provide advice to the Board.

Under the hybrid model, the Trustee would be appointed by the Board to (1) release allowances to auction, and (2) collect and disburse auction proceeds (the disbursement of proceeds is described in further detail below). Staff recommend that the Trustee have limited discretion regarding these tasks. Instead, the Board, after providing the opportunity for comment, would direct the Trustee as to the number of allowances to release to auction and the funds to be disbursed.

The Department Proposal set forth several responsibilities that the Trustee would undertake. Participants at the third workshop agreed that many of these requirements would not be necessary under this proposed model. For example, under the Department Proposal, the Trustee would be familiar with energy and carbon markets, be capable of monitoring auction results, be responsible for market strategy, and develop a risk management and mitigation plan. Through RGGI, Inc.,[5] the participating states will retain a professional independent market monitor to monitor auctions and subsequent market activity. The market monitor will observe the conduct of the auction-qualification process and the conduct of the auction itself and provide participating states with reports on auction activities. Given the services provided by RGGI, Inc., staff recommend that the Trustee not be responsible for monitoring auction results and reporting on market analysis and monitoring performed by RGGI, Inc.

Similarly, with regard to market strategy, staff believe that, given the uncertainty regarding the auction and possible allowances prices, Vermont should release its 2009 allowances on an even basis across each auction during the 2009 to 2011 control period, with the same percentage of allowances released at each of the auctions.[6] Section 255 allows significant flexibility for allocating CO_2 allowances, and releasing the allocations to auction in such a manner does not contravene the principles contained in the statute. Accordingly, staff recommend that the Board direct the Trustee to release the allowances in a uniform manner.

With respect to the qualifications necessary for the Trustee, Staff recommend that the Trustee selected have significant financial expertise and proven experience handling multiple accounts and regular disbursements, and hold financial and accounting credentials. Under the proposed model, the Trustee would be expected to provide quarterly disbursements to several accounts.

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5. Created in September 2007, RGGI, Inc. is a non-profit corporation established to provide functions outlined in the RGGI MOU, such as providing technical support to the states participating in RGGI and facilitating the administration of the regional cap-and-trade program. More information about RGGI, Inc. is available at http://rggi.org/ro.htm.

6. There are fourteen auctions covering the 2009 to 2011 control period: two auctions in 2008, and quarterly auctions in 2009, 2010, and 2011.

In addition to the disbursements and release of allowances to auction, staff suggest that the Trustee be expected to produce periodic financial reports, the extent of which would be determined in the contract between the Board and the Trustee. Furthermore, an annual audit of the Trustee should be performed by an independent financial auditor, appointed by the Board. Staff recommend that the State Auditor's Office be consulted regarding appropriate auditing practices for the Trustee. Finally, staff suggest that the Board review the Trustee Model at least annually for the first three years to determine if any changes should be made to improve the efficiency of the process.

In addition to recommending the above Trustee model, staff recommend that the Board initiate the process for selecting a trustee. Section 255(d) provides that the Board may appoint a Trustee "by rule, order, or competitive solicitation." Board Staff have contacted Batchelder Associates, PC, the contractor currently serving as the EEU's Fiscal Agent, as to whether the firm would be interested in being appointed as Trustee. Batchelder Associates has stated that it would be interested in such an appointment, although the scope of work and payment issues would still need to be resolved prior to entering into a contract with the Board. Based upon staff's experience, Batchelder Associates has performed effectively and efficiently as the EEU fiscal agent and staff believe that Batchelder Associates has the necessary credentials to serve as Trustee under Section 255. Board staff recommend that the Board appoint Batchelder Associates as the Trustee, assuming that mutually agreeable terms could be reached. Participants should specifically comment on this recommendation.

In addition to the appointment of a Trustee, staff believe that an Advisory Committee should be an important component of the Section 255 framework. We recommend that the Board establish an informal Advisory Committee that would be self-selecting; interested parties would ask to be put on an e-mail distribution list, to which all requests for Board action, comments, and Board decisions, would be sent. Staff recommend that, initially, the Board use the existing distribution list that has been used for the workshop process, which includes representatives from the Department, ANR, Vermont electric utilities, renewable energy providers, and other interested parties. Prior to making substantive decisions regarding the use of the proceeds and allowances, the Board would request comments from the Advisory Committee.

If the Board determined that a more formal process is appropriate in the future, it could request comments on whether the current process should be altered. If, over time, the Board determines that the Advisory Committee is unwieldy or unbalanced, the Board could reestablish the committee through an appointment process wherein the Board could establish guidelines for ensuring that various interests are represented and seek individuals who would represent these interests.

In summary, under the proposed Trustee model recommended by staff, the Public Service Board would maintain final responsibility over the Trustee. The Board selects the entity to serve as the Trustee, enters into a contract with the Trustee, and oversees performance of the contract. The Board would retain final decision-making power over any material actions to be taken by the Trustee. Other parties may be called upon to advise the Board (primarily through the Advisory Committee), but the Board will retain final responsibility for assuring that the system functions as intended. In addition, the Board would review and approve disbursements among program categories, after the Advisory Committee has had the opportunity to provide comments. Furthermore, the Board would provide initial guidance and review its guidance at least annually in conjunction with the development of an operating plan by the trustee.

Board Staff Recommendations for Distribution of Proceeds

During the workshop process, Board staff raised the issue of whether costs associated with the Trustee, and Vermont's participation in RGGI, including the administrative costs paid to RGGI, Inc., could be reimbursed by RGGI auction proceeds. Section 255(c)(2)(B) states that any Trustee allocation plan shall, to the extent feasible, "provide funds to defray the reasonable costs of the program trustee or trustees and Vermont's pro-rata share of the costs of the RGGI regional organization. . . ." Board staff and workshop participants concluded that the use of RGGI auction proceeds for the costs associated with the Trustee and Vermont participation in RGGI, including the reimbursement of ANR and Department staff, are permissible under Section 255.

Board staff recommend that the Board implement the following process for distributing proceeds received from the RGGI auctions. The Trustee would collect auction proceeds and disburse the funds as directed by the Board, after comments from the Advisory Committee. The costs associated with the Trustee and Vermont's participation in RGGI, including administrative costs paid to RGGI, Inc., would also be reimbursed by RGGI auction proceeds, pursuant to Section 255(c)(2)(B). Additionally, ANR and the Department would have the opportunity to request that appropriate and reasonable administrative costs associated with their administration of RGGI be paid from the auction proceeds and to request funds to "stimulate or support investment in the development of innovative carbon emissions abatement technologies that have significant carbon reduction potential."[7] The Advisory Committee would have the opportunity to file comments before the Board acts upon each of these requests. Remaining proceeds would be deposited into the fuel efficiency fund created by 30 V.S.A. § 203a, as provided by Act 92, section 11.

Board Staff Recommendations for Set-Aside of Allowances for Voluntary Renewable Programs

During the workshop process, Board staff raised the issue of whether a CO_2 cap would have an impact on voluntary renewable programs. Specifically, Board staff raised the question of whether all of Vermont's allowances should be sold at auction, or whether some allowances should be set aside for voluntary renewable pricing programs and retired, rather than sold. There are currently two voluntary renewable pricing programs administered by Vermont electric distribution utilities: Central Vermont Public Service Corporation's "Cow Power" program, and Green Mountain Power Corporation's "Choose2BGreen" program.[8] In addition, Act 92 requires all Vermont electric distribution utilities to establish voluntary renewable programs or provide customers the opportunity to donate money to the Clean Energy Development Fund. Customers enrolled in these renewable pricing programs pay a premium on their electric rates to support renewable energy.

In an environment where there is no cap-and-trade program, incremental purchases of renewable energy displace other generation resources at the margin. The emissions associated

7. 30 V.S.A. § 255(c)(2)(G).

8. The Board's Orders approving these programs are: Docket 6933, Order of 7/30/04, at 34 (approving implementation of CVPS's "Cow Power" program); Docket 7043, Order of 10/27/05, at 16 (GMP's Renewable Energy Rider and Voluntary Renewable Support Rider).

with the displaced resources are thus avoided. The challenge of recognizing environmental gains associated with the voluntary purchases of renewable energy in a carbon-capped environment stems from the fact that all carbon emissions are capped. If emissions of fossil-fuel-fired generation units are capped, then incremental purchases of renewable energy that would otherwise be recognized as displacing fossil generation (and associated emissions) cannot be so credited unless an explicit measure is put into place to account for this activity.[9] It is expected that CO_2 allowances would be utilized by fossil-fuel-fired generating units to the fullest extent, and any generation that does not utilize fossil-fuel would not reduce the overall level of CO_2 emissions. In order to reduce the total amount of CO_2 emissions in the region, CO_2 allowances must be retired.

To address this concern, most RGGI states have established set-aside accounts for voluntary renewable purchases. A set-aside mechanism allows for the retirement of RGGI allowances in an amount that reflects the offsetting effects on CO_2 emissions associated with voluntary renewable purchases. By allowing renewable generators to demonstrate their sale of this energy, and retiring allowances in this way, the cap would effectively be lowered, and overall CO_2 emissions would in fact be reduced. Furthermore, due to consumer disclosure requirements, without the retirement of CO_2 allowances, companies marketing voluntary renewable programs would not be able to claim that participation in their programs actually reduces overall CO_2 emissions, and that the renewable energy credits ("RECs") associated with such renewable resources actually reflect all environmental attributes associated with a unit of energy.

Board staff conclude that Section 255 supports the development of a set-aside for voluntary renewables purchases. First, section 255 sets forth several goals that the Board should strive to achieve in implementing the allocation process for RGGI allowances and proceeds. One such goal is to "build upon *existing regulatory and administrative structures and programs* that . . . lower the state's carbon profile."[10] Second, the legislature has indicated its support for voluntary renewable pricing programs: in Act 92, which amended Section 255, the legislature

9. For a further discussion of this issue, see RGGI Program Overview at 5, available at http://www.rggi.org/docs/program_summary_10_07.pdf.

10. Id. at § 255(c)(2)(E) (emphasis added).

included a provision requiring Vermont utilities to offer such programs, or provide customers the opportunity to donate to the Clean Energy Development Fund. Allowing the retirement of RGGI allowances in quantities matching the carbon reduction associated with voluntary renewable pricing programs would help promote these programs and "lower the state's carbon profile," one of the goals of Section 255. Third, without a provision for a voluntary renewable set-aside, interest in voluntary renewable pricing programs might wane once subscribers realize that such programs do not necessarily reduce CO_2 emissions. The retirement of allowances for voluntary renewable pricing programs is therefore consistent with the goals of Section 255.

Workshop participants supported the development of a set-aside program for voluntary renewable purchases. Workshop participants indicated that, currently, a set-aside for voluntary programs would utilize less than one percent of total Vermont allowances.

Staff recommend that the Board cap the total amount of allowances that can be set aside for voluntary renewable pricing programs at one percent, at this time. Staff also recommend that the Trustee withhold and retire allowances for voluntary renewable pricing programs, as directed by the Board after opportunity for comment by the Advisory Committee; all other allowances would be released to auction. Additionally, a reporting requirement would be established for utilities that have voluntary renewable pricing programs to report participation in these programs, so that requests for retirement of associated CO_2 allowances can be made to the Board.

Administratively, staff recommend that the Board direct the Trustee to set aside one percent of the CO_2 allowances for a given compliance period in a designated account for purposes of the voluntary renewable purchases set-aside program. These set-aside allowances could not be used by the generator or purchaser to meet any regulatory mandate. Upon application and approval, the Trustee would retire CO_2 allowances in the account in an amount up to the number of tons requested by an authorized applicant in order to reflect the voluntary renewable energy purchases made by the applicant during the compliance period. After making deductions for tons demonstrated by applicants during a compliance period, the Trustee would release to auction any remaining CO_2 allowances not utilized for the voluntary renewable purchase set-aside program.

Staff recommend the following process for determining the number of allowances required by a voluntary renewable program. An applicant would submit a written request to the Board to retire a specified number of CO_2 allowances in the voluntary purchase set-aside account. This request would include information to verify and document that the voluntary renewable energy purchase demonstrates accreditable CO_2 emissions reductions or avoidance. The total tons of CO_2 retired would be equal to the MWh purchase of voluntary renewable energy multiplied by the marginal CO_2 emissions rate[11] for the region where the electricity represented by the sale was generated. A future Board process would identify specific measurement and verification protocols for use in a voluntary renewable purchases set-aside program.

V. Conclusion

In summary, staff recommend that the Board implement 30 V.S.A. § 255 in the manner set forth above and issue an order consistent with this Report and Recommendation.

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11. Marginal CO_2 emissions rate would be the same rate as used by the New England Power Pool Generation Information System.

Appendix One --- Overview of the Regional Greenhouse Gas Initiative

The Regional Greenhouse Gas Initiative ("RGGI") is a cooperative effort by Northeastern and Mid-Atlantic states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island and Vermont) to reduce carbon dioxide emissions – a greenhouse gas that contributes to global climate change. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The proposed program requires certain electric power generators in participating states to purchase allowances for their CO_2 emissions.

On December 20, 2005, seven states announced an agreement to implement the Regional Greenhouse Gas Initiative, as outlined in a Memorandum of Understanding ("MOU") signed by the Governors of the participating states. The states that signed the MOU are Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, and Vermont. Maryland, Massachusetts, and Rhode Island have since signed the MOU. The MOU outlines the program in detail, including the framework for a Model Rule. The states made substantial revisions to the draft model rule in response to public comments. As a result, an amendment to the MOU was agreed to and signed by the heads of the energy regulatory and environmental agencies in each participating state. In Vermont, these entities are the Public Service Board and the Agency of Natural Resources.

On August 15, 2006, the participating states issued a model rule for the RGGI program.[12] The model rule details the proposed program, as outlined in the MOU. The model rule is intended to form the basis of individual state regulatory and/or statutory proposals to implement the program. The RGGI model rule does not supplant any state regulatory or legislative efforts, but instead facilitates them by providing a model of such provisions as are necessary to implement RGGI. The RGGI model rule does so in a way that preserves state sovereignty and provides certainty and consistency to the regulated community and to the public.

The RGGI MOU calls for signatory states to stabilize power sector CO_2 emissions over the first six years of program implementation (2009-2014) at a level roughly equal to current emissions. The initial regional cap is 188 million tons of CO_2, which is approximately 4% above

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12. The Model Rule can be found at www.rggi.org/modelrule.htm.

average regional emissions during the period 2000-2004. From 2015 through 2018, emissions would be reduced by 2.5% each year to achieve a 10% reduction in 2018 from the initial 2009 annual emissions budget.

This phased approach with initially modest emissions reductions is intended to provide market signals and regulatory certainty so that electricity generators may begin planning for, and investing in, lower-carbon alternatives throughout the region, but without creating dramatic wholesale electricity price impacts and attendant retail electricity rate impacts. The RGGI MOU apportions CO_2 allowances among signatory states through a process that was based on historical emissions and negotiation among the signatory states. Together, the emissions budgets of each signatory state comprise the regional emissions budget, or RGGI "cap." The states are currently developing rules to implement the CO_2 Budget Trading Program.

<u>Allowance Allocation and Auction</u>

Under the RGGI MOU, each state will allocate allowances up to the amount of its emissions budget, with each allowance allowing a regulated source to emit one ton of CO_2. RGGI takes an innovative approach to how states allocate allowances to regulated sources. Historically, cap-and-trade programs have allocated allowances directly to regulated emissions sources. Under RGGI, instead of giving allowances directly to electric generators for free, states would sell a significant portion, or all, allowances through a regional auction. After each auction, allowances can be bought and sold on a secondary market. Sources that obtain more allowances than they need – reduce their CO_2 emissions – will be able to sell their excess allowances, and sources needing additional allowances can obtain them.

In the RGGI MOU, participating states have agreed to allocate at least 25% of allowances to support consumer benefit programs. Individual participating states may choose how to allocate the remaining 75% of their allowances. As the program has evolved, the RGGI states have decided to sell most of their allowances and provide the revenues for consumer benefit and strategic energy purposes. Selling allowances will enhance the RGGI program's effectiveness at reducing greenhouse gas emissions. In addition, allocating allowances to support consumer benefits leads to lowering of electricity demand, reducing the overall compliance costs of the RGGI program and its impact on electricity ratepayers.

The participating states have entered into a mutual agreement to participate in quarterly uniform regional auctions for the allowances that each state will be offering for sale. The initial auction is currently planned for September 10, 2008, with a second auction scheduled for December 17, 2008.[13] The first compliance period for the RGGI cap-and-trade program will begin January 1, 2009. The RGGI cap-and-trade provides for a three-year compliance period. Multi-year compliance periods were employed to provide regulated facilities more flexibility to adjust to variations in electricity demand (driven by weather and load growth), fuel-price spikes, clean-unit outages, and other variables. A longer compliance period may also lead to resource (administrative) savings for the regulated facilities and the states implementing the program.

Vermont Participation in RGGI

Vermont will have approximately 1.2 million tons of CO_2 allowances annually through 2014, before reducing them over the subsequent four years. The state's approximately 1.2 million allowances will be sold through auction, and the proceeds used to fund Vermont's participation in the RGGI process, with net proceeds utilized for efficiency purposes.

Vermont committed to participate in RGGI when Governor Douglas signed the RGGI Memorandum of Understanding with the governors of the other participating states. The Vermont Legislature then enacted statutory provisions to implement the RGGI program in Vermont. Both 30 V.S.A. § 255 and the RGGI MOU directed the Public Service Board and the Agency of Natural Resources to participate in the RGGI program.

ANR promulgated the Vermont CO_2 Budget Trading Program Rule, which became effective May 30, 2008. The rule establishes a set of annual carbon budgets for emissions associated with the electric power sector in Vermont and allows subject units to reduce emissions, buy allowances on the market, and/or generate credits through an eligible CO_2 emissions-offset project.

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13. More information about the auction design can be found at http://www.rggi.org/docs/20080317auction_design.pdf.