

RENTING THE AIR:
CURBING EMISSIONS FROM TRANSPORTATION AND HEATING IN
VERMONT

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COMMON ASSETS IN PUBLIC BUDGETING

Consider, for example, our atmosphere. It's not just today's pollution that hurts, it's the accumulation of fumes we've been pouring into the air for centuries. This has already caused ice caps to melt, hurricanes to gain ferocity, and the Gulf Stream to weaken. Almost universally, the world's scientists warn that far worse lies ahead. The question our generation faces is: will we change our economic system voluntarily, or let the atmosphere change it for us?

--Peter Barnes, Capitalism 3.0

Greenhouse gas emissions from heating of residential and commercial buildings and emissions from transportation constitute 27% and 44% of total Vermont emissions, respectively. Global climate change and its impacts can be traced back to these emissions and their sources. As Vermont and neighboring states take proactive steps and collaborate to curb emissions from the industrial sector through the Regional Greenhouse Gas Initiative, the need to curb emissions from the residential, commercial, and transportation sector remains unfulfilled. This paper will examine potential ways to protect our common asset, the air, through economic incentives.

The Regional Greenhouse Gas Initiative: An Overview

The Regional Greenhouse Gas Initiative (RGGI, pronounced ReGGIe), which began in April 2003, is an agreement among the Governors of ten Northeastern and Mid-Atlantic States (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, Rhode Island and Vermont) to reduce the emissions of greenhouse gases from power plants. The RGGI model was developed through the collaborative efforts of energy and environmental agencies, research organizations, stakeholder participation, and state officials. The program components included in the Memorandum of Understanding (MOU) signed by the ten states set a start date for the cap-and-trade-program of January 1, 2009. The program covers fossil fuel fired electric generating units of 25 megawatts and larger and consists of a two-phase cap: to stabilize current emissions through 2014, and reduce emissions by 10% thereafter by 2018. It should be noted that the stabilizing cap point starts at 4% above the average 2000-2004 annual emissions. The program also includes a comprehensive review in 2012.

The RGGI action plan also established guiding principles for the program design, including: emphasizing uniformity across the participating states; building on existing successful cap-and-trade programs; ensuring that the program is expandable and flexible, allowing other states or jurisdictions to join in the initiative; starting the program simply by focusing on a core cap-and-trade program for power plants; and focusing on reliable offset protocols (i.e., credits for reductions outside of the power sector) in a subsequent design phase. The MOU includes the allowance of price triggers and offsets for project-based emissions reductions outside the capped sector to provide compliance flexibility of the program. Offsets allowances (or “credits”) are certified emissions reductions or carbon sequestration that take place outside the electric generating sector in eligible project areas that meet the program requirements. A GHG emitting source may not rely entirely on offsets to meet its obligation. Initially, a source will be permitted to cover up to 3.3% of its emissions with offsets—an amount that is approximately 50% of the projected average emission reduction obligation under the program. This means that a significant portion of the reductions under the program must occur at the power plants.

The program is designed to allow sources to use more offsets allowances if the cost of carbon allowances exceeds prescribed thresholds. If the cost of allowances reaches \$7 per ton on a sustained basis, for example, sources will be permitted to cover up to 5.0% of their emissions with offsets allowances. If the cost per ton exceeds \$10, then sources may cover up to 20% of their emissions with offsets allowances.

Initially, offsets allowances may be issued to verified reduction projects anywhere in the United States in the following areas: natural gas, heating oil and propane energy efficiency; landfill gas capture and combustion; methane capture from animal operations; forestation of non-forested land; reductions of sulfur hexafluoride (SF₆) emissions from electricity transmission