6 NYCRR Part 242, CO_2 Budget Trading Program

6 NYCRR Part 200, General Provisions

21 NYCRR Part 507, CO2 Allowance Auction Program

Regulatory Impact Statement Summary

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative, historic effort among New York and nine Participating States, and is the first mandatory, market-based carbon dioxide (CO_2) emissions reduction program in the United States. Since its inception in 2008, RGGI has utilized a market-based mechanism to cap and cost-effectively reduce emissions that cause climate change. Recently, New York along with the Participating States completed a comprehensive program review and announced a proposal to lower the regional emissions cap established under RGGI to approximately 69.8 million tons in 2027, declining about 89%, relative to the 2024 cap, through 2037. To implement the updated RGGI program in New York State, the Department of Environmental Conservation (Department) has proposed revisions to 6 NYCRR Part 242, CO_2 Budget Trading Program (the Program) and 6 NYCRR Part 200, General Provisions. As the auction administrator, the New York State Energy Research and Development Authority ("NYSERDA") has proposed revisions to the CO_2 Allowance Auction Program as set forth in Part 507, which are designed to complement revisions proposed by the Department.

The statutory authority to revise the Program derives primarily from the Department's authority to use all available practical and reasonable methods to prevent and control air pollution, as set out in the ECL at Sections 1-0101, 1-0303, 3-0301, 19-0103, 19-0105, 19-0107, 19-0301, 19-0303, 19-0305, 71-2103, 71-2105, 75-0101, 75-0103, 75-0105, 75-0107, and 75-0109. The Allowance

Auction Program (21 NYCRR Part 507) will also be revised by NYSERDA as part of this rulemaking. The statutory authority to revise the Allowance Auction Program is derived from NYSERDA's authority under PAL 1854 and 1855.

The Department complied with Sections 202-a, 202-b and 202-bb of the State Administrative Procedures Act through an extensive regional program review process that included public participation by all Participating States. New York and the Participating States had committed to a comprehensive program review during the initial development of RGGI and agreed to evaluate program success, program impacts, additional emissions reductions, and other program revisions. The Participating States initiated the most recent program review in February 2021, with the release of a statement announcing the plan for the Third Program Review. The Participating States and RGGI Incorporated (RGGI, Inc.) conducted at least six stakeholder meetings and webinars during this third program review period, during which they obtained public input on a number of program elements. Prior to each stakeholder meeting, agency staff and RGGI, Inc. distributed pertinent material to participants via email and posted meeting documents on the RGGI, Inc. website. The stakeholder meetings were open to the public and all interested parties were encouraged to provide comment. All stakeholder comments were ultimately considered in the development of the Updated RGGI Model Rule, which contained detailed model regulatory text, and was released to the public on July 3, 2025.

The primary need for this rule making is to protect the health and welfare of New York State residents and resources by incentivizing GHG emission reductions across the Northeast Region, in support of the levels of the Climate Act.

New York State is already feeling the effects of climate change. In fact, the last 10 years have been the hottest on record globally, with 2024 surpassing 2023 as the hottest on record at 1.55 °C above pre-industrial levels. Despite the commitment by national governments to limit global warming to under 1.5 °C, global temperatures temporarily exceeded 1.5 °C for a 12-month period for the first time in 2023 and again in 2024. As discussed in the most recent New York State Climate Impacts Assessment and United Nations Adaptation Gap Report, the world has seen ocean heat on the rise, extreme weather and climate events that have led to massive economic and human losses, with detrimental impacts on human health, sustainable development and widening inequalities. Disadvantaged communities are hardest hit and continue to bear the brunt of the harmful effects of human-caused climate change.

Furthermore, there is an urgent need for states to carefully track and monitor GHG emissions, as well as for communicating this information and understanding the increasing risk from climate change. CO_2 concentrations in 2024 set a new record high of 422.1 parts per million (ppm), an increase in atmospheric CO_2 concentrations of 2.9 ppm over the previous year. CO_2 is accumulating in the atmosphere at a faster rate than ever before in human existence, and the long life of CO_2 in the atmosphere amplifies future temperature increases. The world is on track to maintain temperatures 1.5°C above pre-industrial levels and to see the impacts of climate tipping points.

The reduction in the CO_2 emissions cap represents a critical step to combat the significant challenges presented by climate change and to advance sound energy policies that foster energy efficiency, a reduction in reliance on fossil fuels, and energy independence.

The Program revisions would cap regional emissions at approximately 69.8 million tons beginning in 2027 and would reduce that level by about 8.5 million tons per year through 2033, then decline by about 2.4 million tons per year through 2037. The proposed cap decline between the existing 2027 cap of 75 million tons and the 2037 cap of about 9 million tons is roughly 88%. After 2037, the regional cap would remain at about 9 million tons annually absent future revisions to the Program.

To provide flexibility and cost containment the Program revisions would expand the CCR program feature by adding another additional tier of allowances, increasing the number of allowances in the CCR, and establishing prices for these new allowances. While the revisions to the Program retain the CCR program feature, the revisions would increase the regional volume of allowances in the first CCR tier to approximately 11.75 million allowances and establish the second CCR tier also at 11.75 million allowances starting in 2027. The trigger price of CCR 1 would match the existing price of $19.50 in 2027 and increase 7% annually. The Trigger Price for CCR 2 would be established at $29.25 in 2027 and increase 7% annually. The proposed Program revisions eliminate the Emissions Containment Reserve (ECR) and increase the minimum reserve price to the value of the existing ECR. The new minimum reserve price would be $9.00 in 2027 and increase 7% annually. No allowances would be auctioned below the minimum reserve price.

The proposed revisions to the Program would remove the one remaining offset project type in NY, for avoided methane emissions from agricultural manure management operations. Any existing offset allowances awarded by a participating state prior to January 1, 2027, are fully fungible within the constraints of the program. Additional offset allowances are not anticipated to be awarded before January 1, 2027.

New York is proposing revisions to remove eligible biomass considerations from the Program. Following the removal, no budget source would be able reduce their compliance obligation for CO_2 emissions by burning biomass. Additionally, the proposed revisions would remove the eligible biomass portion of the Voluntary Renewable Energy and Eligible Biomass set-aside. Allowing the burning of biomass without a compliance obligation was viewed by stakeholders as against the goals of the program. The proposed revisions would change the set-aside allocation from a flat annual amount to a number of allowances that reduces over time in alignment with the decreasing New York budget. In the event that demand for this set-aside exceeds the allowances set aside in a given year, the unretired allowances from previous years may be retired on the behalf of the applicant.

New York is also proposing to reduce the annual volume of the Long-Term Contract set-aside allocation over time and stop setting aside allowances with the 2036 allocation year. The proposed trajectory is anticipated to provide adequate allowances for the one remaining applicant to complete its long-term contract in 2036. The annual allocation of allowances would eventually fall below the expected annual demand, and the Department proposes compensating for that by allocating allowances to the applicant from unallocated allowances in the set-aside from previous allocation years.

Actions in New York will have local and statewide benefits. Significant economic opportunities and environmental and health co-benefits such as reduced air pollution and improved public health are expected from programs that mitigate GHG emissions. The proposed reduction of the regional emissions cap by about 88% from 2027 to 2037 would result in substantial CO_2 emission reductions, within the Participating States. The societal impact of emission reductions in New York could range between $2.6 and $15.8 billion cumulatively between 2027 and 2037.

Projected benefits from the revisions are detailed in the Regulatory Impact Statement and reflect the outcome of the policy adoption under a range of scenarios. The range of outcomes are presented as the incremental impact from the comparison of the Current Allowance Price Case with Policy Case B, which reflects a future with the updated RGGI policy and the full achievement of states' clean energy policies, and the incremental impact from the comparison of the Current Allowance Price Case with Policy Case A, which reflects the updated RGGI policy and a more pessimistic deployment of clean energy resources.

The macroeconomic modeling results conducted for the participating states reflect the potential impacts associated with the revisions to the Program (including the investment of auction proceeds in an estimated portfolio of energy efficiency, clean energy and carbon abatement programs). The study estimates that the cumulative changes in New York's Gross State Product and Personal Income associated with the revisions to the program will be about $7 billion and $2.7 billion, respectively, for Case A and about $777 million and $1.7 billion, respectively, for Case B. These are in 2022 dollars as the present value of estimated annual changes over the period 2025 to

2040. In the context of New York's total Gross State Product and total Personal Income these changes represent small but positive changes.

When accounting for the benefits associated with the re-investment of proceeds for Case B, bill impacts are forecasted to show an insignificant change and are estimated to decrease $0.24/month (-0.27%) for a representative residential customer. Similarly, representative commercial and industrial customers are estimated to experience a decrease of $2.17/month (-0.44%) and $82.67/month (-0.57%), respectively.

When accounting for the benefits associated with the re-investment of proceeds for Case A, bill impacts are again forecasted to show an insignificant change and are estimated to decrease $0.10/month (-0.14%) for a representative residential customer. Similarly, representative commercial and industrial customers are estimated to experience a decrease of $0.93/month (-0.24%) and $35.50/month (-0.31%), respectively.

The proposed Program revisions also include other minor clarifying edits and minor updates to all references. These updates are also recorded in updates to 6 NYCRR Part 200. Additionally, 21 NYCRR Part 507 would be updated to align with the adjustments to the CCR feature and removal of the emissions containment reserve.