IETA

Input to Inform RGGI Third Program Review

26 October 2023

The **International Emissions Trading Association** (IETA) welcomes this opportunity to provide input to inform the Regional Greenhouse Gas Initiative's (RGGI) Third Program Review. For over 20 years, IETA has been the leading global business voice on robust market solutions to tackle climate change while driving clean finance at scale. Our global non-profit organization represents over 300 companies, including many with operations, clean investments, and workforces across RGGI states. The following document provides IETA's comments in response to RGGI's 23 September Public Meeting discussing the latest program review considerations.

Urgency for Program Rule:

RGGI should implement the program review rule as soon as possible, ideally to enable implementation for a 2025 start date. From an emissions perspective, a 2025 start would create a less steep slope to either 2035 or 2040, helping to achieve the goal in a slightly less disruptive way. More broadly it would mean that the new reduction slope and any other changes focused on environmental justice concerns are not delayed any further.

Net Zero Targets:

Given that net zero by 2040 as modelled would trigger the Emissions Containment Reserve (ECR), net zero by 2035 appears to be the most appropriate option for the program. If the net zero 2040 scenario would trigger the ECR, and therefore lower the cap, it makes sense to steepen the curve at the outset and keep a consistent reduction goal. The ECR and Cost Containment Reserve (CCR) should be designed to trigger in unlikely events, not ones that are expected.

Alternative Net Zero Target Approach:

A potential alternative to establishing a net zero target could see the two net zero scenarios merged, with the market used to determine the right year between these two dates. This would remove the need to determine if net zero by 2035 is too aggressive or if 2040 is not stringent enough.

Because of the scenarios proposed, RGGI is likely to see much more uncertainty between now and 2035/2040. As an example, offshore wind or renewable projects may get built, but the outcomes might not happen as expected by developers or regulators. If RGGI had a fixed supply scenario or even the current 10% ECR, the program might not be flexible enough to efficiently address these future uncertainties. Alternatively, electrification could happen faster than expected, meaning more power demand in the near term due to unexpected advancements in technologies.

To account for this uncertainty, the ECR could be re-structured as an uncertainty mechanism. If net zero by 2035 is achievable, mostly due to federal Inflation Reduction Act (IRA) financing, it would lead to prices below the ECR over the next decade. As a result, the ECR would remove volume up to the net zero by 2035 cap. If emission reductions are happening more slowly, it would allow volume to still be purchased above the ECR trigger price until 2040. Of course, net zero could occur in any year in between (i.e., no volume could be purchased in 2037).

ECR/CCR Considerations:

Raising the program's ECR/CCR trigger prices may be needed. While IETA does not have a specific price in mind, it is worth considering that both the ECR and CCR price triggers send material messages to the market. As much as the market tends to pin RGGI allowance process to the CCR trigger, for example, this relatively low-price limit could be holding back investment, and therefore emissions reductions, from occurring within the RGGI states. For real-world examples of higher trigger prices, see program experience across California, Washington, the EU and the UK cap and trade systems.

Annual Compliance Considerations:

IETA does not take a strong position on annual compliance requirements. We note that the three-year compliance period was originally intended to allow emitters flexibility to purchase allowances when it made most sense for them given their actual and expected emissions profile, and the cost of allowances at any time. Given the market-based nature of the program and the opportunity to offer allowances on the secondary market – and the history over the life of the program of emitters buying allowances largely in unison with their emissions, an annual compliance option seems reasonable.

Conclusion:

IETA appreciates this opportunity to record insights and recommendations to inform RGGI's Third Program Review. If you have any questions or follow up requests, contact IETA's RGGI Representative, Justin Johnson at **johnson@ieta.org**.