RGGI Program Review Comment

IETA Submission to RGGI Board

21 April 2023

The **International Emissions Trading Association** **(IETA)** welcomes this opportunity to provide feedback on the Regional Greenhouse Gas Initiative's **(RGGI)** Third Program Review considerations and analysis presented during the 29 March **Public Meeting**. IETA has long been a supporter of RGGI, noting that the program showcases climate leadership and cooperation, minimizes compliance costs, and enhances mitigation potential for participating states.

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 and investments across RGGI states and the United States. IETA's expertise is regularly called upon to inform carbon market solutions that deliver measurable climate outcomes, address economic competitiveness and carbon leakage concerns, balance efficiencies with social equity, and support a just transition.

IETA's following comments provide high-level recommendations to inform RGGI's Third Program Review.

Program Review Timeline:

- **Uncertainty about the program review can weigh on emission reduction projects and allowances prices, meaning abatement opportunities can be delayed due to regulatory timelines**. Since the first program review in 2012, every subsequent review has taken longer from start to finish. As an example, the 2016-2017 review began on November 17, 2015 and concluded December 19, 2017; a span of 763 days. **The current review has already spanned more than 550 days without a single policy scenario**.

- **Given the timelines on permitting, long-term investments to abate emissions within the RGGI states could be postponed** as emitters or investors seek clarification about the potential compliance obligations beyond 2030. A strong carbon price after that date could help to incentive further emissions reduction projects within the region, but **these opportunities suffer due to lack of policy certainly and guidance**.

- **RGGI should seek to hold meetings more often in future rulemakings**. More frequent stakeholder gathers would give more insight into design options and/or potential revisions. This could also facilitate more public comment about the program.

Termination Clauses Within RGGI Agreements:

- **RGGI's two newest members – Virginia and New Jersey – have agreements that do not include any termination clauses within them**. These agreements should be amended to include termination language to clearly outline the procedure and timeline for a state to exit the program.

- **Existing termination clauses are inconsistent - with some states requiring 10 days written notice and others requiring 30 days**. Some states are not required to provide any notice and can terminate the contract at any time.

Process to Join RGGI:

- Although not as critical as a termination clause, **it is important that there is a consistent process laid out for states that want to join RGGI**. This would minimize speculation and confusion in the market about how and when new states might join in the future. It would also enable states that are considering joining RGGI to know ahead of time what they would need to do – and on what timeline.

Implement Changes to the System by 2025:

- **Given the length of the ongoing review, RGGI should work to implement changes, including having all member-state rules in place, by January 1, 2025**. This would ensure the quickest path to 2030 and longer-term climate goals. By waiting until 2026, RGGI could steepen the cap decline, leading to higher prices on the secondary market.

Revise CCR/ECR Price Triggers:

- **Current secondary market prices show that the Emissions Containment Reserve (ECR) and Cost Containment Reserve (CCR) prices are insufficient at achieving their policy goals**. The CCR should only be triggered in extreme situations rather than being an annual occurrence. If RGGI adopts more stringent goals without major revisions to the CCR triggers, the program could become a de facto carbon tax, leading to uncertainty about the viability of the program.

- **Like the CCR, the ECR is set at a level that would be insufficient to provide a strong price signal in the market**. RGGI should not set the ECR volume arbitrarily. It is important that market participants understand the methodology used to achieve emission reductions higher than the cap decline levels, if reductions come faster and cheaper than anticipated.

Automatic Bank Adjustments:

- Following the successful introduction of the ECR as a means of making an adjustment automatically and without having the bring the RGGI member-states together to reach agreement, we believe **the review should consider making future bank adjustments automatic, based on pre-determined thresholds**. The trigger could be the size of the bank above actual emissions when the actuals are known. Such an automatic adjustment would preserve the ambition of the RGGI program even if a future program review is delayed, in addition it would make the timing and amount of any possible future bank adjustments more transparent to market participants.

CONCLUSION

As one of the oldest carbon markets anywhere, and the longest running greenhouse gas cap-and-trade program in North America, IETA has always seen RGGI as model of what is possible when jurisdictions collaborate while using the power of markets to meet climate goals. We want to encourage the RGGI states to continue supporting this successful, market-based program and, in the future, consider how the system could be expanded. Whether it is a geographic or sectoral expansion, strong market-based programs have been shown to be highly effective at setting a price on carbon while driving emissions reductions and containing costs.

Once again, we appreciate this opportunity to record IETA's insights to inform the Third Program Review. We look forward to more frequent engagement with RGGI as the Review advances. If you have questions or require further information, please contact Justin Johnson, IETA RGGI Representative, at **johnson@ieta.org**.