IETA

MAKING NET ZERO POSSIBLE

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IETA Comments on RGGI Third Program Review: September 2024 Update

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 350 companies, including many with operations, clean investments, and workforces across RGGI states.

Urgency for Program Rule:

For a compliance carbon program to function as intended, market participants need to have confidence in the stability and predictability of the rules that govern the program. The current Program Review has been ongoing for more than a year, with limited public comment and transparency; this is harming the development of the RGGI market and potentially creating long-term damage to market stability and future participation, adversely limiting the market depth and liquidity.

IETA urges the RGGI states to conclude their program review and publish its draft rule as soon as possible, noting that the window for 2025 implementation has likely passed. From an emissions reduction timeline perspective, an earlier start (before 2027) would create a less steep slope to either 2035 or 2040, helping to achieve the net zero goal in a slightly less disruptive way for businesses and consumers. More broadly, it would mean the new reduction slope – plus other changes focused on environmental justice concerns – are not delayed any further, doubly benefiting in terms of reducing cumulative power sector emissions while providing market participants with much-needed clarity.

2026 Bank Adjustment Uncertainty:

IETA is seeking further clarity on the intended bank adjustment in 2026. Historically, bank adjustments have occurred alongside RGGI program reviews. If RGGI intends on a bank adjustment with the final rule, this should be transparently communicated well in advance of the implementation.

We urge the RGGI states to include a bank adjustment similar to the prior three (3) adjustments the program has executed. Absent a bank adjustment (or a similarly impactful additional program change), the increased Cost Containment Reserve (CCR) presented in the latest update would likely result in a substantial increase in the number of allowances in the market before the cap reductions come into effect in 2027. Continuing with an adjustment provides the necessary stability and clarity that market participants expect from a program like RGGI with a decade of operating history.

IETA and broader market participants are seeking further clarity regarding the presence and timing of any planned supply adjustment for the 2026-2030 period and beyond.

Emissions Cap Signals Beyond 2037:

IETA encourages RGGI to release preliminary emissions cap trajectories out to 2040 (and preferably beyond), alongside the updated program rule. Providing an informal estimate of cap trajectories beyond RGGI's Third Program Review scope would best enable market participants to efficiently adjust to the increased program stringency.

ECR/CCR Considerations:

The most recent modelling scenario suggested a somewhat arbitrary fixed amount of allowances available at the first CCR level (i.e., 11.75 million allowances annually), effectively delinking the CCR from the emissions cap. The CCR should remain proportional to the emissions cap, in line with the current treatment which market participants have come to expect. We also suggest a revaluation of the CCR trigger price – informed by modelling – as a potential alternative to the introduction of a second CCR tier. IETA posits that the benefits of a CCR on the RGGI program are best realized under stable and predictable policy, set at adequate levels to incentivize emissions reductions.

The latest modelling suggests that the program's Emissions Containment Reserve (ECR) and CCR trigger prices may need to be adjusted. 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 and have barely increased in real price terms over the last few years despite ongoing elevated inflation. By maintaining a narrow and relatively low price corridor, RGGI may disincentivize decarbonization investments which in turn could stifle emissions reductions from occurring within the RGGI states. For real-world examples of higher trigger prices and wider price corridors, see program experience across cap-and-trade systems in California, Washington, New Zealand, the EU and the UK.

Annual Compliance Considerations:

RGGI's three (3) year compliance period was originally intended to allow emitters flexibility to purchase allowances when it made most sense, depending on their actual and expected emissions profile and cost of allowances at any time. While we believe an annual (1 year) compliance period is doable, IETA prefers market and temporal flexibilities offered by the existing 3-year compliance period. With a view to future potential linkages – or at least avenues for enhanced program harmonization – RGGI's current compliance period better aligns with other North America cap and trade systems (existing and proposed).

Accommodating Potential Future Participation by Other States:

IETA supports linkage with as many jurisdictions as possible, provided RGGI's overall climate ambition is maintained. The broader the market, the wider the range of emissions abatement opportunities, enabling greater climate ambition at a lower cost. RGGI should remain open to all states participating, provided new entrant participation will not lead to adverse impacts on RGGI program-wide ambition.

We urge caution regarding the implication of imposed compliance ratios or volume limits in trading or compliance. These artificially imposed measures could create unequal or unfair treatment among participants who are operating across the same program; this would also lead to adverse competitiveness impacts while making the program unnecessarily susceptible to more volatility.

Conclusion:

IETA strongly supports RGGI's continue leadership and its importance to cost-effectively driving power sector decarbonization and co-benefits across the region. However, we warn against unnecessary regulatory interventions, such as the newly proposed narrow price corridor and artificially low price triggers. Markets work best with well-defined rules where market participants have enough clarity and foresight to predict how a market will function years into the future, then plan compliance strategies and investments accordingly.

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.