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CARBON MARKET BUSINESS BRIEF

RGGI

RGGI AT A GLANCE

Years in operation	First compliance period: 2009-11 Second: 2012-14 Third: 2015-17 Fourth: 2018-20 Fifth: 2021-23
Overall cap & trajectory	RGGI's 2022 adjusted cap is 97.02 million short tons (88.02 million metric tCO2), declining at a rate of 2.275% annually through 2030.
Target(s)	30% below the 2020 cap by 2030
Emissions reduced to date	47% fall in emissions from 2008-17
Sectors covered	Fossil-fuel powered electric generation with an installed capacity of 25 MW or greater
GHGs covered	CO_2
# of covered entities	203
Allocation method	Majority of CO_2 allowances are issued by each RGGI state and distributed through quarterly regional CO2 allowance auctions using a single-round, sealed-bid uniform-price format. Auctions are open to all parties with financial security, with a maximum bid of 25% of volume on offer per quarterly auction.
Trading rules	RGGI Allowances must be retired after the end of each three-year compliance period. **Minimum Reserve Price**: The RGGI Model Rule sets a floor price for auctions, increasing by 2.5% per year. In 2022 the floor price is $2.44 per short ton. **Cost Containment Reserve**: The programme also has a Cost Containment Reserve (CCR), which releases allowances to the market when prices surpass a pre-determined threshold, set at $13.91 in 2022 and increasing annually by 7% thereafter. **Emissions Containment Reserve**: From 2021, the programme featured an Emissions Containment Reserve (ECR) that removes allowances from circulation, if the price falls below a threshold starting at $6.42, and increasing by 7% thereafter. Maine and New Hampshire do not participate in the ECR.
Use of offsets and linking	Use of offsets is limited to 3.3% of a covered entity's compliance obligation for each control period through 2030. RGGI has its own offset protocols and registry for projects based within RGGI jurisdictions, unless an MOU is signed with another state under the Model Rule. RGGI currently allows offsets from three project types: landfill gas; forestry; and manure management. As of May 2022, only one LFG project has been approved.

Other features	Allowances can be banked for later use without restrictions. However, RGGI includes interim adjustments to the cap to account for banked CO_2 allowances. The 2012 Program Review established two cap adjustments to account for privately held allowances, a third bank adjustment is established in the 2017 revised Model Rule over a five-year period (2021-25).
Penalties for non-compliance	Penalties for non-compliance are set by each state. In the case of excess emissions, allowances for three times the amount of excess emissions have to be surrendered in future periods.
Use of revenues	State-specific, but major categories of programmes include: energy efficiency, renewable energy, greenhouse gas abatement, and direct bill assistance.

MAJOR DEVELOPMENTS

Days before finalising this brief, Pennsylvania published its regulation to join RGGI, making it officially the 12th member as of 1 July 2022. This is nearly six months later than Governor Tom Wolf had originally announced and followed months of political and legal wrangling that likely isn't over yet. The Governor has twice vetoed legislation that would have blocked the state's entry in to the programme and has also prevailed in court to date. How long Pennsylvania remains a member of RGGI is still to be seen, as Wolf is term-limited and won't be on the ballot in November. State Republicans have made it clear that if they come to power in the election, they will take Pennsylvania out of the programme.

In addition, the newly elected Governor of Virginia, which joined RGGI in 2021, has announced the state will be pulling out of the programme. Although Governor Glenn Youngkin announced shortly after his inauguration in January that it would be an immediate withdrawal, legal experts have said that he can't unilaterally overturn the regulation and will have to go through the process of re-writing it. In April 2022, Virginia was still a member and compliance entities in the state have said they are committed to meeting the requirements of the programme until Virginia formally withdraws. Participation by Virginia and Pennsylvania represent a more than a doubling of RGGI's market size compared to 2020.

Between 2021 and 2030, the RGGI cap will reduce regional power sector emissions by 30% compared to 2020 emissions cap. The RGGI bank adjustment will reduce allowances by 95,451,650 cumulatively between 2021-25, for an annual reduction of 19.09 million allowances.

In February 2021, RGGI announced its plan and timeline for the 2021 Program Review, representing the programme's third major review since its 2009 inception. The 2021 review, expected to result in additional reductions to cap post-2030 and potential design adjustments post-2025, began with two public hearings to get feedback on modelling and programme design elements in December 2021; however, the remainder of the schedule for the review has not been announced

A major parallel policy development to RGGI evolution and expansion was the Transportation and Climate Initiative Program (TCI-P). On 1 March 2021, four participating jurisdictions – Connecticut, Massachusetts, Rhode Island and Washington DC – released a Draft Model Framework for the TCI-P, a regional cap-and-trade programme to address transportation emissions. Many design elements of the TCI-P are similar, if not identical, to RGGI, including use of a supply-constraining ECR and price-limiting CCR. A draft Model Rule was released following the December 2020 MOU and announcement to create the TCI-P to reduce transportation emissions by at least 26% below 2022 levels by 2032. However, the programme became a victim of the pandemic and changing focus by states and, by early 2022, all four jurisdictions had pulled out. The TCI states have not said the programme is dead – but it is clearly on hold. Importantly the States' statutory requirements to reduce emissions, including from transportation, remain unchanged.

Shifting to the US federal level, the Biden Administration's $2 trillion infrastructure plan passed the House and Senate and has been signed into law as the Infrastructure, Investment, and Jobs Act (IIJA). The ambitious plan contains numerous climate change measures including development of a US Clean Energy Standard (CES). When the money begins to flow later in 2022, many states and market analysts believe that a federal CES could result in dramatically "bullish" impacts across RGGI, as other states look to this regional market as a mechanism to facilitate meeting clean energy targets.

MARKET COMMENTARY

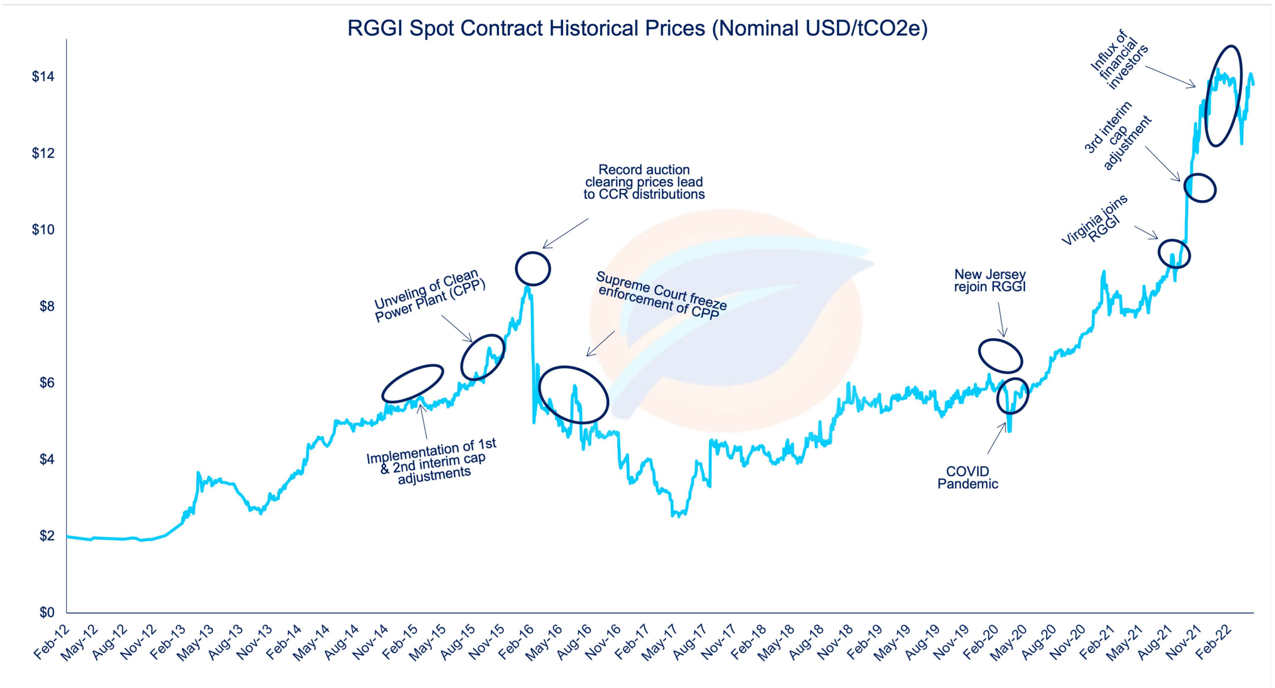

FIGURE 1

RGGI historical prices

Source: ClearBlue

RGGI continued its post-COVID strength with a steep rise in spot prices through February 2021 before a slight leveling off and then a dramatic increase to record levels following Virginia's entry into the market and the third interim cap adjustment.

Prices close to historic highs of around $14 drew an influx of institutional investors into the market. Combined with increased emissions, and therefore obligations, on regulated entities, the market has shown consistent support either side of the CCR price of $13.91 and higher.

RGGI's upcoming 56th auction, on 1 June 2022, will see programme proceeds surpass $5 billion since 2009. As well as reaching that milestone, RGGI is on track to reach record price levels. The Programme has seen increasing bullishness since the December 2021 auction, when the clearing price hit $13 and the CCR was triggered for the first time since September 2015. December's clearing price was more than 40% higher than the September 2021 sale's clearing price of $9.30.

Increasing interest from compliance entities pushed the March 2022 clearing price to $13.50, just shy of the $13.91 CCR trigger. Prices on the secondary market have pushed above $14 since March, buoyed by the news that Pennsylvania will be joining the programme and reports of higher-than-expected emissions in the electricity sector.

Compliance entities have not remained significant market players and are expected to continue to bid strongly to ensure their emissions are covered. Pennsylvania will enter the market officially on 1 July and, barring any successful legal challenges, Pennsylvania power generators will have to cover 50% of their 2022 compliance obligation of 78,000,000 tons by 1 March 2023.

USEFUL LINKS

RGGI Inc

RGGI Principles to Accompany Rule Amendments

ICAP RGGI Profile

RGGI Market Monitor: Auction 51

RGGI 2021 Program Review

TCI-P Draft Model Rule

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