

## Carbon Markets Thrive as States Brush Aside Trump and Take Lead on Climate

### Cap-and-Trade Here to Stay Thanks to Reforms and New Members

#### Industry Insight

With the federal government's U-turn on climate policy, states are taking the lead in regulating greenhouse gas (GHG) emissions. Specifically, carbon trading is gaining traction as more jurisdictions are joining cap-and-trade markets. The two regional blocs in the U.S., California, Quebec, and Ontario's cap-and-trade system and the Regional Greenhouse Gas Initiative (RGGI) involving nine Northeastern states, recently outlined their plans after 2020 ending uncertainty about their medium-term future.



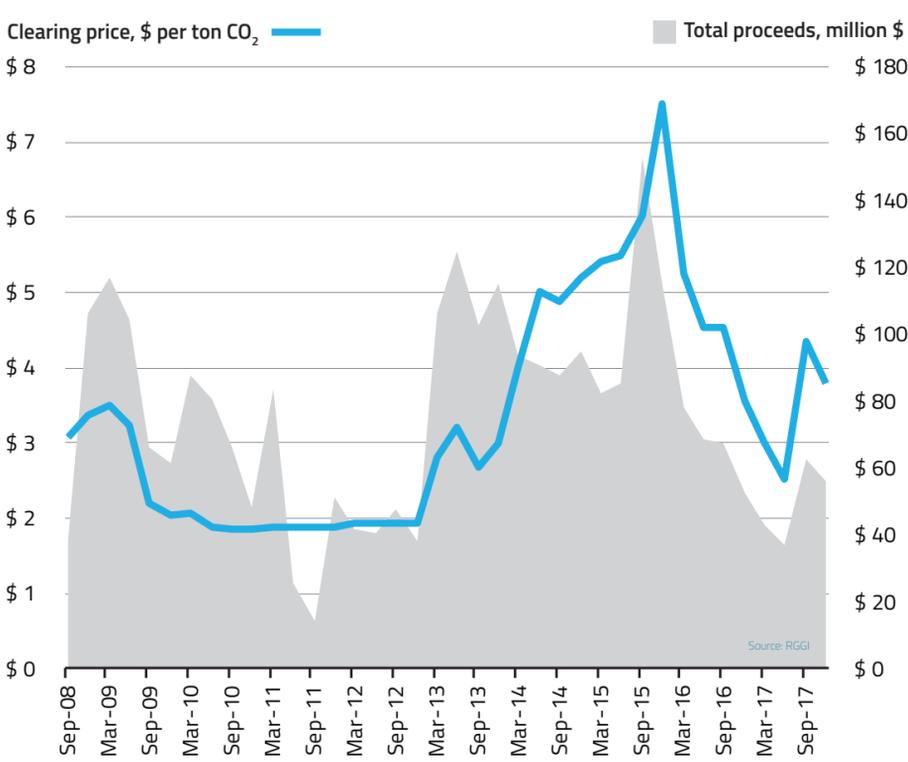
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### #1: RGGI: Lower Emissions Cap, New Entrants

RGGI's 38th quarterly auction, held on December 6, 2017, sold all of the 14,687,989 allowances available at \$3.80 per allowance. The price was \$0.55 lower than the previous auction, but well above the prices of the first and second quarter auctions in 2017. This was the second auction since RGGI states agreed on a post-2020 path for reforms in August 2017.



In December 2017, RGGI released the updated 2017 Model Rule that will guide the program 2020-2030.

**Updated Model Rule**

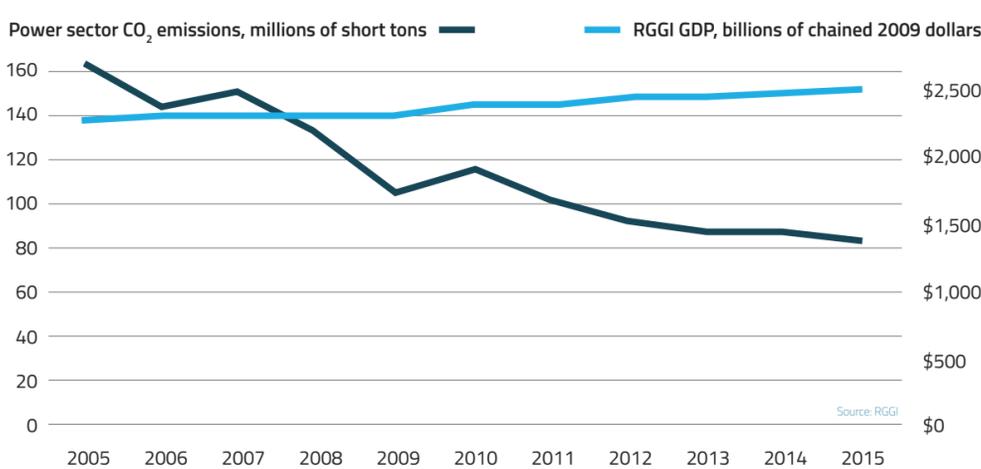


Creates an Emissions Containment Reserve (ECR), an adjustment mechanism that allows states to withhold allowances from the auction if prices drop below a specified threshold, ranging from \$6 to \$11.02 between 2021 and 2030



The price threshold above which allowances in the Cost Containment Reserve are released into the market will grow from \$13 to \$23.89 over the same period. Currently, state regulators are implementing the updated rule in their processes.

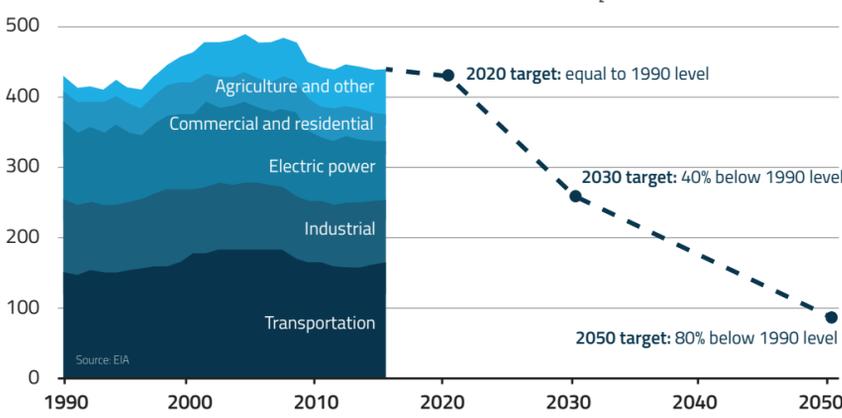
According to an October 2017 report from RGGI, member states have reduced power sector CO<sub>2</sub> emissions by more than 45 percent since 2005, while the regional economy has continued to grow. RGGI investments in 2015 are estimated to return \$2.31 billion in lifetime energy bill savings to those households and businesses which participated in RGGI-funded programs and received direct bill assistance.



### #2: California-Quebec-Ontario: Extended Life, Expanded Market

The first three-way auction held by California, Quebec, and Ontario on February 21 sold out of all current carbon allowances at \$14.61, above the floor price of \$14.53. Moreover, almost 70 percent of advance allowances for 2021 were sold, signaling confidence in the market. Ontario linked with the California and Québec cap-and-trade programs on January 1, 2018.

California GHG emissions by sector and targets through 2050 (million tons CO<sub>2</sub> equivalent)



CARB has started to design a post-2020 cap-and-trade program following AB 398 enacted in 2017 which extended the program beyond 2020. In December 2017, CARB approved a scoping plan to reduce GHGs to 40 percent below 1990 levels by 2030 under SB 32, which extended the state's climate policies set by the landmark Global Warming Solutions Act of 2006. The plan will require the state to double its rate of reducing emissions.

In June 2017, Supreme Court ended years of litigation over the legality of the program, denying a petition to review a Third Appellate District court decision which held that carbon auctions are within CARB's statutory authority.

### #3: State Leadership on Climate Policy

**OR** HB 4001

1/22 (introduced): would require the state Environmental Quality Commission to adopt a program that caps GHG emissions and provides a market-based mechanism for covered entities to demonstrate compliance

**MN**

On January 3, the MN PUC set the carbon costs that utilities must use in their resource planning to a range of \$9.05 to \$42.46 per ton in 2020, up from \$0.44 to \$4.53 per ton previously

**NY**

New York Gov. Andrew Cuomo issued a proposal in his 2018 State of the State to expand the RGGI emissions trading market and to reach 1,500 MW of energy storage by 2025 and 800 MW of offshore wind by 2019. New York seeks to source half of the state's power needs from renewable generation by 2030

**RI** HB 7400

2/1 (introduced): would collect fees on fossil fuel sales and channel the money towards clean energy and climate adaptation programs. The carbon price would be set at \$15 per metric ton of emissions initially, increasing at the rate of \$5 per year until it reaches \$50 and then grows in line with inflation

**VA** SB 696

1/10 (introduced): would require the Air Pollution Control Board to establish a cap-and-trade program for electricity generators in compliance with the RGGI model rule

**NJ**

On January 29, New Jersey Governor Phil Murphy, a Democrat, directed the state Environmental Protection Department and Public Utilities Board to begin the process of rejoining RGGI.

### Bottom Line

**Speed Bumps Ahead**  
While Virginia and New Jersey want to join RGGI, not all states have succeeded in taxing carbon. Washington Governor Jay Inslee's climate agenda (SB 6203) that would have imposed such a tax failed in the state legislature in early March. Outcomes for similar proposals in Oregon and Rhode Island remain equally uncertain.

**Confidence Levels Growing**  
New entrants and market reforms bode well for the two cap-and-trade programs, both keenly watched as examples of how multiple jurisdictions can cooperate in achieving a common goal. Additional members will expand the scope of the markets, improving efficiency and competitiveness. Meanwhile, reforms to the market structure and efficiency of the life of the programs will stabilize the markets and boost stakeholder confidence in them.

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