IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

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IETA Comments on 9VAC5-140, Regulation for Emissions Trading

Dear Ms. Sabasteanski,

As the leading international business voice on climate markets and finance, the International Emissions Trading Association (IETA) represents 260+ companies and non-profit organizations, many of which face climate risks and opportunities across the United States. IETA's market expertise is regularly called upon to inform market-based policies that deliver greenhouse gas (GHG) reductions, address economic competitiveness, and balance economic efficiencies with social equity and co-benefits. Our mission is to empower businesses to engage in climate action, advancing the objectives of the Paris Agreement as informed by IPCC science, and to establish effective, market-based trading systems for GHG emissions that are environmentally robust, fair, open, efficient, accountable, and consistent across national boundaries.

Ensuring that markets continue to be reliable, consistent, and competitive is foundational for ensuring that there is trust and transparency to make long-term key low-carbon investments and the efficient operation of the market. Many IETA members are subject to regulation under RGGI and most – if not all – will be subject to the implications of the information disclosed. **IETA's below guidance will focus on implications of Virginia leaving RGGI and the resulting impacts that will need to be managed in order to facilitate a smooth transition for all market participants.**

In more than a decade of operation, RGGI has only seen one state – New Jersey – leave the first-ever US greenhouse gas cap-and-trade system. This departure occurred in close coordination with RGGI Inc. and at the end of a compliance period. RGGI faced minimal impacts from the state's departure, as New Jersey compliance entities were required to meet their compliance obligations at the end of that final period (prior to exit), and most of their allowances were retired and removed from the program.

We urge Virginia's Department of Environmental Quality (DEQ) to craft regulations that minimize harm to electricity consumers and limit legal challenges as the state opts to leave RGGI by the end of 2023. This approach would help to achieve Governor Youngkin's goal of lower resident's electricity bills without creating major market disruptions.

There are estimated 24.4 million allowances in circulation held by Virginia entities for their estimated compliance obligations (see Table 1) for 2021 and through June 2022. **These holdings represent more than $320 million in value to the utilities that hold them. Any move by the state to leave the program should be done to ensure these allowances still retain value until the state exits the scheme.**

In addition, much of the costs of those allowances has already been recovered or will be recovered from ratepayers by utilities. A path that would unilaterally scrap compliance obligations over the existing threeyear period would effectively be a financial windfall for utilities, with Virginia residents bearing the brunt of this approach.

Put simply, a DEQ decision to remove RGGI obligations would adversely impact electricity consumers, which would conflict with Governor Youngkin's Executive Order.

Moreover, a regulatory framework that would remove obligations would also be legally fraught as Virginia would have acquired revenue for carbon allowance auctions without requiring entities to prove compliance with the relevant CO2 program.

As a real-life example, Ontario Premier Doug Ford took a similar approach by stripping CO2 obligations as the Canadian province left the Western Climate Initiative in 2018. Ontario did not offer refunds for allowances held, and the collective decision resulted in numerous legal challenges (many of which are still ongoing).

IETA urges Virginia to select a path that assures consumers will experience the least impact while not imposing additional legal burdens on the state.

Maintaining the RGGI program CO2 obligations through 2023 before transitioning away from a regulated market will provide certainty to market participants and consumers in Virginia. This approach would be similar to how former New Jersey Governor Chris Christie exited the scheme in 2011.

Table 1

Estimated Excess Virginia Allowances			
	2021	**2022**	**Total**
Virginia Emissions	26,967,735.17	11,072,514.63	37,770,249.80
Virginia Supply	22,830,845.00	10,995,423.00	33,826,268.00
Compliance Obligations	13,348,867.59	-	13,348,867.59
Delta	9,481,977.42	10,995,423.00	**20,477,400.42**

Thank you for the opportunity to provide input into this rulemaking process. Should you have questions or would like to further discuss IETA's strong recommendations and guidance above, please feel free to contact Justin Johnson at johnson@ieta.org.