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REGIONAL GREENHOUSE GAS INITIATIVE (RGGI)

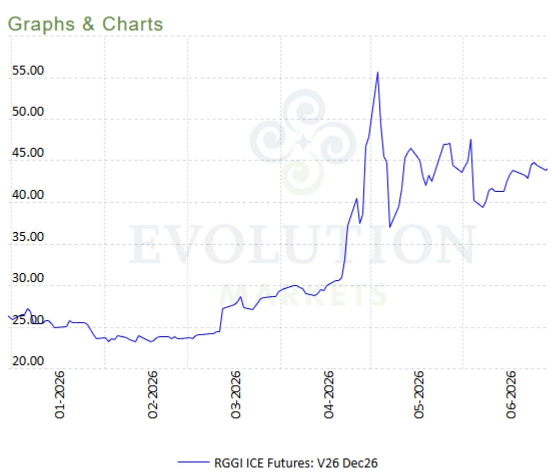
Quarterly Market Report

July 2026

MARKET COMMENTARY

TERM	BID	OFFER
Spot	$43.30	$43.50
Dec. 2026 (Cleared)	$44.00	$44.20
Dec. 2027 (Cleared)	$40.90	$41.05

RGGI Dec. 2026 futures prices, after starting at $25.85 in January 2025, reached a high of $55.65 on May 4, 2026. The catalyst for this price increase was RGGI's April 29 announcement that Virginia (VA) would rejoin the program as a participating state effective July 1, 2026. Most participants believed Virginia would return on January 1, 2027, at the beginning of the next control period. This surprised the market, particularly given that VA is a net short for the second half of 2026 based on historical emissions versus allowance allocations. Due to the unprecedented price increase, RGGI issued a statement on May 8 that it was monitoring the market, and prices dropped to $37.00 amid concerns that the RGGI states would intervene if prices continued to rise.



Once the market digested RGGI Inc.'s statement, prices began to rise again on the assumption that the RGGI states had very few options to keep 2026 prices down. Prices rose to approximately $45 ahead of RGGI's 72nd auction of 18.3 million allowances, and the auction cleared at $35.00 on June 5. This clearing price was well below the secondary market price and surprised the market. Prices dropped to $39.35 that day and the following day. However, the market once again digested the auction and gradually traded back up to approximately $45 by the end of June. According to RGGI Inc.'s statement, there is an adequate supply of allowances available for end-of-year 2026 compliance. However, the surge in pricing following VA's return on July 1 seems to contradict that assumption. My model assumes there would be a 50 million allowance bank at the end of 2026, excluding VA. Including VA, the estimated bank would be 44 million.

I believe RGGI Inc. underestimates a few practical actions taken by compliance entities. First, compliance entities typically purchase more allowances than needed for compliance to maintain a margin of safety. The estimated 3-year compliance allowances needed for emissions are approximately 260 million. Assuming a conservative 5% margin of safety, that represents an additional 13 million allowances held for compliance across the RGGI states, bringing the allowance bank down to 31 million. Another factor is the number of allowances held in the bank that were purchased for 2027 needs as a forward hedge for power sales. Since RGGI quarterly auctions offer only spot allowances, any allowances purchased to meet future power sales needs must be acquired through the spot auctions. This is also exacerbated by the fact that we are at the end of the 3-year compliance period (2024–2026), with only 2 auctions remaining in 2026. All compliance obligations for the 3-year period must be reconciled by March 1, 2027. It is unlikely that compliance entities holding spot allowances for 2027 needs would turn around and sell those allowances in the spot market. Currently, the RGGI Dec. 2027/Dec. 2026 spread is $3.00, meaning the Dec. 2026 RGGI price is $3.00 above the Dec. 2027 price. This signifies that the market anticipates a short inventory in Dec. 2026. The result of the 72nd auction, which cleared at $35.00, clearly signaled that buyers are no longer purchasing allowances for 2027 needs. As a result, demand for 2026 spot allowances declined compared to previous auctions, and the auction cleared lower than anticipated.

How many of the total allowances in circulation are held by non-compliance entities? RGGI's own Secondary Market Report, published in May 2026, estimates that number could be as high as 30 million allowances. Taking all these factors into account, it is reasonable to assume that the liquid supply of allowances needed for the 2024–2026 compliance period will be tight and will need to come from allowances held by non-compliance entities and allowances earmarked for 2027 hedges. The next two auctions will include VA compliance entities and help determine the direction of prices.

FUNDAMENTALS AND FUTURE OUTLOOK

Below is a summary of the allowance cap starting in 2027, along with CCR trigger prices and volumes. On the demand side of the equation are RGGI carbon emissions. RGGI Cal 2025 emissions were approximately 87 million tons. Various models project RGGI emissions declining over time, based on factors such as renewable energy growth, transmission line project status, coal plant retirements, electric load growth, and other variables.

Year	Allowance Cap	Minimum Reserve Price	CCR Trigger Price		CCR Volume	
			Tier 1	Tier 2	Tier 1	Tier 2
2027	69,806,919	$9.00	$19.50	$29.25	11,746,358	11,746,358
2028	61,081,054	$9.63	$20.87	$31.30	11,746,358	11,746,358
2029	52,355,189	$10.30	$22.33	$33.49	11,746,358	11,746,358
2030	43,629,324	$11.02	$23.89	$35.83	11,746,358	11,746,358
2031	35,277,611	$11.79	$25.56	$38.34	11,746,358	11,746,358
2032	26,925,899	$12.62	$27.35	$41.02	11,746,358	11,746,358
2033	18,574,187	$13.50	$29.26	$43.89	11,746,358	11,746,358
2034	16,187,983	$14.45	$31.31	$46.96	11,746,358	11,746,358
2035	13,801,780	$15.46	$33.50	$50.25	11,746,358	11,746,358
2036	11,415,578	$16.54	$35.85	$53.77	11,746,358	11,746,358
2037	9,029,374	$17.70	$38.36	$57.53	11,746,358	11,746,358

I have run various models, and without a significant decline in RGGI emissions, the RGGI bank will be exhausted by 2029. The most reasonable scenario is that the first-tier CCR volume will be exhausted in 2027 and continue to be exhausted through 2037. The second-tier CCR volume will need to be exhausted beginning in 2029 to delay the depletion of the RGGI bank. This outlook would, of course, change if RGGI emissions do not decline as quickly as anticipated.

My models did not include VA rejoining RGGI. Now that VA has rejoined, RGGI Inc. will need to publish revised caps and related updates.

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