Key Takeaways from the US State-Level Credibility and Durability Assessment

Part 2 of Baringa's US Midterms Analysis

State level support for the transition will be crucial for the US to meet its decarbonisation pathway.

Energy and climate policy varies considerably across the US at the state level.

The lack of cross-party consensus on energy and climate policy creates electoral risk in US states.
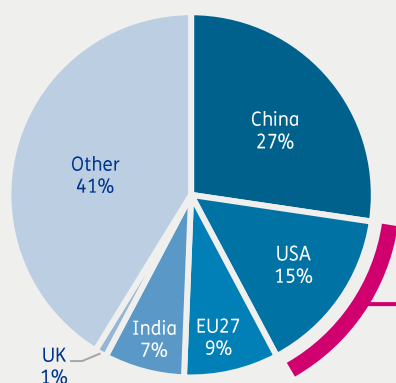
Macroeconomic conditions, such as rising inflation, have created a challenging backdrop for lawmakers advancing climate policy.

Credibility and Durability of US state-level climate policy
National Commitments suffer from credibility and durability risk

2018 CO2 Emissions, % of Global Total

China 27%
Other 41%
USA 15%
India 7%
EU27 9%
UK 1%

The USA produces 15% of global CO2 emissions. The recent passing of the Inflation Reduction Act seeks to reduce this by investing $369 billion in climate spending and energy security over the next 10 years. However, the success of this policy is contingent upon state level actions.

Baringa's Global Energy Perspectives Team have therefore conducted a credibility and durability assessment of the US' state-level climate policy in response to the upcoming midterms.
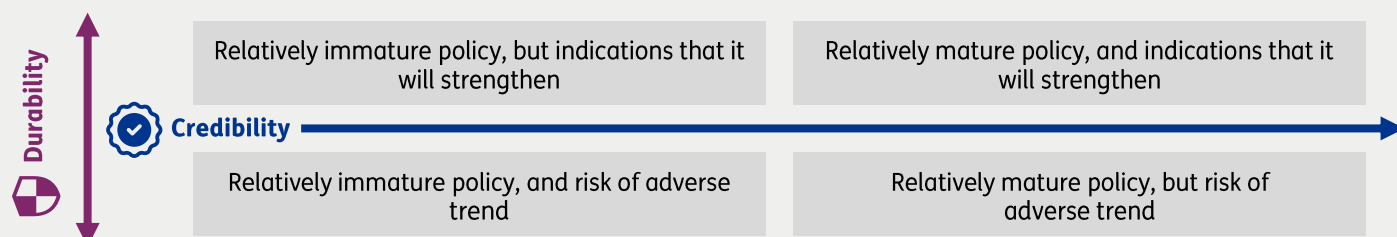
The methodology to assess the credibility and durability of states' commitments is as follows:

Credibility: A measure of policy maturity. How developed is domestic decarbonisation policy in relation to Net Zero.

Durability: A measure of the depth and breadth of political support. How vulnerable is the energy transition to political and economic shocks

	Credibility →	
Durability ↑	Relatively immature policy, but indications that it will strengthen	Relatively mature policy, and indications that it will strengthen
	Relatively immature policy, and risk of adverse trend	Relatively mature policy, but risk of adverse trend

Credibility and Durability Methodology
How credibility and durability are measured across multiple criteria per state

Baringa has completed a state level Credibility & Durability assessment of the US to determine the likely course of decarbonisation across the nation. This is based on:
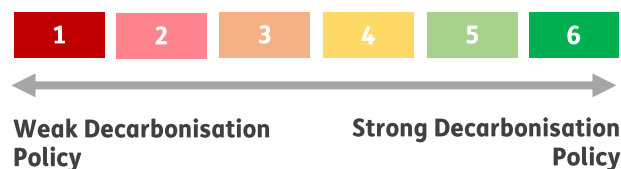
Credibility – The credibility of energy transition is measured against 4 criteria per state in terms of policies deployed to deliver decarbonisation

- ▲ Emissions Target
- ▲ Power Gen (renewable electricity standards)
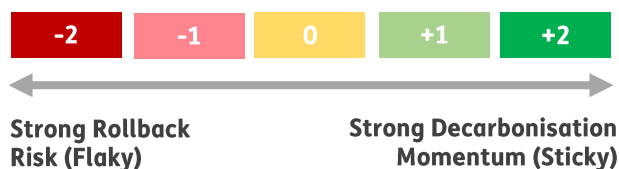- ▲ Transport
- ▲ Buildings

Durability – The durability of energy transition is measured against 3 criteria per state in terms of how likely decarbonisation policy is to progress or regress

- ▲ Regime Change
- ▲ Intention of Incumbent
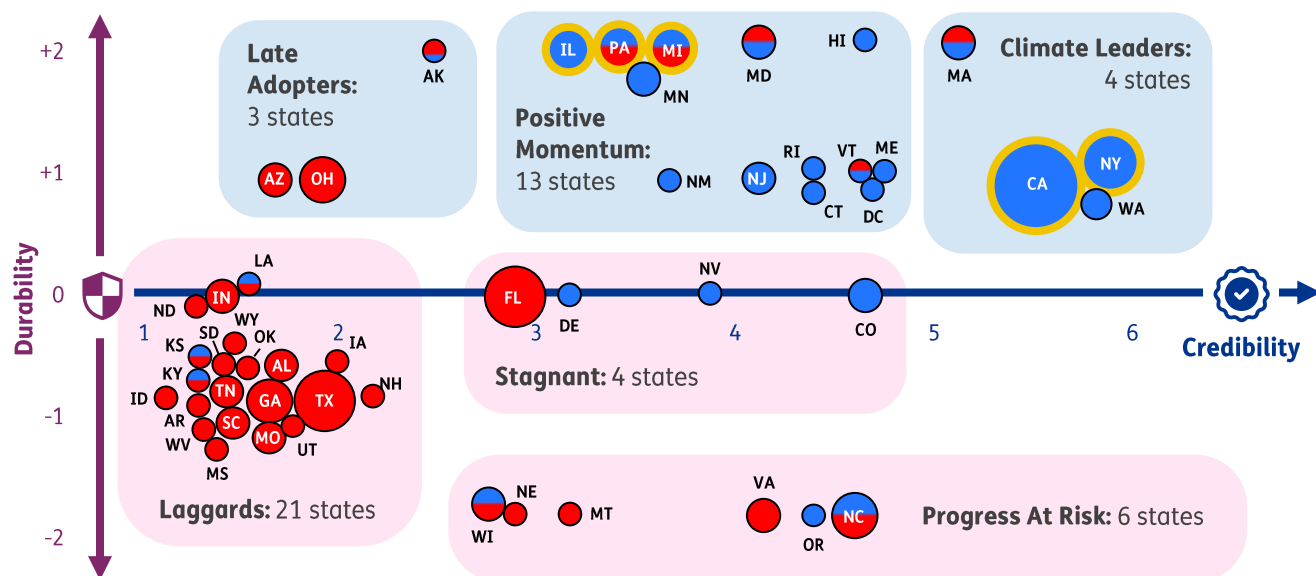- ▲ Party Pressure

Credibility (Maturity)

"To what extent do current polices support the Net Zero Target"

1	2	3	4	5	6

Weak Decarbonisation Policy → **Strong Decarbonisation Policy**

Durability (Momentum)

"With what likelihood will the current policies (the credibility score) strengthen or weaken over time"

-2	-1	0	+1	+2

Strong Rollback Risk (Flaky) → **Strong Decarbonisation Momentum (Sticky)**

States of interest climate leaders and positive momentum – by State Control
Distribution of US states according to their credibility and durability score

US energy and climate policy varies considerably across states into broadly 6 groups, 3 broadly positive (blue boxes), 3 broadly negative (pink boxes). As highlighted, party support is influential, in relation to state energy policy.

Late Adopters: 3 states

Positive Momentum: 13 states

Climate Leaders: 4 states

Stagnant: 4 states

Laggards: 21 states

Progress At Risk: 6 states

Bubble Size relates to population | **Red** = Republican | **Blue** = Democrat | **Top half** = Governor party | **Bottom half** = Majority in state legislature | **Gold circle** = State of Interest
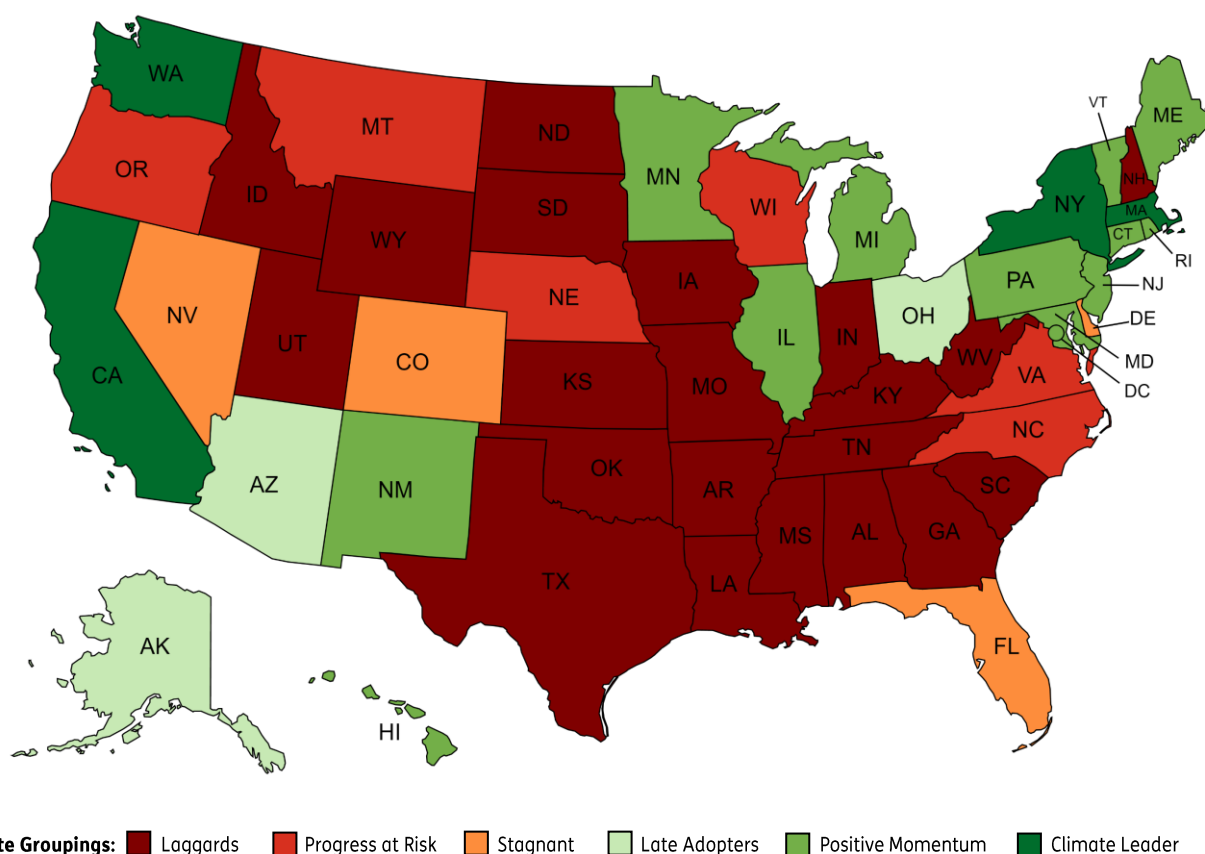
States with high momentum
Overview of the state-level policies and their progress

State	Average	GHG Emissions	Power Gen	Transport	Buildings	Durability Score	Category	Insight
	Credibility Score							
California	5.5	6	6	6	4	1	Climate Leader	California performs strongly across the credibility criteria. Incumbent Newsom is set to win the gubernatorial and California will retain its Democrat trifecta status. Newsom recently signed 5 new bills for fastracking interim climate goals to reach the state's ambitious targets. As a state that often sets the tone for climate progressive policy, future bills surrounding advancements are likely to be passed.
Illinois	3	2	6	2	2	2	Positive Momentum	Illinois has a mid-range credibility score due to the low performing policies it currently adopts. Incumbent Pritzker is set to win gubernatorial and Illinois will retain its Democrat trifecta status. The recent passage of the Climate and Equitable Jobs Act and ongoing legislative progress makes Illinois a race worth watching. For example, the passing HB5388 will move Illinois onto the California ZEV programme and emissions standards, and SB3171 and HB4389 will offer financial incentive for the purchase of ZEV in medium and heavy weight vehicles. These are all signs of Illinois' steady and stable climate policy progress.
Michigan	3.5	6	4	2	2	2	Positive Momentum	Michigan performs strongly in some aspects of credibility but aggregately it is mid-range. Incumbent Whitmer is set to win the gubernatorial and both state chambers are expected to flip making Michigan a Democrat trifecta. This swing will enable the passing of legislation outlined in the MI Health Climate Plan. The Trump endorsed opponent, Dixon, is unlikely to win and highlights the state's preference towards climate progressive policy.
New York	5.5	6	6	6	4	1	Climate Leader	New York performs strongly across the credibility criteria. Incumbent Hochul is set to win the gubernatorial and New York will retain its Democrat trifecta status. Having recently signed an executive order implementing interim goals to meet the GHG emissions target, and ensuring retrofit policy is in discussion following the Green New Deal, New York has cemented its position as a climate leader.
Pennsylvania	3.3	5	2	4	2	2	Positive Momentum	Pennsylvania has a mid-range credibility score due to the low performing policies it currently adopts. Pennsylvania is set to swing the state senate and will therefore have a Democrat trifecta post midterms. Climate legislation is likely to be prioritised as Shapiro the Democrat Governor hopeful has pledged to increase the state's RPS and GHG emissions targets.

States by Category
High level state groupings across the US

The wide variation of climate and energy policies at the state-level creates a challenging environment for investors to navigate when looking to deploy green capital and capitalize on the energy transition. Reach out to our US experts to understand more.

State Groupings: Laggards · Progress at Risk · Stagnant · Late Adopters · Positive Momentum · Climate Leader

If you are interested in hearing more, please get in touch with our experts.

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