

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

Part 1 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.

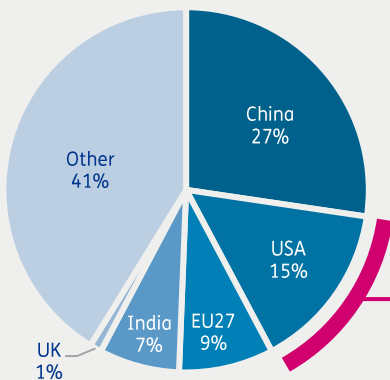


Macroeconomic conditions, such as rising inflation, have created a challenging backdrop for lawmakers advancing climate policy.

Credibility and Durability of US state-level climate policy

National Commitments suffer from credibility and durability risk

2018 CO2 Emissions, % of Global Total



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.

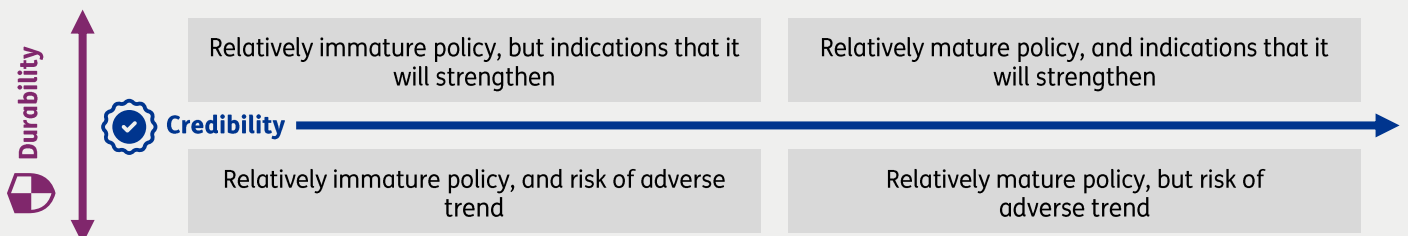
The methodology to assess the credibility and durability of states' commitments is as follows:



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 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

Credibility (Maturity)

“To what extent do current polices support the Net Zero Target”

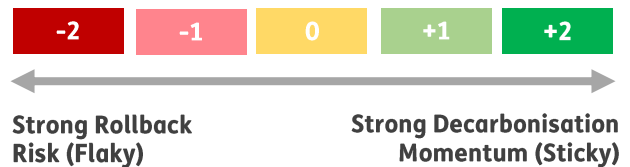


Durability – The durability of energy transition is measured against 3 criteria per state in terms of how likely decarbonisation policy is to progress or regress

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

Durability (Momentum)

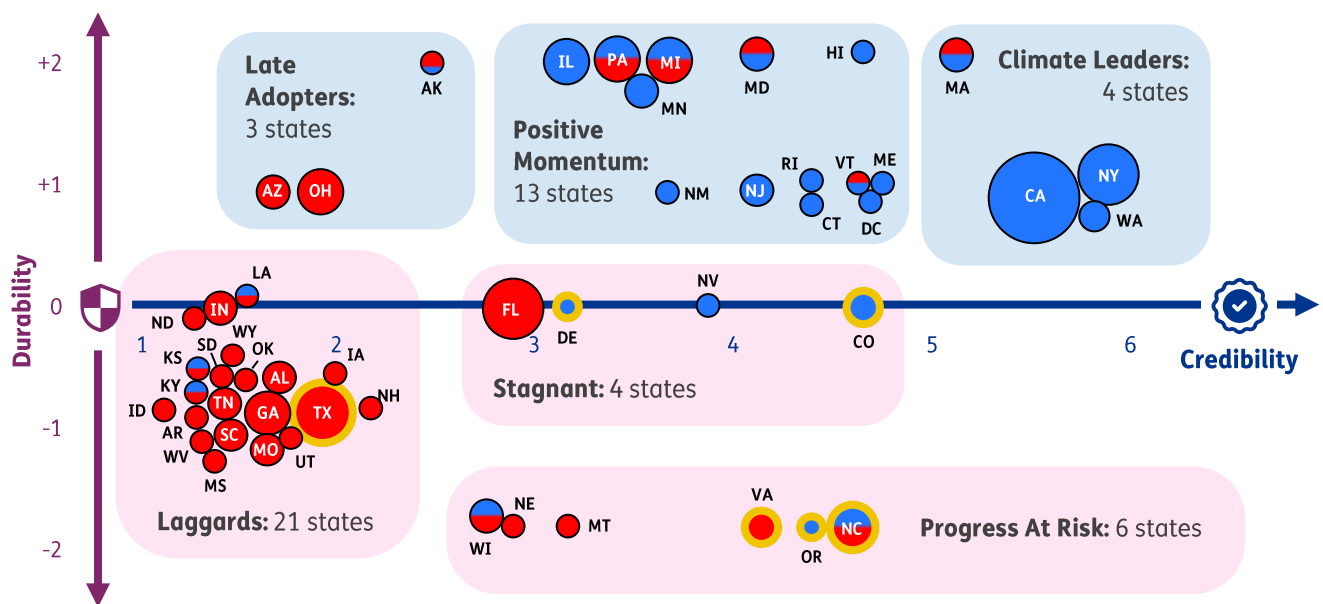
“With what likelihood will the current policies (the credibility score) strengthen or weaken over time”



States of interest flatlining and high rollback risk – 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.



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 at risk of rollback

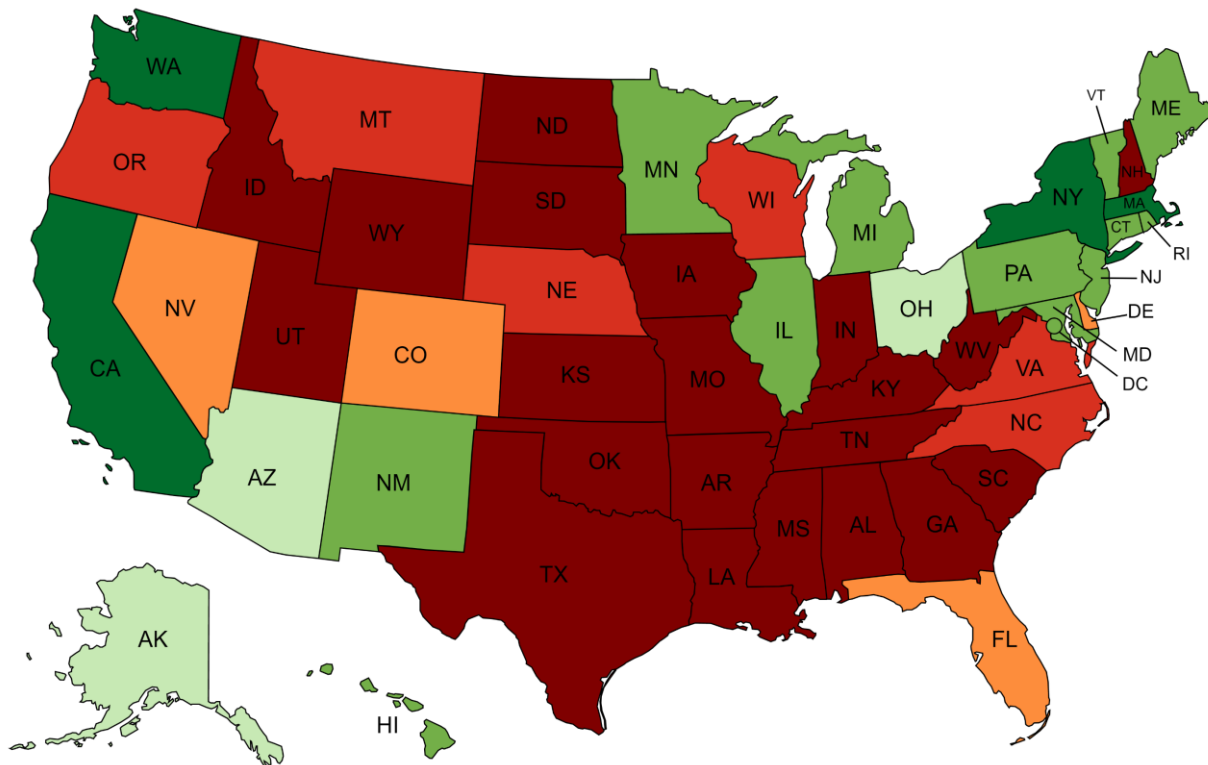
Overview of the state-level policies and their risks

State	Credibility Score					Durability Score	Category	Insight
	Average	GHG Emissions	Power Gen	Transport	Buildings			
 Colorado	4.5	5	5	4	4	0	Stagnant	Colorado is a fairly high performer across the credibility criteria. Colorado is set to retain its Democrat trifecta status post midterms. Colorado is at risk of stagnation in light of Governor Polis attempting to delay and repeal climate legislation. Rising inflationary concerns in the party base has deprioritised the climate agenda with risk of legislative flatlining. For example, Polis squashed the Advanced Clean Trucks rule and SB200 which was necessary for the state to reach its ambitious climate goals.
 Delaware	3	2	4	4	2	0	Stagnant	Delaware has a mid-range credibility score due to the low performing policies it currently adopts. Delaware is set to retain its Democrat trifecta status post midterms. Delaware is at risk of stagnation as lobbyists veto Clean Future Act. Rising inflationary concerns amongst opposition have deprioritised the climate agenda with risk of legislative flatlining.
 North Carolina	4.5	6	6	4	2	-2	Progress at risk	North Carolina performs strongly in some aspects of credibility but aggregately is mid-range. North Carolina's Democrat Governor faces a potential Republican supermajority after the midterms. This swing enables Republicans to override the veto power of the Governor therefore passing repeal bills, such as the gas ban preemption bill, and vetoing climate progressive legislation.
 Oregon	4.3	5	6	4	2	-2	Progress at risk	Oregon performs strongly in some aspects of credibility but aggregately is mid-range. Oregon faces rollback as climate policy differentiates Governor hopefuls, Kotek (D) and Drazen (R). Democrats hope to continue climate policy progress with the passing of an ICE ban and furthering the objectives of the Oregon Climate Action Plan. Republicans hope to repeal the Oregon Climate Action Plan, influence the outcomes of the Environmental Quality Commission and determine how utilities respond to the standing RPS as inflationary concerns are at odds with the climate agenda.
 Virginia	4	6	6	3	1	-2	Progress at risk	Virginia performs strongly in some aspects of credibility but aggregately is mid-range. Virginia faces rollback under Governor Youngkin's Energy Plan 2022. On the agenda are the repeal of the Clean Car Standards, approval of gas pipelines, a re-evaluation and reauthorisation of the state's Clean Economy Act, leaving the carbon cap and trade programme, and decoupling from the California Emissions Standards. Pushback from the Democrat state senate is expected.
 Texas	1.8	1	2	2	2	-1	Laggard	Texas has a low performing credibility score due to the poor decarbonisation policies adopted. Incumbent Abbott is set to win the gubernatorial and Texas will retain its Republican trifecta status. Texas recently passed a gas ban preemption bill and publicly divested from 10 European banks on account of them boycotting the fossil fuel industry through their ESG investment framework. Texas' active opposition to climate progressive policy is likely to stick.
 Wisconsin	2.8	2	6	2	1	-2	Progress at risk	Wisconsin has a low performing credibility score in spite of the Governor's efforts to advance their climate policy. In this toss up race, Wisconsin faces rollback due to Republican candidate Michels being a known climate sceptic and benefactor of the oil and gas industry through his energy infrastructure company, Michels corporation. Incumbent Evers previously passed an Executive Order to set up a climate taskforce and achieve 100% clean electricity by 2050, both of which are at risk.

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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