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Potential Impacts of New Jersey Rejoining RGGI

New Jersey was a founding member of the Regional Greenhouse Gas Initiative (RGGI)—the nation’s first mandatory, market-based program to reduce emissions of carbon dioxide. However, after participating for three years (2009-2011), Governor Chris Christie withdrew the state from the program.^{1,2} Governor-elect Phil Murphy has pledged to “immediately restore New Jersey’s place” in RGGI.³ Additionally, the Democrat-controlled New Jersey Legislature has strongly supported New Jersey’s reentry to the RGGI program⁴ and has recently introduced several bills to do so.⁵ As New Jersey considers participating in RGGI again,⁶ this issue brief explores possible cap scenarios for the state as well as the implications for the broader regional trading program.



¹ Governor Chris Christie, May 26, 2011. “New Jersey’s Future is Green.” Video and Transcript. Available at <http://www.nj.gov/governor/news/news/552011/approved/20110526a.html>.

² Regional Greenhouse Gas Initiative, Inc. Board of Directors. November 29, 2011. “Notice of Withdrawal of Agreement to the RGG Memorandum of Understanding. Available at https://www.rggi.org/docs/Documents/NJ-Statement_112911.pdf.

³ Murphy for Governor. “Phil Murphy’s plan to protect the environment.” Phil Murphy. <https://www.murphy4nj.com/issues/protecting-the-environment/>. Accessed on January 18, 2018.

⁴ After 2012, the New Jersey Legislature passed three bills attempting to reinstate New Jersey in RGGI for signature by Governor Christie. Governor Christie vetoed all three bills. Additionally, recent elections solidified Democratic majorities in both Houses, with 24 Democrats and 16 Republicans in the Senate and 52 Democrats and 28 Republicans in the General Assembly.

⁵ Bills S-874 and S-611 require New Jersey’s participation in RGGI. Neither bill suggests an initial state allowance budget. Additionally, Bill S-40 is a Constitutional ballot vote to amend the Constitution to dedicate revenues realized from the State’s participation in RGGI to energy efficiency, greenhouse gas reduction, or electric vehicle funding purposes. If passed, the first \$400 million received from RGGI would fund electric vehicle programs, with any additional money used for clean energy and greenhouse gas reduction programs.

⁶ The Regional Greenhouse Gas Initiative is a cooperative effort among the nine states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont to cap and reduce power sector CO₂ emissions. Virginia is also exploring linking with the program.

Recent Emission Trends of New Jersey and RGGI States

During the three years New Jersey participated in RGGI, the state’s emissions slightly increased from roughly 16 to 17 million tons of CO₂. New Jersey emissions have continued to increase since the state left RGGI, increasing from 17 million tons of CO₂ in 2011 to 22 million tons in 2016 (see Figure 1).

By contrast, since the start of the program, the current RGGI members have reduced their emissions by 25 percent, from 108 million tons of CO₂ in 2009 to 81 million tons in 2016 (see Figure 1). RGGI’s most recent Model Rule, released on December 19, 2018, commits participating states to decrease the aggregate cap by 2.275 million tons each year from 2021 to 2030, or an annual reduction of three to four percent. This amounts to a 30 percent reduction in the 2020 regional cap by 2030.⁷

If New Jersey were to rejoin RGGI, the state would become the second largest emitting state member in the program based on 2016 emissions (see Figure 4).⁸ As such, the state’s addition would significantly increase the total emissions covered by the trading market with New Jersey accounting for 21 percent of total 2016 emissions from covered sources. With the addition of New Jersey to the program, the RGGI market would encompass more than 100 million tons of CO₂ emissions across all of the covered power plants.

Process of Participating in RGGI

The nine existing RGGI states have recognized the potential economic and environmental benefits of a broader trading market.⁹ For example, RGGI market operators have asked stakeholders for comments on considerations regarding new

Figure 1. Historic CO₂ Emissions

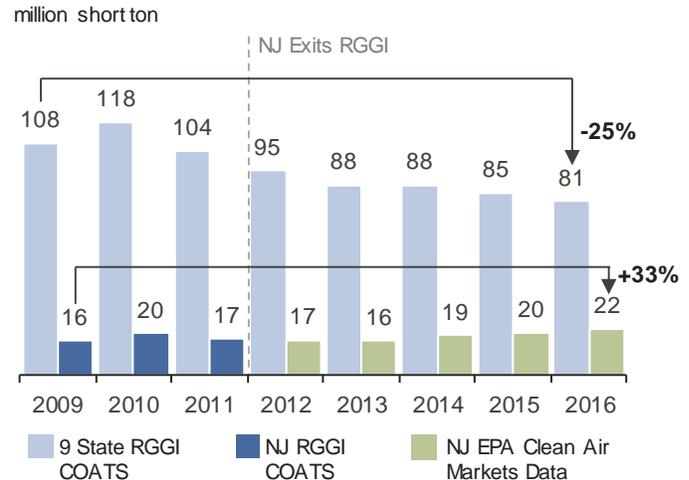
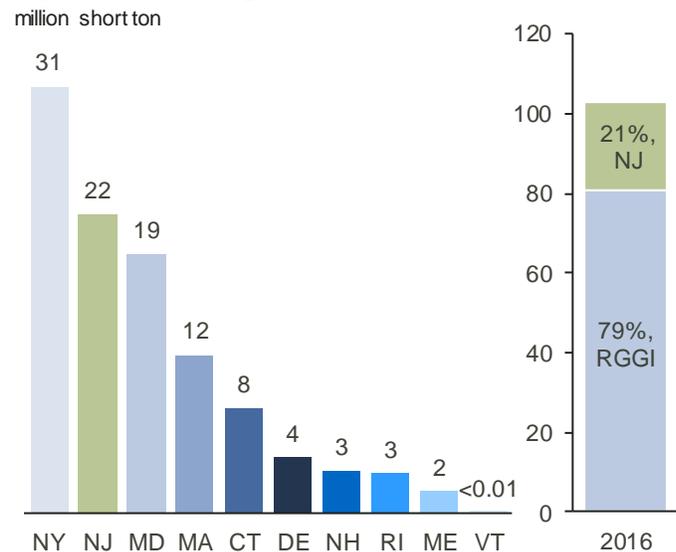


Figure 2. 2016 CO₂ Emissions



⁷ Regional Greenhouse Gas Initiative, December 19, 2017. “RGGI 2017 Model Rule.” Available at https://www.rggi.org/docs/ProgramReview/2017/12-19-17/Model_Rule_2017_12_19.pdf.

⁸ Virginia, which emitted 35 million tons of CO₂ in 2016, has also proposed linking with the RGGI program. If Virginia were to participate in RGGI, it would become the largest emitter of greenhouse gases in the program, emitting more than New Jersey and all current RGGI states based on 2016 emissions.

⁹ Regional Greenhouse Gas Initiative, December 20, 2005. “RGGI Memorandum of Understanding.” Available at http://www.rggi.org/docs/mou_final_12_20_05.pdf.

jurisdictions' participation in RGGI as part of the 2016 Program Review.¹⁰

If New Jersey were to rejoin RGGI, the state would begin the process by engaging in informal talks with RGGI. These discussions would include, among other things, the determination of the state's allowance budget, or share of the total RGGI cap. In the past, state budgets have been decided through discussion among all of the states and based on state-specific circumstances, including analysis and modeling of current and projected emissions of the state.

Potential Allowance Budget

A key question for New Jersey, or any state considering joining or linking with RGGI, is the state-specific allowance budget to adopt as it enters (or re-enters) the program. State allowance budgets do not determine the allowable emissions within the state, given the regional nature of the program. Rather, the state allowance budgets (after adjustments) determine the number of allowances available for direct allocation or auction by the state. Historically, state budgets have been adjusted based on the number of banked allowances in the system. Once the overall number of excess allowances is determined, individual state budgets are adjusted based on their share of the regional emissions cap. For example, in 2016, Connecticut's "base budget" was 5,600,983 tons and its adjusted base budget was 4,182,120 tons. Connecticut auctions the bulk of its "adjusted budget" and allocates a small share.¹¹

The original RGGI MOU specifies a budget of 22.9 million tons for New Jersey for the period from 2009-2014. However, New Jersey left the program at the end of 2011, and RGGI adjusted its cap to 165 million tons (from 188 million tons) in 2012 and 2013 to account for the state's departure. Then, beginning in 2014, RGGI made a significant downward adjustment in the regional cap (-45 percent) and applied a 2.5 percent annual decline from 2014 through 2020. If New Jersey had remained in the program, it may have increased the 2014 regional cap from 91 million tons to 107 million tons (this hypothetical adjustment is based on New Jersey's share of 2012 emissions). Based on this approach, New Jersey's Base Budget in 2014 would equal to 16 million tons, declining to 13.7 million tons by 2020 (-2.5 percent per year). Given that the state budgets are a function of both the base budgets and subsequent bank adjustments, it is not possible to know with precision what New Jersey's adjusted budgets would have been if it had remained in the program, or how it might have influenced the bank adjustments during this period. See Figure 3 for an estimate of New Jersey's base budget from 2014 through 2020.

If New Jersey re-entered the program in 2021, one possible option for setting the state's base budget would be to assume a 30 percent reduction in the state's estimated 2020 budget (described above) through 2030. This is the same trajectory that the RGGI states have agreed to for the regional cap in the 2016 program review. This would translate to an allowance budget for New Jersey of roughly 13 million tons in 2021, declining to 9.6 million tons by 2030. Currently, the nine RGGI states have set a 2021 cap of roughly 75 million tons that will decline by 2.275 million tons per year through 2030. Adding New Jersey to the program would increase the aggregate cap to roughly 88 million tons in 2021 with an annual decline of 2.674 million tons per year, achieving a 30 percent reduction by 2030 (see Figure 3). This approach captures the program adjustments that were made from 2014-2020, as well as the 2016 program review. If New Jersey were to rejoin the program beginning in 2021, it would not be a factor in the third bank adjustment that is scheduled to take place from 2021-2025, as the third bank

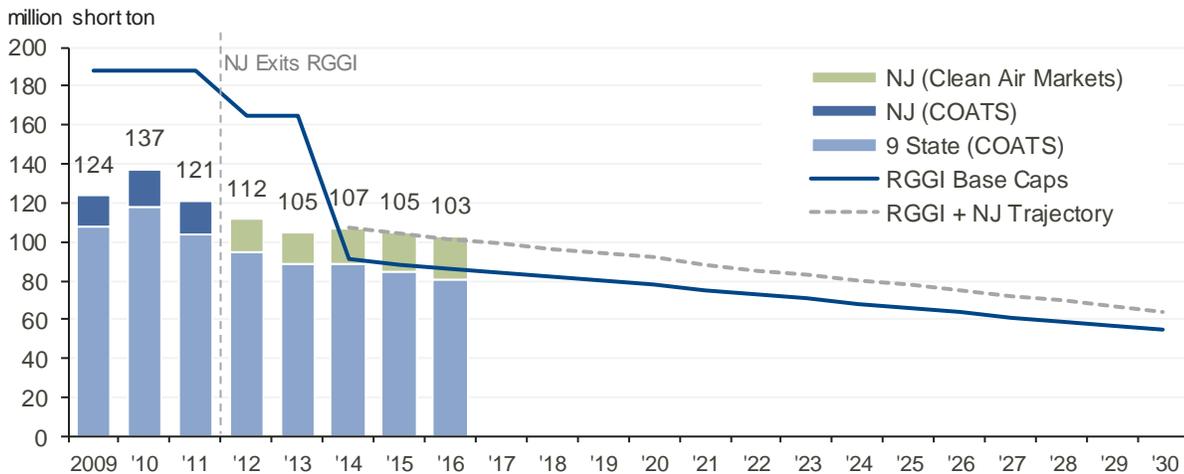
¹⁰ Regional Greenhouse Gas Initiative. RGGI Program Review: June 27, 2017 Stakeholder Meeting. PPT. New York City: Regional Greenhouse Gas Initiative, June 27, 2017.

¹¹ Connecticut also placed 647,461 allowances in the regional cost containment reserve in 2016 for possible auction.

adjustment is designed to address excess allowances from 2018, 2019, and 2020. However, if New Jersey joined the program before 2021, as many expect, then it would, presumably, factor into the bank adjustment.

Alternatively, New Jersey could set a baseline based on recent or projected emissions levels (actual emissions in 2016 were approximately 22 million tons) and apply the 30 percent reduction trajectory from 2020 to 2030. This baseline would be similar to the state’s original RGGI budget of 22.9 million tons (effective from 2009 to 2011). As noted above, the state budgets are based on a variety of factors and considerations but these two examples represent potential bookends.

Figure 3. Ten State Historic CO₂ Emissions and RGGI Caps



New Steps

To reinstate New Jersey as a full participant in the program, consistent with its prior role, New Jersey would likely need to resign the RGGI Memorandum of Understanding (MOU). While there have been bills requiring the state to participate in RGGI,¹² many believe that New Jersey can simply rely on its existing statutory authority.¹³ The MOU would be amended to reflect New Jersey’s emissions budget. Due to the regulatory and administrative requirements that must occur before rejoining the RGGI program, many expect it could take until 2020 for the state to fully participate, but it will be important to watch how Governor Murphy proceeds in the coming months.

¹² For example, Assembly Bill 1212 was introduced on January 9, 2019, which would require the state’s participation in RGGI. This bill has been referred to the Assembly Environment and Solid Waste Committee.

<http://www.njleg.state.nj.us/bills/BillView.asp?BillNumber=A1212>

¹³ The state’s Global Warming Solutions Act, passed in 2009, authorizes the Commissioner of Environmental Protection and the President of the Board of Public Utilities to participate in RGGI.