



Institute *for*
Policy Integrity

NEW YORK UNIVERSITY SCHOOL OF LAW

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VIA ELECTRONIC SUBMISSION

Subject: DEP Docket Number: 05-18-11 - Comments on New Jersey's Proposed CO₂ Budget Trading Program

The Institute for Policy Integrity at New York University School of Law¹ (“Policy Integrity”) respectfully submits the following comments on New Jersey’s proposed CO₂ Budget Trading Program, through which it would join the Regional Greenhouse Gas Initiative (“RGGI”).² Policy Integrity is a non-partisan think tank dedicated to improving the quality of government decisionmaking through advocacy and scholarship in the fields of administrative law, economics, and public policy. Policy Integrity regularly conducts economic and legal analysis on the pricing of greenhouse gas emissions, among other environmental, energy, and economic topics.

By joining RGGI in 2020, New Jersey will take an important step toward internalizing the environmental externalities associated with fossil-fuel-based electricity generation, thereby increasing the efficiency of New Jersey’s electricity markets. Including New Jersey energy producers in RGGI will also greatly expand the scope of the carbon dioxide (CO₂) emissions market, improving market efficiency and increasing competitiveness. Finally, New Jersey’s participation will likely reduce the total cost of carbon abatement under the RGGI program by allowing the marginal cost of abatement to equilibrate across a larger set of emitters.

In order to maximize the benefits of the New Jersey Carbon Dioxide Trading Program and make the public aware of those benefits, we make the following recommendations:

¹ No part of this document purports to present New York University School of Law’s views, if any.

² New Jersey Carbon Dioxide Trading Program, 50 N.J.R. 2482(a) (Dec. 17, 2018)

1. The New Jersey Department of Environmental Protection (“DEP”) should properly identify New Jersey’s counterfactual level of emissions for 2020 (i.e., the state’s expected emissions absent participation in RGGI) and set the initial level of the state’s conditional allowances strictly lower than that counterfactual level;
2. The Department should pursue a real, long-term reduction of New Jersey’s emissions by setting the emission caps in years 2021-2030 below the counterfactual emission levels for those years;
3. DEP should ensure that all eligible offsets are real and additional by changing the initial eligibility date for offset projects and refining or reducing the default allocation period for allowances generated by offset projects;
4. The Department correctly relies on the social cost of greenhouse gases metric in the proposal’s economic analysis discussion and should go one step further by applying the social cost of greenhouse gases in a full cost-benefit analysis of the proposed trading program.

We explain each of these points below.

New Jersey should carefully assess the effect its initial allowance level will have on the RGGI cap

The cap level that New Jersey chooses will affect the aggregate emissions from RGGI states, the compliance costs for polluters, and the revenue that states receive from auctions. Therefore, while the expansion of RGGI is a positive development, New Jersey’s proposed cap warrants careful attention to ensure that the highest possible welfare gains are achieved.

When New Jersey joins RGGI, the total emissions regulated by RGGI will rise by almost 30% compared to a baseline scenario in which no new states join the market.³ Thus, the choice of New Jersey’s emission cap will substantially affect the total number of allowances available at each auction and will thus have a large effect on the stringency of the RGGI cap. Changing the stringency of the RGGI cap will, in turn, affect future allowance prices, the compliance costs for budget units in the RGGI states, and the auction revenue gathered by RGGI states.

³ This follows from comparison of the New Jersey’s proposed base budget of 18 million tons of CO₂ allowances to RGGI’s total carbon budget for 2020. See New Jersey Carbon Dioxide Trading Program, *supra* note 2, at 175; see also REG’L GREENHOUSE GAS INITIATIVE, *2016 Program Review: Principles to Accompany Model Rule Amendments*, available at https://www.rggi.org/sites/default/files/Uploads/Program-Review/12-19-2017/Principles_Accompanying_Model_Rule.pdf.

A new state joining RGGI could either increase or decrease the stringency of the total emission cap in comparison with the RGGI cap without the enlargement.⁴ These comments, however, focus on a loosening of the cap. As explained below, this case seems more likely given the emission budget that New Jersey has proposed. Additionally, because of limits on the price of RGGI allowances, a less stringent cap would result in less social welfare when compared to a tighter cap. If New Jersey's total number of allowances was to be set ambitiously low, then RGGI permit prices would increase, possibly even hitting the price ceiling. This would not constitute an inefficiency from a social point of view. In 2020 the Social Cost of Carbon will be \$51 in current dollars.⁵ Therefore, even if generators paid the full Cost Containment Reserve ("CCR") Trigger Price, which in 2020 will be equal to \$10.77,⁶ the permit price would still be too low to fully internalize the externality associated with CO₂ emissions. By the same token, depressing the allowance price will lower social welfare.

If New Jersey chooses to issue allowances for more emissions than its generators would emit under a business-as-usual scenario ("counterfactual emission level"), this will loosen the emission cap for the whole RGGI area.⁷ Unless allowance prices are at the price floor, the price will go down causing aggregate emissions to increase relative to a scenario in which New Jersey does not join RGGI.⁸ A decline in the permit price will also decrease the revenue that other states receive from RGGI auctions. The magnitude of those adjustments will depend on the magnitude of the change in RGGI's cap.

Consequently, in order to ensure that total emissions decrease relative to a business-as-usual scenario, the number of permits issued in New Jersey should be set below New Jersey's counterfactual emission level.⁹

⁴ The stringency of the cap is understood here as percentage of emissions that would be produced in a given year if RGGI suddenly ceases to exist but that need to be abated when RGGI is in place (disregarding the impact of permits banking).

⁵ INTERAGENCY WORKING GRP. ON SOC. COST OF GREENHOUSE GASES, TECHNICAL SUPPORT DOCUMENT: TECHNICAL UPDATE OF THE SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 at 4 (2016) [hereinafter TSD 2016], available at https://www.obamawhitehouse.gov/sites/default/files/omb/inforeg/scc_tsd_final_clean_8_26_16.pdf; INTERAGENCY WORKING GROUP ON SOCIAL COST OF GREENHOUSE GASES, UNITED STATES GOVERNMENT, ADDENDUM TO TECHNICAL SUPPORT DOCUMENT ON SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12866: APPLICATION OF THE METHODOLOGY TO ESTIMATE THE SOCIAL COST OF METHANE AND THE SOCIAL COST OF NITROUS OXIDE (2016) [hereinafter "TSD 2016 Addendum"], available at https://www.obamawhitehouse.gov/sites/default/files/omb/inforeg/august_2016_sc_ch4_sc_n2o_addendum_final_8_26_16.pdf at 16. Prices have been updated to 2018 dollars using the Consumer Price Index.

⁶ Proposed Regulation, Regulation for Emissions Trading Programs, *supra* note 2, Table 1 at 134.

⁷ If New Jersey issues more permits than its generators would use in the absence of any regulation, the demand for permits in New Jersey will be less than the number of available allowances. Consequently, "surplus" permits, in the amount equal to the difference between the New Jersey cap and New Jersey's emissions under a business-as-usual scenario, will contribute to a loosening of the general RGGI cap.

⁸ This follows from laws of supply and demand—as permits' supply increases, their price will drop. See, e.g. PAUL KRUGMAN & ROBIN WELLS, MICROECONOMICS (Second ed. 2009), chapter 3.

⁹ It is worth noting that the allowance price will decrease slightly even if New Jersey sets the cap exactly equal to its counterfactual 2020 emissions or just below them. This effect operates through two channels. First, cheap pollution

A recent study commissioned by the New Jersey Board of Public Utilities and featured on DEP's website on the proposal for the state to rejoin RGGI ("Proposal Study"), compares the business-as-usual emissions scenario with the proposal scenario.¹⁰ The Proposal Study found the proposed cap of 18 million allowances for year 2020 to almost coincide with the 18.25 million tons of emissions expected to occur in that time under the business-as usual scenario.¹¹ If the findings of the study are correct, New Jersey joining RGGI would result in a minor emission cut, a probable decrease in the stringency of the total RGGI cap, and a decline in the revenue of other participating states.¹²

Clearly, the correctness of the above conclusions hinges on the correctness of the study's counterfactual emissions estimates. Reliably predicting a future emissions path is challenging given the uncertainties associated with developments in energy markets. Should the numbers included in the Proposal Study and published by DEP underestimate business-as-usual emissions, New Jersey's entry into RGGI could increase the stringency of the RGGI cap.

That said, the counterfactual emissions presented in the Proposal Study appear more likely to be too high than too low. First, the 2018 counterfactual emissions used in the modeling are 1.5 million tons higher than the actual 2018 New Jersey emissions reported by EPA.¹³ Given that overestimate for the initial year of modeling, it is highly probable that emissions in all the subsequent years are also substantially overstated. Second, the study reports no response of resource entry and exit to RGGI participation. This is surprising as, even with allowance prices at the levels estimated in the study, there should be some merit-order effects between coal and natural gas power plants, accelerating the retirement of coal.¹⁴

abatement measures that have already been implemented in the other RGGI states may still be available to New Jersey's electricity generators. Second, if the current RGGI cap is more restrictive for generators ("more binding") than the cap chosen by New Jersey, the total effective cap will be less stringent than without New Jersey joining the system. For example, if in 2020 New Jersey issues permits covering 100% of its emissions but other RGGI states auction off permits worth 97% of the counterfactual emissions, the total system would have permits equal to roughly $97 \times 0.7 + 100 \times 0.3 = 97.9$ percent of emissions. However, any price decline caused by these channels will not be accompanied by an increase in total emissions compared to the scenario without New Jersey's entry. Therefore, a falling permit price alone is not necessarily a sign that RGGI's expansion will increase CO₂ emissions relative to a business-as-usual scenario.

¹⁰ The Proposal Study was prepared by ICF for Rutgers University at the request of New Jersey Board of Public Utilities. See <https://www.state.nj.us/dep/aqes/rggi.html#/>

¹¹ See the tab "Emissions" in [CO₂ Budget Trading Reference Case Modeling Results](https://www.state.nj.us/dep/aqes/docs/NJ_Reference_Case_IPM_Model.xlsx), STATE OF N.J., DEP'T OF ENVTL. PROT.: REG'L GREENHOUSE GAS INITIATIVE, available at https://www.state.nj.us/dep/aqes/docs/NJ_Reference_Case_IPM_Model.xlsx

¹² While, to the best of our knowledge, the stringency of the RGGI cap under the participation of nine states has not been measured, one should expect it to be higher than that of New Jersey's proposal given that currently RGGI's cap declines annually by 2.5 percent. Establishing the stringency of the RGGI 2020 cap would require calculating by how much the 2020 emissions would exceed the cap if RGGI suddenly ceased to exist at the end of year 2019.

¹³ Compare 20.54 million tons presented in the row "NJ" in column "2018" in Table "Total CO₂ emissions" in [CO₂ Budget Trading Reference Case Modeling Results](https://www.state.nj.us/dep/aqes/docs/NJ_Policy_Case_IPM_Model.xlsx) supra note 11 with EPA's Continuous Emissions Monitoring System report of 19.01 million tons of New Jersey's 2018 emissions at <https://ampd.epa.gov/ampd/>.

¹⁴ In the study, the modeled allowance prices increase up to \$5.36 per ton in 2017\$, see Table "RGGI Compliance" in [CO₂ Budget Trading Policy Modeling Results](https://www.state.nj.us/dep/aqes/docs/NJ_Policy_Case_IPM_Model.xlsx), STATE OF N.J., DEP'T OF ENVTL. PROT.: REG'L GREENHOUSE GAS INITIATIVE, https://www.state.nj.us/dep/aqes/docs/NJ_Policy_Case_IPM_Model.xlsx. The emission rate for an average coal power plant equals 960 kg CO₂/MWh which is equivalent to 1.07 short tons/MWh, implying that according to the study, a coal

The timing of solar capacity additions is also identical under the study's RGGI and reference scenarios, despite the increase in revenue for solar generators owing to increased market prices.¹⁵ This raises the suspicion that the modeling used is not flexible enough to represent investment decisions and thus misrepresents the future fleet, biasing it towards the dirty *status quo* generation mix.

Intuitively, New Jersey's emissions are bound to fall substantially, even in the absence of a cap imposed by RGGI. The electricity demand in New Jersey, in other PJM states as well as in New York is predicted to decrease over time.¹⁶ Legislation signed in 2018 imposes energy-efficiency and energy-storage requirements and calls for a renewable portfolio standard of 50% by 2030, with the ultimate goal of powering the state entirely with renewable resources by 2050.¹⁷ Even partial achievement of these goals would almost certainly displace some of New Jersey's natural gas resources—which make up almost 50% of New Jersey's current energy supply—and, in turn, decrease the state's emissions. That effect, coupled with current emissions of 19 million tons, suggests that it is unlikely that the state will produce 18 million tons of CO₂ emissions in 2020.

New Jersey should carefully assess the effect that its allowance path will have on total RGGI emissions over time

Even if New Jersey's initial allowance levels are below business-as-usual emissions, they might not remain so in future years. Given the renewable and efficiency goals that the state is pursuing, the state's generation fleet can be expected to become less carbon-intensive every year, even in the absence of RGGI trading. In some years, that counterfactual fleet cleaning would take very large leaps. Consequently, New Jersey's RGGI cap could end up higher than business-as-usual emissions. Indeed, even the Proposal Study results suggest that the 2030 cap (set at 12.6 million tons) exceeds business-as-usual emissions (calculated in the study to be 11.98 million tons), implying that New Jersey's participation in RGGI

power plant would need to pay \$5.02/MWh for emissions while facing energy market prices of \$31.7/MWh. See Table 3 in Environment Baseline, *Volume 1: Greenhouse Gas Emissions from the U.S. Power Sector*, Office of Energy Policy and Systems Analysis U.S. Department of Energy, June 2016 at 18.

¹⁵ Compare tables "Cumulative Capacity Added - New Jersey", tab "Capacity addition", in *CO₂ Budget Trading Policy Modeling Result*, *supra* note 14 and *CO₂ Budget Trading Reference Case Modeling Results*, *supra* note 11.

¹⁶ In some of the PJM regions the reductions are driven by predicted participation of demand resources. See [CO₂ Budget Trading Modeling Comparison Presentation](#), STATE OF N.J., DEP'T OF ENVTL. PROT.: REG'L GREENHOUSE GAS INITIATIVE at 11 and 12, available at https://www.state.nj.us/dep/ages/docs/NJ_RGGI_2018_Rutgers_IPM_Results_Overview.pdf, *PJM Load Forecast Report January 2018*, <https://www.pjm.com/-/media/library/reports-notices/load-forecast/2018-load-forecast-report.ashx> and *2018 Power Trends*, New York Independent System Operator, <https://www.nyiso.com/documents/20142/2223020/2018-Power-Trends.pdf/4cd3a2a6-838a-bb54-f631-8982a7bdafa7a> at 12.

¹⁷ N.J.P.L.2018, c.17 (New Jersey AB 3723 introduced Mar. 22, 2018).

would actually increase global 2030 emissions.¹⁸ And because the Proposal Study likely overestimates counterfactual emission levels, as discussed above, it likely *underestimates* the extent to which New Jersey’s participation in RGGI could increase global emissions in 2030. New Jersey’s choice of the too high cap could undermine climate progress made across all RGGI states.

Therefore, to ensure that New Jersey’s participation in RGGI will reduce CO₂ emissions in every future period, New Jersey’s cap should be set below the best available estimate of the state’s counterfactual emissions for every year in which it participates in RGGI.

In general, by keeping its 2018 emission budget high, New Jersey dilutes RGGI’s emission-reduction potential. Additionally, because RGGI permit prices are already close to the reserve price, New Jersey’s entry into RGGI with a loose state cap would increase the probability of the Emissions Containment Reserve (ECR) becoming operative.¹⁹ In accordance with ECR regulations, states can withhold up to 10 percent of the allowances in their base annual budgets in order to ensure additional emission reductions if prices fall below the specified trigger prices.²⁰ However, given the substantial uncertainty associated with New Jersey’s counterfactual emissions, New Jersey should consider committing more than 10 percent of allowances to ECR, especially if it decides to pursue the 18 million cap.

Given its potential impacts on both permit prices and aggregate emissions from RGGI states, New Jersey’s choice of the emission budget path must have a sound justification.

New Jersey should ensure that projects eligible for offset allowances are additional by setting the proper allocation periods

While currently only one offset project is used for compliance with RGGI, the number of offset projects is bound to change substantially when the allowance price increases.²¹ A common concern regarding the use of offsets in cap-and-trade programs is their potential non-additionality. Additionality is the concept employed to verify that carbon reductions associated with offset projects are real reductions and not just part of business-as-usual behavior. While additionality seems like a simple counterfactual, (dis)proving it is not easy.

¹⁸ The annual base budget for allocation years 2020-2030 is presented in New Jersey Carbon Dioxide Trading Program, *supra* note 2, at 175-176. For predicted business-as-usual emissions see the tab “Emissions” in [CO₂ Budget Trading Reference Case Modeling Results](#), *supra* note 11.

¹⁹ The most recent RGGI permit auction settled at \$5.35. *See*, Regional Greenhouse Gas Initiative, *Auction 42*, (Dec, 2018), <https://rggi.org/auction/42>.

²⁰ RGGI 2017 Model Rule, available at <https://www.rrgi.org/sites/default/files/Uploads/Program-Review/12-19-2017/Model Rule 2017 12 19.pdf>.

²¹ For instance, in Europe in phase 2 of the EU Emission Trading Scheme (years 2008-2012 that were associated with allowances prices between ca. €7.5 and €28) participants in the trading scheme used 1.058 billion tonnes of international offsets. *See* https://ec.europa.eu/clima/policies/ets/credits_en.

After thorough investigation, many offset projects have been shown *ex ante* to be non-additional.²² The non-additionality is undesirable because of its effect on aggregate emissions: If the project source would have reduced emissions anyway, then the offsets awarded to it are non-additional. Those offsets are then sold to capped sources, decreasing their compliance obligation and thus contributing to an increase in overall emissions relative to a scenario in which the trading program did not allow offsets to substitute for reductions from capped sources.²³

Therefore, it is important for New Jersey's trading regulations to ensure that eligible offsets are additional—that is, that they represent emission reductions that would not have occurred in the absence of payments from New Jersey energy producers.

Commendably, the proposal already includes a requirement that eligible offset projects provide “real, additional, verifiable, enforceable, and permanent CO₂-equivalent emission reductions or carbon sequestration.”²⁴ This language, which comes directly from the 2008 RGGI model rule,²⁵ is an effort to avoid many of the pitfalls of typical offset programs as described above.

However, New Jersey could better ensure the additionality of the future offsets by changing the initial eligibility date for offset projects and refining or reducing the default allocation period for allowances generated by offset projects.

First, the proposal makes projects commenced on or after December 20, 2005 eligible for offsets. This date is also given in the 2008 model rule (which says that only offset projects “commenced on or after December 20, 2005” are eligible for offset allowances²⁶). While a December 2005 eligibility date may have been appropriate when trading under RGGI first began,²⁷ it may not remain so when New Jersey rejoins RGGI in the year 2020. It is questionable whether a project started as early as 2006 could still be additional in year 2020, especially if the project has already managed to persist for 14 years without any RGGI offset payments.²⁸

In addition to considering a later eligibility date, New Jersey should refine its rules on the period for which offset allowances are allocated. Currently, the proposal provides an initial

²² See the controversy around Clean Development Mechanism Executive Board rejecting eight Chinese wind projects after a review (*Executive Board of the Clean Development Mechanism Fifty-Second Meeting Report*, 12 February 2010, UNFCCC). See also the discussion around Joint Implementation mechanism in Russia (Perverse effects of carbon markets on HFC-23 and SF₆ abatement projects in Russia, Lambert Schneider and Anja Kollmuss, *NATURE CLIMATE CHANGE* 5 (2015) at 1061.)

²³ For a discussion on consequences of non-additionality and approaches to tackle it see among other Antonio M. Bento, Ravi Kanbur and Benjamin Leard, *Designing efficient markets for carbon offsets with distributional constraints*, *J. OF ENVI. ECON. AND MNGMNT* 70 (2015) at 51.

²⁴ Proposal at 54.

²⁵ RGGI Model Rule 2008. XX-10.1.

²⁶ RGGI Model Rule 2008. XX-10.3(f).

²⁷ We note that a number of RGGI participating states use January 2009 as the eligible offset project start date.

²⁸ As mentioned above, there is only one offset project used for RGGI compliance. The project was launched in year 2017.

10-year allocation period, except in the case of forest offset projects.²⁹ However, it is not clear that this is the true “additionality” period for all types of projects, notwithstanding their cost structure. For some projects, the only obstacle to implementation might be a one-time fixed cost. Should this fixed cost be covered, for instance, with revenue from sales of four years of offsets, a ten-year offset allocation period appears to be arbitrary, as in the remaining six years of the 10-year period the project would continue even without offset payments. In other words, the emission reductions for this project will not be additional after some initial investment period. Therefore, reductions associated with longstanding projects should be viewed as a project’s baseline unless the project sponsor can prove that upon discontinuation of the offset payments, the project would be discontinued as well.

Clearly, this will be the case for projects that have to bear annual costs of pollution abatement but do not generate additional market income through that abatement activity. For example, in case of a landfill that is too small to install a generator to create renewable power, but only destroys methane in an enclosed flare, 10-years of offsets might be warranted. However, in case of a landfill with a profitable renewable energy generator installed, assignment of less than 10 years of offsets might meet the requirement of additionality instead.

Therefore, New Jersey should consider implementing a project-specific allocation period by allowing the accredited verifiers to suggest the “additionality period” of up to 10 years during the verification process. Alternatively, New Jersey could shorten the proposed default initial allocation period. The approaches would be consistent with RGGI’s 2008 model rule, which refers to a “*Maximum Allocation Period*” of 10 years, thereby leaving open the possibility of shorter allocation periods.

New Jersey is right to use the social cost of greenhouse gases in its impact analysis of the proposal and should consider applying it in a full cost-benefit analysis

The social cost of greenhouse gases metric allows DEP to understand the climate benefits of the proposed trading program. DEP is right to use this metric in the impact analysis of the proposal to assess the program’s climate benefits. The Department should also weigh these benefits, as well as other benefits that accrue to New Jersey and the region, like health benefits, in the final impact analysis for the program by conducting a cost-benefit analysis. Finally, as the state’s zero emission credits (ZECs) program already nuclear generation’s emissions-free attributes below the social cost of greenhouse gases, DEP should be clear why a lower value is appropriate in the proposed trading program,.

²⁹ Proposal at 62.

In the economic impacts section of the proposal, DEP discusses the Interagency Working Group's social cost of greenhouse gases. DEP monetizes the proposed trading program's health benefits and recognizes that there are additional benefits from greenhouse gas emissions reductions that "may derive from avoided global damages (that is, costs) due to the impact of CO₂ emissions on climate-forcing mechanisms."³⁰ DEP then explains the range of social cost of greenhouse gases estimates and concludes that, using the 'central' estimate of \$40 per metric ton in 2007 dollars, the proposal will generate \$22 million in annual benefits from "the avoided social cost of carbon."³¹

First, it is appropriate for New Jersey to include these avoided costs in the economic analysis for the proposal. Decisionmakers can and should use the social cost of greenhouse gases in evaluating any policy with greenhouse gas emissions consequences. New Jersey may reap state-specific benefits from rejoining RGGI, but reducing greenhouse gas emissions will have society-wide climate benefits.

Second, looking at 2020 emissions using the 'central' estimate in 2018 dollars, the benefits would be approximately \$28 million each year,³² \$6 million higher than DEP's estimate. DEP should be precise about what dollar-year and what emissions-year it is using in its calculation of benefits from emissions reductions and why. DEP does not include this specific information about its calculation in the Proposal. In order to make the Proposal more transparent, DEP should calculate the total avoided costs from emissions reductions using the social cost of greenhouse gases, adding up the costs for each foreseeable year that New Jersey will be a RGGI participant based on that year's estimated avoided emissions. Again, it is not clear exactly how New Jersey applied the social cost of greenhouses gases in the Proposal and a more detailed analysis would give a more accurate depiction of the climate benefits of New Jersey's RGGI participation.

In addition to refining its use of the social cost of greenhouse gases metric, DEP should go one step further and conduct a full cost-benefit analysis. Weighing all of the proposed trading program's monetized costs with its monetized benefits, including the health and climate benefits, allows DEP to provide stakeholders with information about how the Department justifies the policy. For example, the Proposal states that "any increased electricity costs will be offset by avoided healthcare costs,"³³ without actually presenting any cost estimates. Comparing compliance costs and costs for customers from New Jersey's proposed trading program with the benefits is more salient and transparent than

³⁰ Proposal at 102.

³¹ *Id.*

³² DEP is specific in using the 2007\$ value of the central estimate for 2015 emissions, which would be \$51 in 2018\$ for 2020 emissions. See INTERAGENCY WORKING GRP. ON SOC. COST OF GREENHOUSE GASES, TECHNICAL SUPPORT DOCUMENT: TECHNICAL UPDATE OF THE SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 at 4 (2016) [hereinafter TSD 2016], available at https://www.obamawhitehouse.gov/sites/default/files/omb/inforeg/scc_tsd_final_clean_8_26_16.pdf.

³³ Proposal at 97.

unquantified statements like the one above . DEP also includes a discussion on the proposed program’s social impacts,³⁴ with lengthy explanations of the health and climate consequences of staying on the business-as-usual emissions pathway. The urgency of this section can be underpinned by a cost-benefit analysis to emphasize the extent to which the proposed program will benefit New Jersey. If DEP conducts a cost-benefit analysis, it may find that DEP is justified in increasing the ambition of the programs emissions’ goals.

Third, the DEP should explicitly consider how the proposal affects the New Jersey Energy Master Plan, the state’s zero emissions certificate (ZEC) program, and any other policies that affect greenhouse gas emissions, and ensure harmony between these policies. Furthermore, if New Jersey is setting the price of emissions at a price lower than the socially optimal social cost of greenhouse gases figure, as it would by joining RGGI and does with the ZEC program, then DEP should be explicit about why it has made this choice.

Conclusion

New Jersey will be taking an important step toward internalizing the environmental externalities associated with fossil-fuel-based electricity generation by reinitiating its RGGI participation. Not only will the proposed trading program increase the efficiency of New Jersey’s electricity markets, including New Jersey energy producers in RGGI will also greatly expand the scope of the CO₂ emissions market, improving market efficiency and increasing competitiveness. Moreover, by allowing the marginal cost of abatement to equilibrate across a larger set of emitters, New Jersey’s participation will likely reduce the total cost of carbon abatement under the RGGI program.

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³⁴ Proposal at 91-96.