NJ & RGGI

An Introduction to NJ Re-Entering the Regional Greenhouse Gas Initiative

Public Information Session
March 29, 2018

This presentation is provided for general informational purposes only. It does not reflect any agency decision or action.
Agenda

9:00 – 9:30 AM  Check-In and Networking
9:30 – 9:45 AM  Welcome
9:45 – 10:30 AM  RGGI History and Background
10:30 – 11:00 AM  RGGI Proceeds Rulemaking
12:30 – 1:30 PM  Lunch Break
1:30 – 2:00 PM  RGGI Mechanics Rulemaking
3:30 – 3:45 PM  Summary and Next Steps

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Global Warming Response Act
N.J.S.A 26:2C-37

• Enacted July 6, 2007
• Calls for 80% reduction in greenhouse gases from baseline year 2006 by 2050

How can we achieve this goal?
• Regional Greenhouse Gas Initiative
• Renewable Energy Portfolio
• Offshore Wind
• Electric Vehicles
• Natural Carbon Sinks
• Energy Efficiency
Greenhouse Gases and Climate Change Impacts

What are the Greenhouse Gases?

- Carbon Dioxide (CO₂)
- Methane
- Nitrous oxide
- Fluorinated gases

Climate Change Impacts:

- Higher temperatures
- Changes in precipitation
- Frequency of extreme events
- Sea level rise

Source: EPA

People are changing the carbon cycle primarily through the burning of fossil fuels

The top two sources are:
• Energy production
• Transportation

2015 U.S. Carbon Dioxide Emissions, by source

Source: EPA
New Jersey GHG Profile
Sources and Sinks

2015 Statewide Greenhouse Gas Emissions Inventory

Transportation: 42%
Electricity Generation: 16%
Residential: 14%
Commercial: 10%
Industrial: 5%
Terrestrial Carbon Sequestration: -7%

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Questions?
What is RGGI?

- Cap and trade program
- Prices carbon
- Reduces CO₂ from power plants
- Increases the investment in energy efficiency and other GHG reduction strategies
- Advances innovation in the clean energy economy
- Creates green jobs
Role of RGGI States

• Cooperatively develop model rule
• Enact legislation
• Adopt regulation based on model rule and state-specific legislation
• States have regulatory authority
• Establish CO₂ budget
• Participate in regional market for CO₂ allowances

*New Jersey, pending negotiations

Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont

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What is RGGI Inc.?

- 501(c)(3) non-profit corporation
- Provides administrative and technical services to the RGGI States
- Supports each State’s CO₂ Budget Trading Program
- Maintains reporting system
- Coordinates auction platform
- Monitors CO₂ market
- Has no regulatory or enforcement authority

RGGI Inc. Headquarters
90 Church Street, 4th Floor
New York, NY 10007

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What does RGGI Regulate?

- Utility fossil fuel electric generating units (EGUs)
- At or above 25 MW capacity
How Does RGGI Work?

• Regional Cap is established

• States offer allowances for sale in quarterly auctions

• EGUs purchase allowances to equal emissions for 3-year control period

• States receive revenue from quarterly auctions to invest
Who Benefits?

CONSUMER BENEFIT PROGRAMS
- Energy Efficiency
- Renewable Energy
- Direct Bill Assistance
- GHG Abatement Programs

REGIONAL INVESTMENT RESULTS
- Reduces Energy Bills
- Job Growth
- Supports Energy Reliability

The Investment of RGGI Proceeds in 2015, published by RGGI Inc., October 2017

- $2.3 BILLION Lifetime Energy Bill Savings
- 9 MILLION MWh Lifetime Avoided Electricity Use
- 28 MILLION MMBtu Lifetime Avoided Fossil Fuel Use
- 5.3 MILLION SHORT TONS Lifetime Avoided CO₂ Emissions

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How Does NJ Get Back Into RGGI?

Global Warming Solutions Fund Act
- 2007 enabling Legislation authorizing NJ to join RGGI
- Dictates use of Auction Proceeds

Executive Order #7
- Directs NJ to re-enter RGGI
- Adds criteria for disproportionately impacted communities

Mechanics Rule
- Legal commitment to the RGGI process
- Adopts framework of RGGI Model Rule

Funding Rule
- Adheres to GWSFA mandates and other legislative mandates
- Incorporates EO 7 criteria

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Roadmap to Re-enter RGGI

1-6 MONTHS
Information Sessions

2 MONTHS
Successful Re-entry Negotiation

3 MONTHS
Proposed Rules

3 MONTHS
Public Comment Period

3 MONTHS
Final Adoption of Rules

6 MONTHS
Administrative Process to Reenter RGGI Auction

3 MONTHS
NJ Re-enters RGGI Auction

3 MONTHS
Distribution of Auction Proceeds
Questions?
GLOBAL WARMING SOLUTIONS FUND ACT (GWSFA)

N.J.S.A 26:2C-52

- Enacted in 2008
- Allocates funding by percentages to three NJ Agencies
- Requires Agencies to spend RGGI funds within specific program areas

<table>
<thead>
<tr>
<th>PROGRAM AREAS</th>
<th>ALLOCATION</th>
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<tr>
<td>EDA</td>
<td>Commercial, Institutional &amp; Industrial Entities</td>
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<tr>
<td></td>
<td>60% of RGGI Proceeds</td>
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<td>BPU</td>
<td>Low Income &amp; Moderate Income Residential Sector</td>
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Role of State Agencies

Board of Public Utilities
- Jointly responsible for writing Mechanics Rule
- Consulted with for writing RGGI Funding Rule
- Seat on RGGI Board
- Allocated 20% of RGGI Proceeds

Economic Development Authority
- Consulted with for writing RGGI Funding Rule
- Allocated 60% of RGGI Proceeds

Department of Environmental Protection
- Jointly responsible for writing Mechanics Rule
- Responsible for writing Funding Rule in consultation with BPU & EDA
- Seat on RGGI Board
- Allocated 20% of RGGI Proceeds

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Agencies are Required to Select Programs & Projects Based on 6 Primary Considerations

GWSFA § 26:2C-52. Guidelines and priority ranking system for allocation of funds

<table>
<thead>
<tr>
<th>Result in Net Reduction in GHG Emissions</th>
<th>Relative Cost</th>
<th>Reduction in Energy Use</th>
<th>Co-Benefits</th>
<th>Responsive to Recommendations Submitted to the Legislature</th>
</tr>
</thead>
</table>
| • GHG emissions in the State
• GHG emissions from electricity produced out of the State, but consumed in NJ
• Net sequestration of carbon |
| Result in significant reductions in GHG relative to the cost of the project/program
• The reduction of impacts on ratepayers attributable to the implementation
• Contribute to achievement of the 2050 GWRA limit, relative to the cost of the program or project |
| Direct investment in low to moderate income residential sector
• Energy audits
• Efficiency measures
• Financial assistance to electricity customers
• Urban area focus |
| • Job creation
• Reduction of air pollutants
• Reduce Consumer Energy Costs
• Improve local grid reliability
• Contribute to regional GHG reductions
• And others |
| Actions for future impact by sector:
NIGWRA Recommendations Report 2009
• Electric generation
• Industrial
• Residential & Commercial
• Waste Management
• Highly Warming Gases
• Terrestrial Sequestration
• Transportation & Land Use
• Environmental & Economic Analysis |

Executive Order 7

Alleviate Conditions Faced by Impacted Communities

“…Serve communities that are disproportionately impacted by the effects of environmental degradation and climate change, and which will alleviate negative effects on human health and the environment…”

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Strategic Investment of RGGI Proceeds

GWSFA § 26:2C-51 Coordination in administration of programs and use of moneys

“The agencies administering programs established pursuant to this section shall maximize coordination in the administration of the programs to avoid overlap between the uses of the fund.”

- Rule will outline the process for developing the strategic plan
- Ensures an open and transparent planning process
- Provides opportunity for stakeholder engagement
Priority Ranking Criteria
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**FUNDING ALLOCATION**

- Required by GWSFA

**PROGRAM REQUIREMENTS**

- End use energy efficiency projects
- New 'State of the Art', efficient electric generation facilities
- Combined Heat and Power production and other high efficiency electric generation facilities
- Innovative carbon emissions abatement technologies
- Development of qualified offshore wind projects
- Reduce electricity demand
- Reduce costs to electricity customers
- Plan, develop and implement measures to reduce GHGs, including, but not limited to assistance to conduct and implement:
  - Energy efficiency
  - Renewable energy
  - Distributed energy programs
  - Land use planning (where results are a measurable reduction of GHG emissions or energy demand)

**STRATEGIC PLAN**

- ✔

**PROJECT PRIORITY RANKING**

- ✔
Local Government Grant Program

- Allocated 10% of RGGI proceeds
- Funding Rule sets up framework
- NJDEP responsible for managing program
Questions?
RGGI Mechanics Rulemaking
How Does NJ Get Back Into RGGI?

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• 2007 enabling Legislation authorizing NJ to join RGGI
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GRANT OF AUTHORITY TO RE-ENTER RGGI

Mechanics Rule
• Legal commitment to the RGGI process
• Adopts framework of RGGI Model Rule

Funding Rule
• Adheres to GWSFA mandates and other legislative mandates
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RULE WRITING PROCESS

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New Jersey RGGI Mechanics Rule

New Jersey Mechanics Rule is based on RGGI Model Rule to ensure consistency across each RGGI States’ regulations

• Establishes regulatory authority to participate in RGGI
• Incorporates allowance allocation
• Defines applicability
• Authorizes account representative for the EGU
• Requires RGGI to be included in the New Jersey Air Permit
• Requires compliance certification
• Establishes auction administrative procedure and platform
• Establishes CO₂ tracking system
• Establishes monitoring record keeping and reporting
What is the RGGI Cap?

• Regional cap of total CO₂ emissions across participating states
• Allowances are fully interchangeable
• RGGI auction establishes market price for CO₂
• Market drives emission reduction
• 2017 cap is 84.3 millions tons
• 2.5% annual reduction of the cap
Historical Cap Reduction

• Initial cap in 2009 of 188 million tons
• 3-year control periods

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<th>Control Period</th>
<th>1</th>
<th>2</th>
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• NJ withdraws after 1\textsuperscript{st} control period
• Cap is adjusted

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<td>91</td>
<td>88</td>
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Allowance Auction

• Allowances issued by State
• Distributed in quarterly auction
• Online auction platform
• Proceeds returned to RGGI states
• Conducted with the regulatory authority of each state

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CO₂ Allowance Tracking System (RGGI COATS)

• Tracking Platform

• Facilitates market participation:
  • Allocation, Award, and Transfer
  • Certification of allowances
  • Offset application process

Public Reports:
• Summary Level Emissions
• Quarterly Emissions
• Annual Emissions
• Control Period Emissions
• Sources
• Owner/Operator
• Accounts
• Account Representatives
• Transaction Price Report
• Special Approvals
• Offset Projects
• Source-Submitted Compliance

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Compliance

- State’s Regulatory Agency
- RGGI COATS
- Sources must possess allowances
  - 50% during interim control period (2 years)
  - 100% at end of control period (3 years)
- Public reports of compliance data

**RGGI Compliance: CO2 Budget Source Fact Sheet**

Under each RGGI participating state’s CO2 Budget Trading Program, each regulated power plant (a "CO2 budget source") is required to hold one CO2 allowance for each ton of CO2 emitted during the preceding three-year control period. The third RGGI control period began on January 1, 2015, and extends through December 31, 2017. The CO2 budget source compliance process occurs in four stages: CO2 emissions reporting, compliance activities in the RGGI CO2 Allowance Tracking System (COATS), compliance evaluation, and public reporting.

1. **CO2 Emissions Reporting (CO2 Budget Sources)**
   - CO2 budget sources are required to report quarterly CO2 emissions data to the RGGI participating states through the U.S. Environmental Protection Agency’s (EPA’s) Clean Air Markets Division (CAMD) Business System in accordance with state CO2 Budget Trading Program regulations and U.S. EPA regulations at 40 CFR Part 75. Updates made in the CAMD Business System flow to COATS periodically. For more information on U.S. EPA’s emissions reporting requirements, please see: [http://www.epa.gov/airmarkets/index.html](http://www.epa.gov/airmarkets/index.html).

2. **Compliance Activities in COATS: Provide CO2 Allowances, Run Draft True-Up, and Certify Compliance (CO2 Budget Sources)**
   - CO2 budget sources are required to acquire and provide sufficient CO2 allowances in COATS to meet their remaining CO2 compliance obligation (tons of CO2 emitted during the preceding three-year control period less any exempted emissions deductions) by 11:59 PM ET on March 1, 2016. Market participants can obtain CO2 allowances in quarterly CO2 allowance auctions or through various secondary markets.
   - ACO2 budget sources must transfer and hold sufficient CO2 allowances in their compliance account in COATS by 11:59 PM ET on March 1, 2016. ACO2 budget sources must also identify and provide specific carbon allowances for compliance (or "surrender" CO2 allowances) by using the Compliance Deduction Transaction in COATS between January 31, 2016 and March 1, 2016. AC02 budget sources must run draft "true-up" in COATS by 11:59 PM ET on March 1, 2016, which will compare their CO2 compliance obligation to the sum of the CO2 allowances surrendered and those remaining in the compliance account. CO2 budget sources must also certify compliance between January 31, 2016 and March 1, 2016 according to each state’s CO2 Budget Trading Program. This may include:

**Dates to Remember:**
- No later than October 10, 2017: CO2 Allowance Auction 38 Notice Release
- December 6, 2017: CO2 Allowance Auction 38
- January 30, 2018: Deadline to submit Q4-2017 CO2 emissions data to the U.S. EPA
- March 1, 2018 (by 11:59 PM ET): Deadline to provide CO2 allowances and to certify compliance for third control period compliance

**Wendy True:**
- CO2 allowances are automatically deducted from compliance accounts (not including any CO2 allowances which have already been surrendered)
- State compliance evaluations publicly available
- Following third control period true-up, CO2 allowances in compliance accounts are released if no allowance credits exist after compliance deductions are completed

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RGGI CO$_2$ Offset Allowance

A RGGI CO$_2$ offset allowance represents a project-based greenhouse gas emission reduction outside of the capped electric power generation sector.

- Project-based
- Greenhouse gas emission reduction outside of power generation sector
- RGGI States limit offsets to 3 categories
- Comparable offsets across region
- Additionality: Would not have occurred in absence of a carbon market

Project Categories
1. Landfill Methane
2. Reforestation, Improved Forest Management, and Avoided Conversion
3. Agricultural Methane
Questions?
Thank You

More Comments? – Email us NJRGGI@dep.nj.gov