

Regional Greenhouse Gas Initiative (RGGI)

Third Program Review Comments

On behalf of an ad hoc group of New Jersey electric generating companies, we provide comments to the Regional Greenhouse Gas Initiative (“RGGI”) Third Program Review document as published on September 23, 2024.

Executive Summary

The issue of “RGGI Leakage” has been understood since the inception of the program and mitigation strategies have worked in the past to reduce the dysfunctional impacts of leakage. Today, however, we find that the confluence of several factors now calls into question the validity of the entire program and New Jersey’s continued participation.

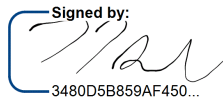
Two developing issues are driving these concerns:

1. The program has been unable to establish adequate cost and leakage mechanisms to avoid displacing cleaner and more efficient New Jersey gas generation with less efficient and higher polluting generation from neighboring PJM non-RGGI states. This has resulted in the creation of *more* regional greenhouse gas emissions than would otherwise exist without RGGI
2. Investors and other non-compliance entities are extracting significant economic value by holding >50% of physical inventory and pushing prices higher which is placing additional cost burdens upon ratepayers and providing little value to reduce greenhouse gas emissions. New Jersey ratepayers are paying a RGGI “tax” of about \$600-800 million per year, while only receiving offsetting greenhouse gas abatement funding of less than \$300 million per year

If and unless these issues can be successfully addressed through significant programmatic changes that *reduce* global CO2 emissions, we believe that New Jersey’s participation in the Regional Greenhouse Gas Initiative should end as soon as possible.

Respectfully Submitted:

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Signed by:

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Liam Baker
Alpha Generation, SVP

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Signed by:

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Jason Lemme
Newark Energy Center, LLC

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Signed by:

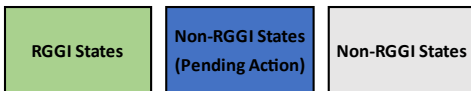
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Matt Lydon
TigerGenCo, VP Compliance

Elements of RGGI

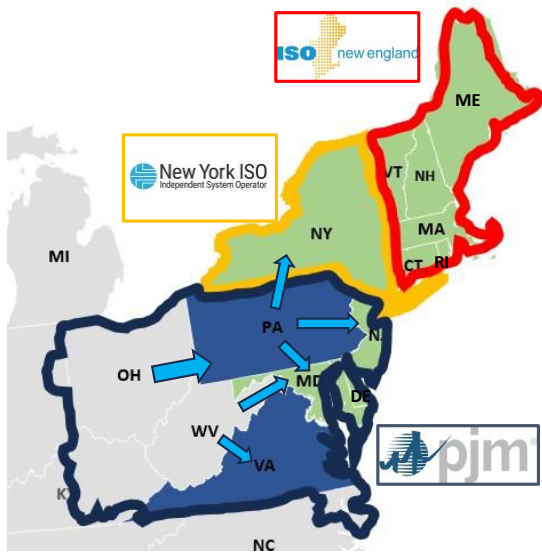


- Cooperative effort to reduce CO₂ emissions from the power sector
- A regional cap was established that declines over time so that CO₂ emissions decrease in a planned and predictable way
- RGGI states periodically conduct Program Review to examine the successes, impacts, and design of their CO₂ budget trading programs and to consider updates
- RGGI states receive revenue from selling RGGI allowances and each state has discretion over how to best use their proceeds

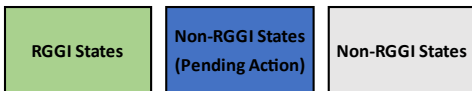


<https://www.rggi.org/program-overview-and-design/elements>

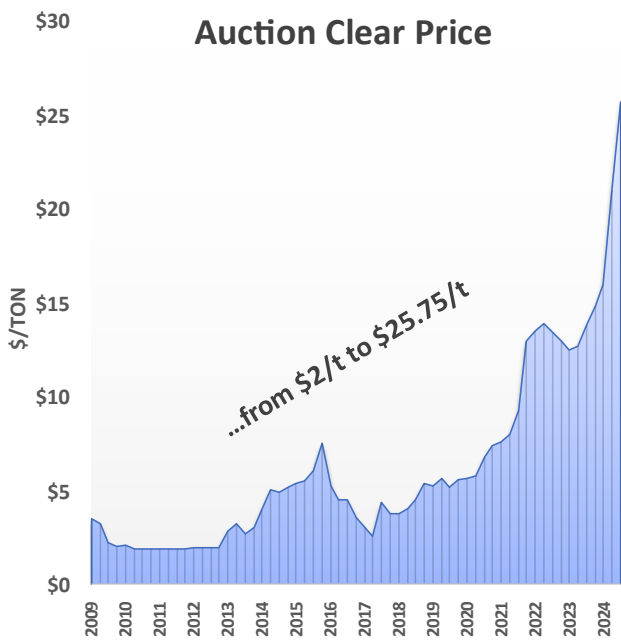
Challenges of RGGI: Leakage



- Successful at eliminating coal generation within RGGI region, but will have a difficult time economically displacing remaining carbon-emitting resources
- Leakage: Shifting production to states with less stringent climate policies that results in higher emissions
 - RGGI does not address leakage and higher carbon pricing will exacerbate the issue
 - Incentivizes out-of-region coal and less efficient gas that increases CO2 emissions
 - RGGI states ratepayers subsidize out-of-state generation that result in more global emissions



Challenges of RGGI: Oversight and Construction



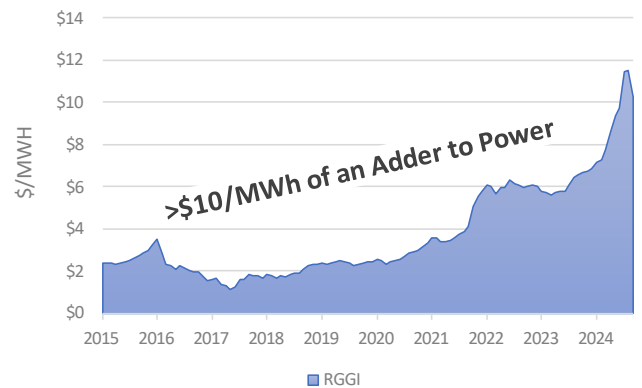
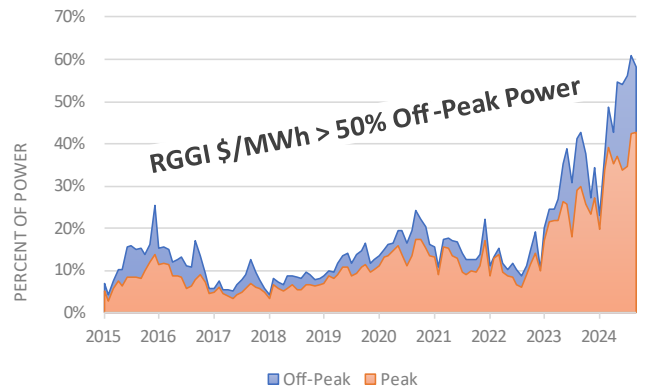
- Program has no ability to slow price increases since the “Cost Containment Reserve” has proven to be ineffective
- One size does not fit all in the Northeast: New England and New York are insulated from the dynamics that impact PJM RGGI States (New Jersey, Maryland and Delaware)
- No Price Limit, No Position Limit
- Non-Compliance -Oriented entities hold >50% of existing physical inventory and are free to participate in price discovery simultaneously

https://www.rggi.org/sites/default/files/Uploads/MarketMonitor/Quarterly-Reports/MM_Secondary_Market_Report_2024_Q2.pdf

Implications for Power Prices

- Q3 RGGI Auction Cleared \$25.75/t, this equates to an **\$11.00/MWh cost** for an average New Jersey generator, which an out-of-state (non-RGGI) generator does not incur
- In 2024, during certain hours this cost makes up more than **50% of the cost to produce** energy in New Jersey from these more efficient natural gas facilities

State	Heat Rate Average	Emissions Factor Average (lbs/mmbtu)
New Jersey	7.22	118.34
Pennsylvania	8.22	130.52



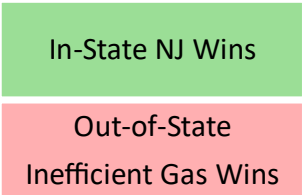
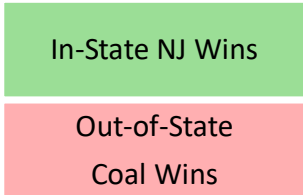
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Economics of Leakage

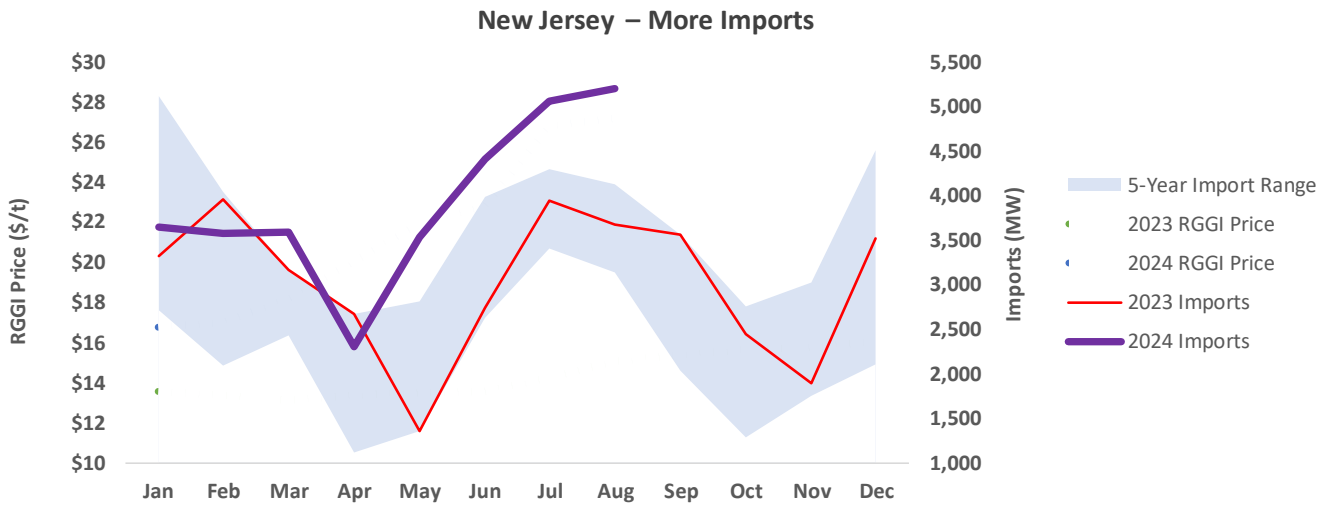
New Jersey Gas vs. Pennsylvania Generation

RGGI (\$/t)	Price of Gas								
	\$1.50	\$1.75	\$2.00	\$2.25	\$2.50	\$2.75	\$3.00	\$3.25	\$3.50
\$ -	10.97	9.14	7.30	5.47	3.63	1.80	(0.04)	(1.87)	(3.71)
\$ 2.00	10.11	8.28	6.44	4.61	2.77	0.94	(0.90)	(2.73)	(4.57)
\$ 4.00	9.25	7.42	5.58	3.75	1.91	0.08	(1.76)	(3.59)	(5.43)
\$ 6.00	8.40	6.57	4.73	2.90	1.06	(0.77)	(2.61)	(4.44)	(6.28)
\$ 8.00	7.54	5.71	3.87	2.04	0.20	(1.63)	(3.47)	(5.30)	(7.14)
\$ 10.00	6.68	4.85	3.01	1.18	(0.66)	(2.49)	(4.33)	(6.16)	(8.00)
\$ 12.00	5.82	3.99	2.15	0.32	(1.52)	(3.35)	(5.19)	(7.02)	(8.86)
\$ 14.00	4.97	3.14	1.30	(0.53)	(2.37)	(4.20)	(6.04)	(7.87)	(9.71)
\$ 16.00	4.11	2.28	0.44	(1.39)	(3.23)	(5.06)	(6.90)	(8.73)	(10.57)
\$ 18.00	3.25	1.42	(0.42)	(2.25)	(4.09)	(5.92)	(7.76)	(9.59)	(11.43)
\$ 20.00	2.39	0.56	(1.28)	(3.11)	(4.95)	(6.78)	(8.62)	(10.45)	(12.29)
\$ 22.00	1.53	(0.30)	(2.14)	(3.97)	(5.81)	(7.64)	(9.48)	(11.31)	(13.15)
\$ 24.00	0.68	(1.15)	(2.99)	(4.82)	(6.66)	(8.49)	(10.33)	(12.16)	(14.00)
\$ 27.50	(0.82)	(2.65)	(4.49)	(6.32)	(8.16)	(9.99)	(11.83)	(13.66)	(15.50)
\$ 28.00	(1.04)	(2.87)	(4.71)	(6.54)	(8.38)	(10.21)	(12.05)	(13.88)	(15.72)
\$ 30.00	(1.90)	(3.73)	(5.57)	(7.40)	(9.24)	(11.07)	(12.91)	(14.74)	(16.58)
\$ 32.00	(2.75)	(4.58)	(6.42)	(8.25)	(10.09)	(11.92)	(13.76)	(15.59)	(17.43)
\$ 34.00	(3.61)	(5.44)	(7.28)	(9.11)	(10.95)	(12.78)	(14.62)	(16.45)	(18.29)
\$ 36.00	(4.47)	(6.30)	(8.14)	(9.97)	(11.81)	(13.64)	(15.48)	(17.31)	(19.15)
\$ 38.00	(5.33)	(7.16)	(9.00)	(10.83)	(12.67)	(14.50)	(16.34)	(18.17)	(20.01)
\$ 40.00	(6.19)	(8.02)	(9.86)	(11.69)	(13.53)	(15.36)	(17.20)	(19.03)	(20.87)

RGGI (\$/t)	% Higher Emission Rate of PA vs. NJ								
	0%	10%	20%	31%	41%	51%	61%	72%	82%
\$ -	0.24	1.38	2.52	3.66	4.80	5.94	7.08	8.22	9.36
\$ 2.00	(0.61)	0.52	1.66	2.80	3.94	5.08	6.22	7.36	8.50
\$ 4.00	(1.47)	(0.33)	0.81	1.95	3.09	4.22	5.36	6.50	7.64
\$ 6.00	(2.33)	(1.19)	(0.05)	1.09	2.23	3.37	4.51	5.65	6.79
\$ 8.00	(3.19)	(2.05)	(0.91)	0.23	1.37	2.51	3.65	4.79	5.93
\$ 10.00	(4.05)	(2.91)	(1.77)	(0.63)	0.51	1.65	2.79	3.93	5.07
\$ 12.00	(4.90)	(3.76)	(2.62)	(1.49)	(0.35)	0.79	1.93	3.07	4.21
\$ 14.00	(5.76)	(4.62)	(3.48)	(2.34)	(1.20)	(0.06)	1.08	2.21	3.35
\$ 16.00	(6.62)	(5.48)	(4.34)	(3.20)	(2.06)	(0.92)	0.22	1.36	2.50
\$ 18.00	(7.48)	(6.34)	(5.20)	(4.06)	(2.92)	(1.78)	(0.64)	0.50	1.64
\$ 20.00	(8.33)	(7.20)	(6.06)	(4.92)	(3.78)	(2.64)	(1.50)	(0.36)	0.78
\$ 22.00	(9.19)	(8.05)	(6.91)	(5.77)	(4.63)	(3.50)	(2.36)	(1.22)	(0.08)
\$ 24.00	(10.05)	(8.91)	(7.77)	(6.63)	(5.49)	(4.35)	(3.21)	(2.07)	(0.93)
\$ 27.50	(11.55)	(10.41)	(9.27)	(8.13)	(6.99)	(5.85)	(4.71)	(3.58)	(2.44)
\$ 28.00	(11.77)	(10.63)	(9.49)	(8.35)	(7.21)	(6.07)	(4.93)	(3.79)	(2.65)
\$ 30.00	(12.62)	(11.48)	(10.34)	(9.21)	(8.07)	(6.93)	(5.79)	(4.65)	(3.51)
\$ 32.00	(13.48)	(12.34)	(11.20)	(10.06)	(8.92)	(7.78)	(6.64)	(5.51)	(4.37)
\$ 34.00	(14.34)	(13.20)	(12.06)	(10.92)	(9.78)	(8.64)	(7.50)	(6.36)	(5.22)
\$ 36.00	(15.20)	(14.06)	(12.92)	(11.78)	(10.64)	(9.50)	(8.36)	(7.22)	(6.08)
\$ 38.00	(16.05)	(14.92)	(13.78)	(12.64)	(11.50)	(10.36)	(9.22)	(8.08)	(6.94)
\$ 40.00	(16.91)	(15.77)	(14.63)	(13.49)	(12.35)	(11.22)	(10.08)	(8.94)	(7.80)
\$ 42.00	(17.77)	(16.63)	(15.49)	(14.35)	(13.21)	(12.07)	(10.93)	(9.79)	(8.65)



Higher Carbon Tax, Increased Imports



In 2024, we estimate the amount of additional CO2 emissions is approximately 4,000,000 tons

[Data Miner 2- Hourly Net Exports by State \(pjm.com\)](https://www.pjm.com)

Final Thoughts

- Higher RGGI prices have a direct correlation to additional leakage from less efficient and dirtier imported generation from non-RGGI states, which increases the amount of CO2 in the atmosphere
- Leakage and ratepayer relief is acknowledged in The Global Warming Response Act Amendment (Chapter 340 signed in 2008), but both are currently being ignored:

14. a. If the price of allowances at two consecutive regional auctions in which the State of New Jersey is a participant exceeds \$7 per allowance, the department and the board shall, within 90 days after the second auction, develop an action plan for immediate ratepayer relief and hold a joint public hearing or hearings regarding the allowance price

Since December 2020, there have been 16 quarterly auctions where the clearing price has exceeded \$7/ton without any intervening action in contravention of the requirements of the law

- **At \$25.75/t, the additional cost to New Jersey ratepayers is approximately \$800 Million per year**

Providing ratepayer relief does not address the structural issue of New Jersey paying to increase global emissions while providing excess economic opportunity to neighboring states

https://pub.njleg.gov/bills/2006/PL07/340_.PDF