

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 1212

STATE OF NEW JERSEY
218th LEGISLATURE

DATED: FEBRUARY 21, 2018

SUMMARY

- Synopsis:** Clarifies intent of P.L.2007, c.340 regarding NJ’s required participation in Regional Greenhouse Gas Initiative.
- Type of Impact:** Annual offsetting State revenue and expenditure increases to the Global Warming Solutions Fund. Potential annual State revenue and expenditure increases to the General Fund. Potential annual local government expenditure increase.
- Agencies Affected:** Board of Public Utilities, Department of Environmental Protection, Economic Development Authority, Department of the Treasury, and local governments.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
State Revenue Increase	At least \$30,000,000
State Expenditure Increase	At least \$30,000,000
Local Expenditure Increase	Indeterminate

- The Office of Legislative Services (OLS) estimates that the bill would produce annual offsetting State revenue and expenditure increases of approximately \$30.0 million related to the sale of emission allowances under the Regional Greenhouse Gas Initiative (RGGI); however, annual revenue collections can be expected to vary greatly, depending on fluctuations in market conditions.
- When the State formerly participated in RGGI it collected \$113.3 million in total proceeds from RGGI auctions held between December 2008 and December 2011. By extrapolating from New Jersey’s collections from the early RGGI auctions and calendar year 2017 auction results for participating RGGI states, the OLS estimates that if New Jersey had participated in RGGI in calendar year 2017 it would have collected approximately \$30.0 million. It should be noted that this estimate is based on 2017 market conditions.
- Two additional fiscal impacts would materialize if participation in RGGI were to result in higher retail electricity rates: an annual State revenue increase of up to \$2.0 million from the

application of the sales and use tax to sales of higher-priced electricity and an indeterminate annual State and local government expenditure increase attributable to the purchase of higher-priced electricity.

BILL DESCRIPTION

The bill clarifies the intent of P.L.2007, c.340 and requires the State's full participation in RGGI. P.L.2007, c.340 previously authorized New Jersey's participation in RGGI. The State initially joined the initiative but withdrew therefrom effective at the end of calendar year 2011.

P.L.2007, c.340, commonly referred to as the RGGI implementing law, was enacted to further the purposes of the "Global Warming Response Act," P.L.2007, c.112 (C.26:2C-37 et al.). The RGGI implementing law created an emissions auction and trading mechanism to reduce the level of greenhouse gas emissions, especially carbon dioxide (CO₂), from electric power plants. P.L.2007, c.340 recognizes the State's participation in RGGI by setting forth the parameters to be followed for allowance auctions; creating the special, non-lapsing Global Warming Solutions Fund; and statutorily dedicating all the proceeds received from the sale of allowances through a greenhouse gas emissions allowance trading program to the fund.

P.L.2007, c.340 also directs the Economic Development Authority (EDA) to use 60 percent of fund receipts to provide financial assistance to commercial, institutional, and industrial entities to support energy efficiency projects, combined heat and power production facilities, and new efficient electric generation facilities. The Board of Public Utilities (BPU) is to use another 20 percent of the proceeds to support programs reducing the electricity demand or costs of low- and moderate-income residential ratepayers primarily in urban areas. The Department of Environmental Protection (DEP) is to use the remaining 20 percent to manage the State's forests and tidal marshes and to support local government initiatives designed to lower greenhouse gas emissions. A total not exceeding eight percent of collections may be used by the EDA, BPU, and DEP combined to pay for administrative expenses related to P.L.2007, c.340.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill would produce annual offsetting State revenue and expenditure increases of approximately \$30.0 million related to the sale of emission allowances under RGGI; however, annual revenue collections can be expected to vary greatly, depending on fluctuations in market conditions.

When the State formerly participated in RGGI it collected \$113.3 million in total proceeds from RGGI auctions held between December 2008 and December 2011. By extrapolating from New Jersey's collections from the early RGGI auctions and calendar year 2017 auction results for participating RGGI states, the OLS estimates that if New Jersey had participated in RGGI in calendar year 2017 it would have collected approximately \$30.0 million. It should be noted that this estimate is based on 2017 market conditions. The supply, demand, and resulting auction prices of emission allowances, however, fluctuate. For example, the OLS notes that allowance

clearing prices in the four auctions held during 2017 were \$3.00, \$2.51, \$4.35, and \$3.80 per ton. The OLS also notes that CO₂ allowances are issued by each RGGI state and, together, all the CO₂ allowances issued by all the RGGI states comprise the RGGI cap. The RGGI cap and the CO₂ allowances issued by each state are adjusted yearly.

The OLS estimates that the bill would result in the annual expenditure of approximately \$30.0 million in anticipated Global Warming Solutions Fund balances. P.L.2007, c.340 requires the deposit of emission allowance auction proceeds in the Global Warming Solutions Fund. The law also requires the expenditure of fund balances for certain environmental purposes as outlined on the previous page.

In addition, if participation in RGGI were to result in higher retail electricity rates, two additional fiscal impacts would materialize: an annual State revenue increase of up to \$2.0 million from the application of the sales and use tax rate of 6.625 percent to sales of higher-priced electricity and an indeterminate annual State and local government expenditure increase attributable to the purchase of higher-priced electricity.

Section: Environment, Agriculture, Energy and Natural Resources

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This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).