RESOURCES *for the* FUTURE

Comments on New Jersey's CO_2 Budget Trading Program

New Jersey Department of Environmental Protection

Dallas Burtraw and Brian C. Prest

Public Comment
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for the

November 2, 2026

New Jersey Department of Environmental Protection
Office of Legal Affairs
Attention: DEP Docket No. 03-26-08
401 East State Street, 7th Floor, Mail Code 401-04L
PO Box 402
Trenton, NJ 08625-0402

Re: Proposed amendments to the New Jersey CO2 Budget Trading Program, N.J.A.C. 7:27C (PRN 2026-050)

Dear Commissioner Potosnak:

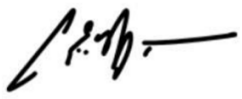
On behalf of Resources for the Future (RFF), we are pleased to share the accompanying comments with the New Jersey Department of Environmental Protection on the proposed amendments to New Jersey's CO_2 Budget Trading Program.

RFF is an independent, nonprofit research institution in Washington, DC. Its mission is to improve environmental, energy, and natural resource decisions through impartial economic research and policy engagement. RFF is committed to being the most widely trusted source of research insights and policy solutions leading to a healthy environment and a thriving economy. While RFF researchers are encouraged to offer their expertise to inform policy decisions, the views expressed here are those of the individual authors and may differ from those of other RFF experts, its officers, or its directors. RFF does not take positions on specific legislative proposals.

These comments focus on the interaction between Regional Greenhouse Gas Initiative (RGGI) allowance prices, wholesale electricity prices, allowance proceeds, emissions leakage, and household electricity affordability in New Jersey. The central analytical point is that the way to strengthen RGGI, reduce leakage, and protect ratepayers is to extend an equivalent carbon incentive to imported electricity through a border carbon adjustment. In the meantime, the effect of RGGI on residential bills cannot be evaluated from the allowance price alone, since RGGI states take part of a broader regional electricity market. The same program that creates a compliance cost also generates substantial public revenue that can be directed in ways that reduce household electricity costs on net and strengthen incentives for electrification.

If you have questions or would like additional information, please contact Dallas Burtraw at burtraw@rff.org or Brian Prest at prest@rff.org.

Sincerely,



Carlos Martín
Vice President for Research and Policy Engagement

Comments on New Jersey's CO2 Budget Trading Program

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Summary

The Regional Greenhouse Gas Initiative (RGGI) is best understood as a dynamic cap-and-invest program. Its effects arise not only from the allowance price applied to covered generation, but also from the public and private investments induced by that price and by the use of auction proceeds. Those investments can reduce carbon dioxide emissions, conventional air pollution, and dependence on fossil fuels over time. The economically coherent response to emissions leakage is to extend an equivalent carbon incentive to imported electricity through a border carbon adjustment, rather than weaken the regional carbon price for selected in-state generators.

Leakage remains an important feature of the regional electricity market. Generators outside RGGI do not incur a RGGI allowance obligation, and their bids into the PJM wholesale market therefore do not include that compliance cost. A border carbon adjustment that replicates the RGGI compliance cost that is applied on a technology-neutral basis to imported electricity serving New Jersey load would address this asymmetry directly. By contrast, special treatment for particular generators or controls on the price paid by selected sources would introduce new differences in compliance costs, creating additional distortions in dispatch and investment.

To fully understand RGGI's impact on consumer bills, its price effect and its revenue effect should be evaluated together. Directing a portion of allowance proceeds toward residential bill relief could fully offset the effect for household electricity prices while preserving most proceeds for energy efficiency, clean energy, building and transportation electrification, and other investments. Moreover, using RGGI revenues to reduce household electricity prices can simultaneously advance the three complementary goals of electricity-sector decarbonization, economy-wide electrification, and ratepayer energy-cost reduction. In fact, if rebates are used to uniformly reduce household electricity prices, higher RGGI allowance prices can yield lower household electricity prices on net. Such household rebates would not undo the incentives provided to reduce emissions in the wholesale electricity market dispatch and to direct investments toward cleaner energy generation.

A New Jersey carbon price fixed at a specified level that was lower than the RGGI price, as has been recently suggested by some observers, would reduce the compliance obligation for covered generators, but the effect on residential retail electricity bills would only be affected to the degree that such a policy actually changes the marginal costs of the marginal generating unit for the much larger regional wholesale electricity market. That price may be affected very little by New Jersey policy. Further, it would reduce allowance value that is currently available to support ratepayers and complementary investments, which could reduce the affordability of electricity for New Jersey households. The relevant comparison therefore is not simply a higher versus lower allowance price. It is the combined effect of the allowance price, wholesale-market incidence, allowance proceeds, and the use of those proceeds.

1. RGGI's enduring effects operate through investment as well as dispatch.

RGGI places a price on carbon dioxide emissions from covered fossil-fuel-fired electricity generators. In the short run, that price can affect the merit order dispatch of generation facilities and wholesale electricity prices. Over a longer horizon, however, the program's more durable effects arise through investment: covered generators face incentives to reduce emissions and to favor investments with lower emissions, while participating states receive allowance proceeds that can finance energy efficiency, clean energy, electrification, and consumer benefits.

This investment dynamic yields benefits beyond reductions in carbon dioxide emissions within the RGGI region. Changes in generation and energy use can reduce conventional air pollutants and associated health damage. A complete assessment of the program should therefore account for both near-term market impacts and the longer-run consequences of public and private investment.

2. Border carbon adjustments would address leakage more directly than generator-specific relief.

New Jersey participates in the PJM regional electricity market in which electricity from many generators is combined to serve load. The leakage problem arises because generators outside RGGI can serve New Jersey load without facing the carbon price borne by covered generators. Physical power flows do not permit a generator-by-generator assignment of electricity to individual consumers; however, market data can identify which resources are marginal and therefore influence locational marginal prices.

The direct remedy to leakage would be a border carbon adjustment that applies an equivalent carbon charge to emissions associated with imported electricity. Such an approach would address emissions from generation that are not covered by the RGGI program rather than reducing the incentive for covered generation. It can reduce leakage while preserving the regional allowance market and the value of allowance proceeds. We encourage the state and RGGI to investigate options to regulate emissions from imported power.

Alternative approaches that grant special treatment to specific generators or constrain the carbon price paid by selected sources do not price emissions associated with imports. They may change the relative operating costs of favored generators, shift rents among generators and consumers, weaken longer-run investment incentives, and create added administrative discontinuities. Those consequences should be compared explicitly with the status quo, or potentially with a border adjustment that treats electricity serving New Jersey load consistently according to emissions content.

3. Retail bill relief can preserve RGGI incentives while supporting electrification.

Using a portion of RGGI revenues to reduce household bills can neutralize concerns about household energy affordability while retaining power sector decarbonization incentives and encouraging household electrification. Virginia policymakers demonstrated how this can work in June 2026, **when 45 percent of RGGI revenues were allocated to reduce electricity prices** for households, small businesses, and churches, who as a result will all see a small net reduction in electricity prices from the state rejoining RGGI. RFF's **Virginia "Affordability Data Tool"** even showed that if larger portions of RGGI revenues were used for this purpose, Virginia households would have actually seen **a net reduction in their bills on the order of 8 percent**. Virginia policymakers allocated the other 55 percent of revenues to continued support of pre-existing energy efficiency and flood resilience investment programs, which, despite receiving a lower proportion of total revenues, will see increased revenue flows compared to prior years due to higher RGGI auction revenues.

Lowering household bills via a reduction in electricity prices or through rebates does not reverse RGGI's central decarbonization incentive. RGGI is designed to change generator dispatch and investment by internalizing environmental costs into wholesale generation costs and prices and, in turn, the expected returns to emitting and non-emitting resources. A rebate provided to households does not remove the allowance obligation from generators or erase the wholesale price signal governing dispatch and generation investment.

Using a portion of RGGI proceeds to reduce residential electricity bills would link both affordability and efficiency goals. One approach would be to deliver relief that is structured as a fixed monthly credit so that households receive the proceeds without reducing the marginal incentive for energy efficiency that is reflected in the price of electricity. However, there is perhaps a better efficiency argument for using RGGI proceeds to directly reduce household electricity prices. Economists generally seek to incorporate social costs, including environmental damage, into energy prices. However, in practice, delivered electricity is already priced *above* its full social marginal cost, including the public health impacts of air pollution and the social cost of carbon emissions; hence, reducing retail prices can improve rather than weaken economic efficiency.[1] This imbalance is further exacerbated when comparing electricity to its alternatives such as natural gas for space heating or gasoline for transportation, where environmental costs are generally not included in retail prices. Lowering retail electricity prices can thus further facilitate household electrification and reduce the direct combustion of fossil fuels in buildings and vehicles. In this way, using RGGI revenues to reduce household electricity prices can simultaneously advance the three complementary goals of improving economic efficiency, electrifying the economy, and reducing the cost of energy.

4. RGGI's price effect is small, estimated at below $4 per megawatt-hour.

The Independent Market Monitor for PJM, Monitoring Analytics, estimated that in 2025, the load-weighted average wholesale price of electricity amounted to about $51 per megawatt-hour (MWh),[2] which is equivalent to 5.1 cents per kilowatt-hour (kWh). Monitoring Analytics also found that carbon dioxide (CO_2) cost component was responsible for only $2.23/MWh of that $51/MWh total. Thus, RGGI's impact on PJM wholesale electricity prices was found to be equivalent to 0.22 cents/kWh or less than 1 percent of the state's average residential delivered electricity price of 22.67 cents/kWh.[3] Scaling that estimate in proportion to the higher RGGI allowance prices observed in 2026 versus 2025 gives an illustrative value of about $4/MWh, or 0.4 cents per kilowatt-hour, less than 2 percent of delivered prices.

The modeling by Tabors Caramanis Rudkevich provides a useful independent comparison to this $2 to $4/MWh estimate of RGGI's price impacts. Their 2025 analysis estimated that all RGGI (not just New Jersey) contributes about $2 to $3.75/MWh to annual average locational marginal prices (LMPs) in eastern and northeastern PJM zones, with smaller contributions in other zones.[4] Their 2026 analysis of a New Jersey-specific $7/ton CO_2 proposal likewise finds that moving to a lower flat charge would reduce LMPs by $2 to $3/MWh in in New Jersey and $1 to $3/MWh across PJM as a whole.[5] These estimates are broadly consistent in scale with Market Monitor though the studies differ in methods, scenarios, and interpretation.

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[1] Borenstein, Severin, and James B. Bushnell. "Do two electricity pricing wrongs make a right? Cost recovery, externalities, and efficiency." *American Economic Journal: Economic Policy* 14, no. 4 (2022): 80-110. **https://www.aeaweb.org/articles?id=10.1257/pol.20190758**.

[2] **https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2025/2025-som-pjm-sec3.pdf**, Table 3-71

[3] **https://www.eia.gov/electricity/annual/html/epa_02_10.html**

[4] Rudkevich, Aleksandr, and Richard Tabors, "Summary Impact of RGGI on Electricity Prices and Generation Fleet Operation in the PJM Interconnection", February 15, 2025.

[5] Naden, Emma, Aleksandr Rudkevich, and Richard Tabors, "Quantitative Evaluation of a RGGI Fixed Price Proposal for New Jersey", March 30, 2026.

These values can be used to estimate the portion of RGGI revenues that would be needed to prevent an increase in electricity sector prices and costs for New Jersey households. New Jersey residential customers use approximately 30 million MWhs annually.[6] At an illustrative $4/MWh RGGI price impact, fully offsetting RGGI's wholesale-price effect for residential load would require about $120 million per year. Fully offsetting just the recent ~$2/MWh-equivalent change in RGGI allowance prices would require roughly half of that ($60 million). These amounts are substantially below the working estimate of $400 to $500 million in New Jersey RGGI proceeds for 2026.[7] This back-of-the-envelope calculation suggests that the state could more than offset RGGI's estimated residential price effects with substantial funds left over for other public investments. Moreover, the remaining funds available for such public investments would remain larger than the $270 million in total RGGI revenues New Jersey received in 2025, meaning no program needs to see a funding cut from prior funding levels. These calculations provide a sense of scale rather than a forecast.

5. The benefits of unilaterally stepping back from RGGI may accrue mainly to generators—not New Jersey energy consumers.

PJM wholesale energy prices are frequently set by the marginal generator serving the regional system load which is often located in one of the other 12 PJM states rather than New Jersey. Changes in the treatment of New Jersey generators would therefore only lower New Jersey LMPs during the hours and at the locations where those generators affect the marginal offer price. When an out-of-state generator remains the marginal one (whether it is a RGGI generator or not), reducing a New Jersey generator's compliance cost need not lower the market-clearing price. To the extent that wholesale energy prices are unchanged, the benefit of lower operating costs to favored generators accrues entirely to those generators in the form of higher operating margins. While it is beyond the scope of this comment to estimate how often New Jersey's gas generators are determining marginal system prices in PJM, those generators represent about 7 percent of the gas and coal capacity likely to be marginal in PJM at any given moment under the current grid configuration.[8]

The appropriate comparison of alternative RGGI policy scenarios should therefore include five elements: the compliance cost borne by covered generators; the frequency with which affected New Jersey units set or influence LMPs; the share of any cost reduction passed through to New Jersey consumers; the allowance proceeds forgone by the state; and the uses of those proceeds. Estimating a reduction in generator compliance costs as though it were automatically an equal reduction in household bills would overstate consumer savings to the extent that the affected generators are inframarginal.

A New Jersey-specific fixed $7/ton CO_2 charge as suggested by independent analysis or other generator-specific adjustment would reduce state revenue available to support ratepayers and complementary investments. If New Jersey consumers continue to pay prices set by out-of-state marginal generators, much of the reduction in compliance expense may accrue to generators while the state would receive less revenue that could have been returned directly to households. In other words, to the degree that RGGI revenues are used to reduce household electricity prices, a state unilaterally stepping back from RGGI could drive household energy bills up, not down. Proposals to adjust the costs paid by generators would be strengthened by separately reporting changes in generator margins, LMPs, state proceeds, and household bills.

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[6] **https://www.eia.gov/electricity/annual/html/epa_02_08.html**

[7] **https://www.rggi.org/sites/default/files/Uploads/Auction-Materials/Cumulative-State-Charts/NJ_Proceeds_by_Auction.xlsx**

[8] For reference, as of 2025 New Jersey had 9.2 gigawatts (GW) of gas generating capacity, compared to 88.4 GW of gas and 37.5 GW of coal across PJM as a whole: 9.2/(88.4+37.5)=7.3%. **https://www.pjm.com/-/media/DotCom/library/reports-notices/state-specific-reports/2025/new-jersey.pdf**

6. RGGI changes can continue to demonstrate its broader influence and program leadership.

RGGI's influence extends beyond direct emissions reductions in participating states. As one of the earliest operational carbon markets in the United States, it has demonstrated the feasibility of allowance auctions, regional cooperation, and the reinvestment of carbon revenue. Carbon pricing has since expanded across many jurisdictions internationally. That broader influence does not eliminate the need to address leakage or affordability. It does show why program assessment should include institutional learning, policy diffusion, and the durable investment response, rather than focusing exclusively on short-run compliance costs.

Conclusion

New Jersey can evaluate RGGI's effects on households by integrating wholesale-market incidence and allowance-revenue use in a single framework. Available proceeds appear large relative to the estimated carbon component of residential wholesale electricity costs. This creates an opportunity to preserve the emissions and investment incentives of the regional program while protecting, and potentially reducing, household electricity bills.