Industrial Energy Consumers of Pennsylvania

Date: November 20, 2019

To: Members of the Pennsylvania General Assembly

Re: Executive Order – 2019-07: Regional Greenhouse Gas Initiative (RGGI)

Position: Evaluate Consequences Before Implementation

On behalf of the Industrial Energy Consumers of Pennsylvania (IECPA) and its member companies representing over 25,000 employees statewide, we are writing today regarding Executive Order – 2019-07- Commonwealth Leadership in Addressing Climate Change through Electric Sector Emissions Reductions. As you are aware on October 3rd of this year, Governor Wolf issued Executive Order number 20019-07. That rulemaking ordered and directed the DEP to:

1. Rulemaking. By no later than July 31, 2020, develop and present to the Pennsylvania Environmental Quality Board a proposed rulemaking package to abate, control, or limit carbon dioxide emissions from fossil-fuel-fired electric power generators, which rulemaking package shall be authorized by the Act of January 8, 1960 (1959 P.L. 2119, No. 787), known as the Air Pollution Control Act. The proposed rulemaking shall:
    a. Include a robust public outreach effort working with the business community, energy producers, energy suppliers, organized labor, environmental groups, and others to ensure that the development and implementation of this program results in reduced emissions, economic gains, and consumer savings;
    b. Establish a carbon dioxide budget consistent in stringency to that established in the RGGI participating states;
    c. Provide for the annual or more frequent auction of carbon dioxide emissions allowances through a market-based mechanism; and
    d. Be sufficiently consistent with the RGGI Model Rule such that allowances may be traded with holders of allowances from other states.
    e. Interaction with Regional Transmission Organization. The DEP, working with the Public Utility Commission, shall engage with PJM Interconnection to promote the integration of this program in a manner that preserves orderly and competitive economic dispatch within PJM and minimizes emissions leakage.

IECPA membership is familiar with the RGGI Initiative and operate in states that have adopted and implemented the program. Our issue is not with the underlying goals of reducing carbon emissions, ***but rather the unnecessary RGGI cost that would be imposed on electric generators in Pennsylvania that will increase the cost of electricity to Pennsylvania residents, commercial businesses and large energy intensive, trade exposed industrial manufacturers.***

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As the legislature considers authorizing and implementing statutes regrading RGGI or any such carbon cap-and-trade program, we ask that you consider the following:

The cost of the RGGI program in Pennsylvania would not be comparable to any of the other states in the RGGI program.

Table 4. 2016 State energy-related carbon dioxide emissions by sector

Million metric tons of carbon dioxide

State	Commercial	Electric Power	Residential	Industrial	Transportation	Total
Connecticut	3.9	7.0	6.3	1.9	15.3	34.3
Delaware	0.9	3.6	0.8	3.4	4.6	13.3
Maine	1.6	1.5	2.9	1.5	8.9	16.5
Maryland	5.2	17.2	5.5	2.2	27.6	57.6
Massachusetts	7.0	10.7	11.4	3.4	31.7	64.2
New Hampshire	1.4	2.4	2.5	0.8	6.7	13.8
New York	21.7	27.7	30.6	8.3	75.4	163.7
Pennsylvania	10.7	82.1	18.4	45.6	60.7	217.4
Rhode Island	0.9	2.6	1.8	0.6	3.9	9.8
Vermont	0.9	0.0	1.3	0.4	3.4	6.0

Source: Energy Information Administration (EIA)

Pennsylvania is an energy producing state and would be penalized for that energy production. Looking at the annual amount of RGGI auction revenues collected in each participating state spread over the Electric Power sector CO2 emissions in those states results in $3.35 per metric ton. When applied to 82.1 metric tons of Electric Power sector CO2 emissions in Pennsylvania, the minimal financial impact of RGGI on PA is approx. $275 million per year additional cost to electric generators. However, this does not consider additional secondary market CO2 allowances that generators may need to purchase or the increased cost to electric generators to reduce CO2 emissions to comply with RGGI.

The RGGI cost imposed on electric generators in Pennsylvania will increase the cost of electricity to Pennsylvania residents, commercial businesses and large energy intensive, trade exposed industrial manufacturers. For these large industrial manufacturers, this places them at a competitive disadvantage to facilities in others states and countries that do not incur the cost of a RGGI like program.

According to Jeff Berman, manager of emissions and clean energy at S&P Global Platts Analytics[1]:

- About $6/MWh added to coal-fired power cost
- About $2/MWh added to gas-fired generation

[1] "Joining RGGI to boost Pennsylvania gas-, coal-fired power prices, double emissions traded", Oct. 4, 2019 https://www.spglobal.com/platts/en/market-insights/latest-news/coal/100419-joining-rggi-to-boost-pennsylvania-gas-coal-fired-power-prices-double-emissions-traded

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Joining RGGI and incurring the increased cost is unnecessary to achieve carbon dioxide reductions.

Carbon dioxide emissions in Pennsylvania have decreased just as much on a percentage basis as the other states participating in RGGI and have decreased MORE than other RGGI states on an absolute basis without the added cost of the RGGI program!

Table 2. State energy-related carbon dioxide emissions by year, adjusted (2005–2016)

State	Change (2005–2016) Percent	Absolute
Connecticut	-23.0%	-10.3
Delaware	-21.5%	-3.7
Maine	-29.6%	-7.0
Maryland	-30.6%	-25.5
Massachusetts	-24.8%	-21.3
New Hampshire	-36.0%	-7.8
New York	-22.7%	-48.3
Pennsylvania	-22.8%	-64.7
Rhode Island	-13.9%	-1.6
Vermont	-13.5%	-0.9

Source: United States total, *Monthly Energy Review* ,

Source: EIA, State Energy Data System, and EIA calculations made for this analysis.

https://www.eia.gov/environment/emissions/state/analysis/

Pennsylvania has already taken steps to increase renewable energy supply ***and Pennsylvania's competitive market continues to add lower carbon dioxide emitting generation while decreasing cost to customers***!

Please consider the following:

The RGGI didn't impact emissions. Using natural gas as alternative energy was responsible for 70% of the reduction and EPA restrictions[2] accounted for the rest.

[2] These regulations were focused on reducing the use of coal and closing less efficient power plants that could not compete with the low cost of natural gas. David T. Stevenson, (February 7, 2018). A Review of the Regional Greenhouse Gas Initiative, Cato Journal.

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The 5.7% drop in RGGI state electricity prices compares RGGI states to all states, despite existing differences in regulations from those states. In other words, this is comparing apples to oranges. When comparing RGGI states to states[3] without excessive regulations, *RGGI states saw their electricity prices increase 64% faster*.

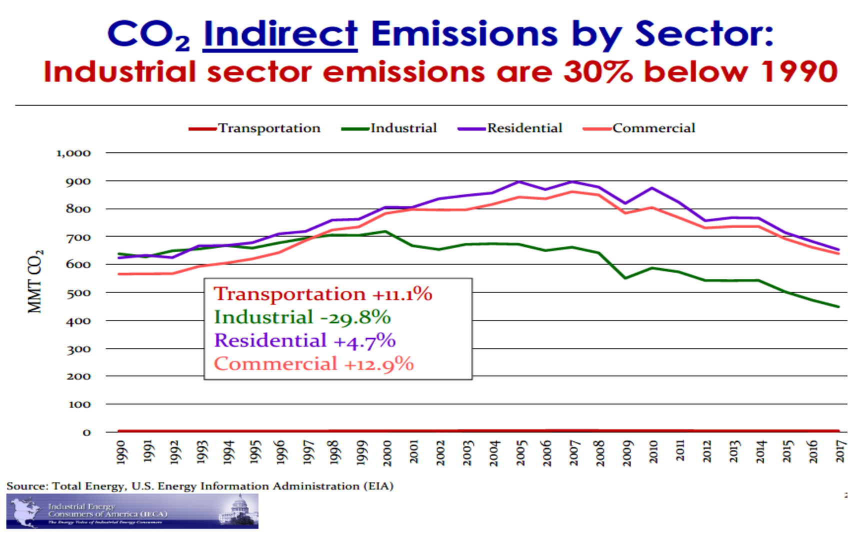
GDP growth varied dramatically across the states. The impacts from revenue generated by the sale of CO2 allowances are minimal at about 0.1% of GDP.

The $3.2 billion in RGGI allowance proceeds came out of business' and consumers' pockets.

IECPA does not see the need for Pennsylvania to join RGGI. However if after considering these facts the legislator decides to move forward with RGGI or a RGGI like carbon cap-and-trade program, the impact to electricity prices and energy intensive manufacturing must be studied and cost control mechanisms and direct allocation of auction revenues to energy intensive manufacturing must be provided.

For instance, Maine's RGGI program has a set aside of a certain amount of CO2 offset allowances to serve as a buffer for CO2 credit cost control.
"(2) Cost Containment Reserve (CCR) allocation. The Department shall allocate CO2 CCR allowances, separate from and additional to the CO2 Budget Trading Program base budget set forth in subsection 2(A) of this Chapter to the auction account. ***The CCR allocation is for the purpose of containing the cost of CO2 allowances.***"[4]

Industrial / manufacturing customers have already achieved the greatest reduction of their CO_2 emissions associated with energy usage through their commitment to energy efficiency and should not be penalized by a RGGI program.



[3] The states are Illinois, Ohio, Oregon, Pennsylvania, and Texas. David T. Stevenson, (February 7, 2018). A Review of the Regional Greenhouse Gas Initiative, Cato Journal.

[4] State Statutes & Regulations: https://www.rggi.org/program-overview-and-design/state-regulations

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IECPA stands willing to be a resource for the General Assembly on these matters to provide the perspective of the energy-intensive manufacturing operations for consideration. We appreciate that addressing forward looking energy policy is the appropriate role for the Legislature and Administration, but we are respectfully urging that these decisions be made in a transparent and deliberative process that enables all stakeholders' views to be considered.

Sincerely,

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