Pennsylvania General Assembly

Joint Public Hearing: Senate Environmental Resources & Energy Committee and Senate Community, Economic & Recreational Development Committee

Purpose: Pennsylvania Environmental Quality Board's (EQB's) initial modeling anticipated the CO2 allowance cost would plateau at $3.62 per ton between 2022 and 2030. However, recent RGGI auctions have resulted in CO2 allowance costs that have exceeded, by a remarkable margin, the EQB's modeling. Simply put, the modeling is not representative of actual conditions and requires further in-depth evaluation. The joint hearing will review this issue, compliance on impacted sectors and the significant other economic impacts caused by RGGI.

Tuesday, March 29th, 2022

Brett A. Vassey, President & CEO, Virginia Manufacturers Association Comments
"Economic Impacts of the Regional Greenhouse Gas Initiative" (RGGI)

Chairmen Yaw and Yudichak, members of the Senate Environmental Resources & Energy Committee, and members of the Senate Community, Economic & Recreational Development Committee, thank you for the opportunity to address you today. I am honored to be here with my colleagues, especially the Pennsylvania Manufacturers Association.

Although my "Commonwealth" is just a few hours south, we share many multi-state manufacturers, economic and environmental interests, and, on a personal note, my son will become a Philadelphia resident in June.

I have had the privilege to serve as the President and CEO of the Virginia Manufacturers Association for 20 years. The Virginia Manufacturers Association celebrates its centennial anniversary this year. Its mission is to create and maintain the best environment in the United States for world-class advanced technology businesses to manufacture and headquarter their companies for maximum productivity and profitability. Virginia's 6,000+ manufacturers employ over 230,000 individuals, contribute $45 billion to the gross state product, and account for 80% of the state's total goods exports to the global economy.

The *Virginia Manufacturing Competitiveness Plan* recognizes that there is an inextricable linkage between environmental management and the making and moving of energy, products and people. As such, economic prosperity, environmental protection, business consumption and human health are interdependent necessities of the U.S. economy. Federal and state administered EPA programs and policies to regulate the economy to slow or stop global warming should carefully balance these competing necessities through rigorous scientific and economic standards. Any regulation that would impair the U.S. economy or lacks empirical and transparent measurement leading to broad scientifically validated reductions in global temperatures as well as effective adaptation strategies should be opposed.

The VMA is the leading industrial consumer advocate involving Virginia's participation in RGGI. We have opposed and continue to oppose RGGI as a means to reducing CO2 emissions. We support all affordable, reliable, secure, and sustainable energy sources.

Virginia's Governor Glenn Youngkin has also issued Executive Order 9 to withdraw Virginia's participation in RGGI and repeal the VA RGGI regulation. Virginia's Department of Environmental Quality also just issued its first report in response to Executive Order 9[1].

The VMA supports the findings in that report and offer our own reasons for opposing RGGI participation:

[1] VA DEQ, *Virginia Carbon Trading Rule, and Regional Greenhouse Gas Initiative (RGGI) Participation Costs and Benefits*, March 11, 2022, https://www.deq.virginia.gov/home/showpublisheddocument/13813/637829669069026180

1. RGGI DOES NOT REDUCE CO2 EMISSIONS.

It is not a "cap and trade" program like EPA's "Acid Rain" trading program.

- State RGGI "budgets" are often confused with "caps." A state may emit more CO2 than its budget number. Utilities can just purchase more allowances and pass the expenses through to consumers.
- RGGI acknowledges that no electric generating unit (EGU) has ever shutdown due to the scarcity of allowances.

2. THERE IS NO NEED FOR RGGI – CARBON EMISSIONS ARE ALREADY DECLINING.

CO2 trends in VA & PA show declining emissions and replacement by other energy sources that have nothing to do with RGGI.

- Coal-fired EGU retirements will continue due to costs.
- Clean natural gas has displaced coal fired EGUs in VA and many states.
  - PA – 1995 emitted 101 million metric tons of CO2 from coal-fired electric power. By 2018, that was reduced to 44.7 million metric tons of CO2.
  - VA – 1995 emitted 27.3 million metric tons of CO2 from coal-fired electric power. By 2018, that was reduced to 10.3 million metric tons of CO2
- In 2010 Virginia produced 1,200 lbs./month of CO2 per MWh compared to 679 lbs./CO2 per MWh in 2020, prior to RGGI taking effect.
- Renewable energy, hydrogen fuel, and fuel cells are growing and some promise competitive prices and zero carbon emissions. This will happen without RGGI.

3. RGGI IS A TAX ON ELECTRICITY.

RGGI is a pass-through carbon tax. RGGI carbon tax revenue is largely spent on state programs. States do not need RGGI to tax and spend. RGGI has become prohibitively expensive and is harming consumers.

- To date, Virginia has collected $301 million from ratepayers from the sale of allowances.
- The VA SCC estimated allowances would cost electricity ratepayers $3 billion through 2045 (excluding financing costs).

> *RGGI…is expected to cost Dominion's Virginia jurisdictional ratepayers approximately $3 billion through 2045…RGGI does not create this money. Rather, RGGI directly charges generators, including utilities such as Dominion who in turn bill ratepayers for these very costs[2].*

- RGGI electricity taxes include a 3% fee to RGGI, Inc.

VA RGGI, Inc. Fees, 2021

General Service Category	Percentage of Funding	Approximate Amount
Allowance Tracking	20%	$118,584
Auctions	30%	$177,876
Market Monitoring	15%	$88,938
Technical Modeling	15%	$88, 938
Program Management	20%	$118,584
TOTAL	**100%**	**$592,920**

Table Source: Virginia - RGGI, Inc. Contract. February 8, 2021.

[2] Case No. Pur-2020-00169, VA SCC Order Approving Rate Adjustment Clause, Commissioner Judy Jagdmann, August 4, 2021

- RGGI electricity taxes include, in the case of Virginia, the utility's approved financing costs ($38 million) and an authorized rate of return (9.2% for Dominion Energy).
- RGGI allowances have steadily increased and in the last auction (March 2022) were $13.50 per allowance (ton of CO2). In comparison, ten years ago allowances were less than $2 per ton (March 2012)[3].
- In Virginia, industrial customers' electric bills were projected to increase $1,554.00 per month but the March 2022 auction price would increase that rate by 49%.

Utilizing RGGI auction revenue to subsidize RGGI tax impacts on ratepayers is a highly inefficient and expensive system of wealth redistribution. Otherwise, RGGI is a volatile multi-state tax on electricity.

4. **RGGI LACKS VOTER ACCOUNTABILITY AND TRANSPARENCY.**

Participating states must cede control over billions of electric ratepayer/taxpayer dollars to RGGI, Inc. and the other states in the program. Each state just has one vote.

- RGGI, Inc. does not require legislative approval to admit a new state. They only make sure a state's plan follows the RGGI framework.
- When RGGI undertakes program reviews to change the rules, states must adopt the changes based on the model rule without their legislatures' approval. Program reviews affect future allowance pricing – i.e., tax rates on electricity.
- States like VA and PA with active manufacturing sectors and EGUs have different interests than smaller NE states - one-size-fits-all does not work. For example, avoiding "carbon leakage" in the manufacturing sectors alone due to escalating electricity costs, as has even been recognized by the EU, would contribute to the retention of 540,000 PA MFG jobs and 230,000 VA MFG jobs.

5. RGGI ENVIRONMENTAL IMPACT IS NOT MEASURED AND COST-BENEFIT MODEL IS NOT SUBJECT TO JUDICIAL REVIEW.

Nowhere in Virginia's contract with RGGI, Inc. is there a CO2 measurement and a goal statement. If one accepts RGGI as an interstate environmental program like the "Acid Rain" program, then one must empirically measure environmental conditions related to the environmental standard. Further, one would hope that the benefit-cost model upon which the environmental standards are built would also be subject to judicial review – neither occur with RGGI.

- No statement of VA or US temperature reduction impacts (e.g., 1.5 degrees Celsius or 2.7 degrees Fahrenheit).
- No CO2 concentration standard or measurements in VA or US identified.
- No CO2 air monitoring stations in VA identified.
- No analysis or corrections for externalities created by RGGI (e.g., increased imports).
- No date by which atmospheric CO2 levels will be restored to a defined standard.

Chairmen and members of this joint committee, the Virginia experience has taught us that RGGI is an interstate tax on electricity that allows one to cede their authority to an organization shielded from the voters. If you want to raise taxes to pay for environmental resilience programs, trust your voters. If you believe that eliminating carbon emissions from the power and manufacturing sectors is good public policy and will not impact manufacturing competitiveness, trust your voters. If you believe in being good stewards of your environment and your economy, trust your voters. Finally, if you want to lead the nation, join Virginia in ensuring that energy resources are affordable, reliable, secure, and sustainable for all your voters.

[3] RGGI, Allowance Prices and Volumes, 2022. https://www.rggi.org/Auctions/Auction-Results/Prices-Volumes