Prepared Remarks of Seth Blumsack
Pennsylvania Senate ERE and CRED joint committee hearing, March 29 2022

Chair Yaw and Chair Yudichak, thank you for the opportunity to participate in today's hearing on the economic impacts of Pennsylvania's scheduled entry into the Regional Greenhouse Gas Initiative (RGGI).

I am submitting these written remarks as the Co-Director of Penn State University's Center for Energy Law and Policy. The Center for Energy Law and Policy is an interdisciplinary research initiative of Penn State University. In 2020, a team of Penn State researchers supported by the Center produced an interdisciplinary research report, "Prospects for Pennsylvania in the Regional Greenhouse Gas Initiative," that provided an independent assessment of the economic, environmental, legal and policy issues associated with Pennsylvania joining RGGI. The report, which was funded internally by Penn State University and which provides the basis for my comments today, is available on the Center's web site, celp.psu.edu.[1]

Specifically related to RGGI and Pennsylvania's economy, our report draws the following conclusions:

1) Joining RGGI will reduce emissions of carbon dioxide from Pennsylvania's power generation sector, and will also contribute to improved air quality. This will benefit the health of many Pennsylvanians.
2) Because of Pennsylvania's competitive retail electricity market, it is simply not the case that RGGI permit costs will necessarily be passed along to Pennsylvania ratepayers the same way that they might in states without competitive retail electricity markets.
3) Pennsylvania would earn revenue through the RGGI permit auction, and mechanisms exist (or could be created) to re-invest that auction revenue to mitigate potential impacts of RGGI on electric bills in Pennsylvania.

Recent prices in the RGGI permit auctions have indeed been a surprise but I do not believe that they fundamentally alter any of our report's major conclusions. What exactly has led to these relatively high prices is not clear and merits further research and investigation. While the Center's report did not consider RGGI prices at the levels we are currently seeing, our analysis does suggest two reasons that Pennsylvania joining RGGI may actually act as a correction on current permit price levels, pushing them lower. First, Pennsylvania joining RGGI will increase the total supply of carbon permits in the RGGI market. Second, our analysis found that Pennsylvania can likely meet its carbon budget under RGGI more cheaply than other states, meaning that Pennsylvania would have spare carbon permits to sell to other states. Increasing the supply of permits in the RGGI market as a whole, and increasing the supply that could be sold from Pennsylvania to other states, are forces that our research suggests will act to reduce RGGI prices from their current levels.

[1] The report can be downloaded directly from http://celp.psu.edu/wp-content/uploads/2021/01/CELP_RGGI.pdf

The Center's report cautions against drawing too strong of a connection between an increase in permit prices in the RGGI auction and the electricity bills faced by Pennsylvania ratepayers. Our report does acknowledge that Pennsylvania joining RGGI would likely lead to higher wholesale costs in Pennsylvania's portion of the PJM regional electricity market. These wholesale costs are also influenced by the price of fuel, particularly natural gas. But in a competitive electricity state like Pennsylvania, wholesale and retail costs are not the same thing. The Center's report finds that because of Pennsylvania's competitive retail electricity market, increases in wholesale electricity costs may not automatically be passed on to Pennsylvania ratepayers. Competitive electricity providers in Pennsylvania may have contracts or other assets that give them a cost advantage under RGGI; may be able to hedge against fluctuations in the wholesale price of energy or the RGGI permit price; or may choose to absorb some wholesale cost increases themselves in order to maintain a competitive position in Pennsylvania's marketplace.

Even if RGGI prices did not decline from their current levels following Pennsylvania's entry into RGGI, and even if retail electric rates did increase somewhat because of RGGI, the Center's analysis finds that there are steps that the Commonwealth could take to reinvest revenues from the RGGI auction to offset retail electric bill increases. As our report discusses, measures like expanding energy efficiency programs and offering direct bill assistance, particularly to low-income ratepayers and small businesses, have been used effectively in other RGGI states to prevent RGGI participation from increasing consumer electric bills. If RGGI prices remain high, this expands the permit auction revenue that Pennsylvania would collect and provides more resources to re-invest to assist ratepayers. In the current environment, RGGI revenue re-investment in Pennsylvania would need to be consistent with the Air Pollution Control Act. The legislature could, however, direct DEP to expand its re-investment authority to include options like direct bill assistance. The DEP and Public Utilities Commission could also potentially leverage Act 129 to direct RGGI revenues towards electric bill reduction.

In summary, our analysis finds that RGGI provides benefits to Pennsylvania while contributing to reductions in emissions of heat-trapping gases and improving air quality. Our work also suggests pathways that the legislature and state agencies could take, working cooperatively, to ameliorate RGGI's potential economic impacts on Pennsylvania electric ratepayers. Thank you again for the opportunity to submit this information to the Committees.