PROPOSAL TO JOIN THE REGIONAL GREENHOUSE GAS INITIATIVE

Testimony of Gordon Tomb, Senior Fellow Commonwealth Foundation

PENNSYLVANIA HOUSE ENVIRONMENTAL RESOURCES & ENERGY COMMITTEE

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Good morning. My name is Gordon Tomb. I am a senior fellow with the Commonwealth Foundation for Public Policy Alternatives. I have been writing and speaking about energy issues for more than 30 years, relying on the expertise and research of scientists, engineers and others steeped in the technical aspects of the subject at hand.

When we first heard of Gov. Wolf's idea to replicate the Northeast Regional Greenhouse Gas Initiative (RGGI) program, we turned to the work of David Stevenson, director of the Delaware-based Caesar Rodney Institute Center for Energy Competitiveness. Mr. Stevenson has written more than 100 analytic studies. He would be here today but for a prior commitment in Colorado.

Of all of Mr. Stevenson's writings, most relevant to today's proceeding is his peer-reviewed critique of the decade-old RGGI program that covers 10 Northeast and Mid-Atlantic states.[1] (The Stevenson review covered Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont. New Jersey, which just rejoined RGGI in June, was not reviewed.) We have made copies of the Stevenson report available to the committee as well as copies of a supplemental review that addresses Gov. Wolf's proposal.

What RGGI has produced for its member states is what we think Pennsylvania can expect to get from the governor's proposal. And it's not good.

According to the Stevenson research, RGGI has resulted in higher energy costs, reduced industrial activity and no environmental benefits. In short, RGGI has hurt its region.

RGGI seeks to reduce carbon dioxide emissions from electric power plants by requiring such facilities to purchase the right to release the gas, thereby making the use of fossil fuels more expensive and less attractive.

The extra costs imposed on power plants are passed on to consumers of electricity. The revenue received by the states from the sale of emission allowances is supposed to be spent on programs to increase energy efficiency, assist low-income electricity customers, decrease greenhouse gas emissions, promote renewable energy sources, and to administer the initiative.

Although the RGGI program administrator has claimed significant benefits from the initiative, Mr. Stevenson's research says otherwise.

For the purpose of comparing apples to apples, the Stevenson report refers to five non-RGGI states (Illinois, Ohio, Oregon, Pennsylvania and Texas) that have deregulated electricity supplies and programs for promoting renewable energy sources similar to the RGGI states. The paper examines the period between 2007-2015.

[1] Stevenson, David T., "A Review of the Regional Greenhouse Gas Initiative," Cato Journal Winter 2018, https://www.cato.org/cato-journal/winter-2018/review-regional-greenhouse-gas-initiative.

Key Findings

- There were no added emission reductions or associate health benefits in the RGGI states.
- Spending of RGGI revenue on energy efficiency, wind and solar power and low-income fuel assistance had minimal impact.
- RGGI allowance costs added to already high regional electric bills.
- RGGI pricing of electricity contributed to a 12 percent drop in the production of goods and a 34 percent drop in the manufacturing of energy-intensive goods.

Carbon Dioxide Reductions

RGGI had no effect on carbon dioxide reductions — nor any supposed health benefits — when other factors are considered: the effects of regulatory and market forces and the quantity of emissions exported to other states by the importation of power into RGGI states.

Of the 57 million tons of carbon dioxide removed from RGGI emissions, 11 million tons were exported to other states by importing more electricity and exporting energy intensive industry, Stevenson reports. The remaining 46 million tons are more than accounted for through the reduction of coal- and petroleum-fired generation resulting from illegal Obama era federal clean-air regulations later overturned by the courts and the increased use of relatively low-emission, natural gas-fired power plants. The expanded use of natural gas occurred because of free market driven innovation in natural gas drilling practices that led to dramatically lower fuel prices.

Energy Efficiency

Energy efficiency as measured by the ratio between energy demand and the growth of gross domestic product improved more in non-RGGI states than in RGGI states. In other words, the former are getting more economic growth out of the electricity they use than are the latter.

Renewable Energy Promotion

Non-RGGI states added more wind and solar generation than did RGGI states — 5.5 percentage points compared to 2.3 percentage points.

Electricity Prices

RGGI electricity prices rose 64 percent more than in comparison states between 2007-2015. The price difference appears to be split between the additional cost of electricity imposed by emission allowances and indirect costs. For example, an earlier paper coauthored by Stevenson showed that emission allowances added $11 million to Delaware electric bills in 2015 and indirect costs added another $28.5 million because the state had to import more expensive electricity from out of state to replace power lost through the RGGI program.

Economic Growth

Although Stevenson says it is difficult to measure the effect of RGGI on economic growth, the fact is that the economies of non-RGGI state grew 2.4 times faster between 2007-2015 than did those of RGGI states. RGGI states lost 34 percent of energy intensive businesses while non-RGGI states lost only five percent. With respect to overall goods production, RGGI states lost 12 percent while non-RGGI states grew more than 20 percent. These effects are reflected in demand for industrial electricity, which dropped by 18 percent in RGGI states compared to only four percent in both non-RGGI state and in the U.S. as a whole.

Assistance to Low-income Electric Customers

RGGI's net contribution to low-income consumers is $5 a year when RGGI's effect of increases in electricity prices is included. Stevenson concludes that this amounts to an increase of only 1.6 percent to the assistance already received through the federal Low Income Home Energy Assistance Program (LIHEAP).

Use of Carbon Tax Revenues

Stevenson uses Delaware as an example to suggest that RGGI states may not be effectively spending emission allowance revenues: "Delaware has received $100 million in RGGI revenue $55 million remains unspent, $22 million has gone to administrative overhead and fuel assistance, with just $23 million (23 percent) going to energy efficiency projects."

So far as we can tell, carbon tax revenues provide little more than multi-billion-dollar slush funds for governors.

So, how do Pennsylvania's emissions compare to RGGI states?

According to Stevenson, between 2007-2017 per capita emissions from Pennsylvania electric power plants fell 40 percent. RGGI states fell 41 percent after adjusting for the emissions RGGI states shifted elsewhere by importing more electricity from other states.[2] So, largely through the advent of cheap natural gas, Pennsylvania emissions dropped nearly as much as the RGGI states without the pain of the RGGI costs.

If generation capacity from natural gas, wind and solar increases as predicted by the Pennsylvania Public Utility Commission, Mr. Stevenson says, the 2030 RGGI goal will be met without joining RGGI and adding billions of dollars in allowance fees to electric bills.

How about the governor's plan? Mr. Stevenson estimates the direct costs of meeting Gov. Wolf's 2030 emission-reduction goal would be as much as $29 billion and as much as $89 billion if indirect costs are included. Assuming that the Wolf program would seek further reductions after 2030 to achieve zero emissions, direct and indirect costs would add up to $147 billion.[3]

It is important to note before this legislative body that all the RGGI states joined RGGI with explicit approval of their legislators. When the Virginia governor attempted a unilateral action to join RGGI, the state legislature defunded the effort.[4]

We urge that this legislature save Pennsylvanians from the ill-considered action of Gov. Wolf, whose plan promises much harm and no benefits.

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[2] Stevenson, David, "Pennsylvania and RGGI," October 9, 2019. Submitted to the committee.
[3] Ibid.
[4] Utility Dive, "Virginia Entry to RGGI Blocked as Governor Declines to Veto Budget Language," May 3, 2019, https://www.utilitydive.com/news/virginia-entry-to-regional-ghg-initiative-blocked-as-governor-declines-to-v/553173/