



House Environmental Resources and Energy Committee

February 5, 2020

Regional Greenhouse Gas Initiative (RGGI) and HB 2025

Good morning, Chairman Metcalfe, Chairman Vitali, and members of the committee. My name is Rebecca Oyler, and I am the Legislative Director for the National Federation of Independent Business (NFIB) in Pennsylvania. NFIB is the premier small business advocacy organization with about 13,000 members in Pennsylvania and approximately 300,000 members nationwide. We appreciate your allowing us to be here today to speak on behalf of Pennsylvania's small businesses on the Governor's proposal to join the Regional Greenhouse Gas Initiative and HB 2025, which would obligate the administration to seek approval of the General Assembly before taking this step.

Energy prices and small businesses

Small businesses make up an enormous segment of Pennsylvania's business community. More than 99% of Pennsylvania businesses are small. These businesses are responsible for almost half of the private sector workforce, and they create two out of every three *new* jobs. They are truly the engine of economic growth in the state and in their local communities.

Small business owners and their employees are also citizens of the world. They care about the environment around them and want to be good stewards. Many of them make their living from natural resources, from whitewater rafting operator to farm-to-table restaurant to solar panel installer. They understand that balance is key.

They also know that competitive energy prices are essential to operating a small business, whether that small business resides in a large warehouse or a small shop. NFIB surveys have found that energy costs are one of the top three business expenditures in 35% of small businesses. And even if they are not high on the list of direct expenses, every business—large and small—depends on services and materials along the supply chain that are impacted by energy prices.

Because of their size, small business owners are particularly sensitive to energy cost increases. This is particularly true of energy-intensive small businesses like laundromats, car dealerships, convenience stores, and small manufacturers. Tight margins make it difficult to adjust the price of their goods and services or to change business practices quickly enough to manage steep increases. For example, most owners cannot afford to buy new, more energy-efficient equipment if current equipment still has useful life. And unlike many big businesses, they are usually much too small to negotiate reduced rates from electric suppliers.

Pennsylvania's competitive advantages keep rates lower

Pennsylvania is fortunate to have certain energy advantages that benefit businesses here. First, our competitive electric market allows small businesses, like all consumers, to shop for the best price for their energy needs. Electric deregulation has led to competitively low energy rates, innovations in

energy distribution, and new products and services for all consumers. In fact, electric competition has produced a market for renewable energy sources, which many Pennsylvanians choose to purchase.

And of course we can't talk about Pennsylvania's competitive advantages without discussing the innovations in hydraulic fracturing and horizontal drilling that have revolutionized energy and already reduced CO2 emissions here in our state and, indeed, throughout the world.

These advantages have helped make Pennsylvania energy competitive among states, where it ranks number 16 for business energy costs. This is a key selling point for business location and expansion and a factor that helps existing businesses stay competitive. By comparison, the states that currently participate in RGGI rank 40th through 47th on this index, with only Maryland (33) and Delaware (37) ranking better than 40.¹ Overall, energy costs are currently lower in Pennsylvania than in every other RGGI state.

In fact, Pennsylvania's comparative energy advantages make us the nation's largest net exporters of electricity,² producing more than twice the energy we consume.³ Putting a price on CO2 production will make Pennsylvania's energy less competitive. And it will affect the commonwealth to a much greater degree than it does other RGGI states. Capping CO2 emissions in Pennsylvania's energy sector will also likely mean higher prices for RGGI state consumers, who pay lower prices than they otherwise would because they purchase energy from Pennsylvania.⁴

Implementing cap and trade policies on energy generation through participating in RGGI will change the comparative advantage that Pennsylvania has and will mean higher energy costs across the board for businesses and consumers and less competitive energy prices for our exports.

Costs may outweigh benefits

RGGI will impose significant costs on Pennsylvania's electric producers, which they will pass on in higher electricity bills to small businesses and consumers. Costs will increase on coal and natural gas sources, which make up 57% of Pennsylvania's energy mix,⁵ and some power plants will likely be forced to close. More of Pennsylvania's coal and natural gas will be shipped out of state to non-RGGI states, where electric generation is less expensive. Jobs will be lost in communities where power plants close—not just the jobs in these plants, but the jobs with the small grocery stores, garages, contractors, and retailers serving those communities. **RGGI is effectively a hidden tax that will impact the entire economy and could lead to considerable job losses.**

¹ <https://www.chooseenergy.com/data-center/business-energy-index/>

² <https://triblive.com/news/pennsylvania/report-pennsylvania-largest-net-exporter-of-electricity-in-u-s/>

³ <https://www.whitehouse.gov/wp-content/uploads/2019/10/The-Value-of-U.S.-Energy-Innovation-and-Policies-Supporting-the-Shale-Revolution.pdf>

⁴ Using PJM as an example, Pennsylvania has the total installed electric generation capacity of any PJM state, constituting a full 22%. Increasing energy prices in PA will not only make its producers less competitive in the PJM market, but given its market share, will likely increase electric rates in PJM overall.

https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2018/2018-som-pjm-volume2.pdf

⁵ <http://files.dep.state.pa.us/AboutDEP/Testimony/2019/2019.11.01%20House%20D%20Policy%20Committee%20Hearing%20RGGI%20DEP%20Testimony.pdf>

Given the impacts RGGI will have, the question the General Assembly should consider is whether the benefits are worth the considerable costs that RGGI will bring to Pennsylvania.

If the primary benefit is CO2 reduction, Pennsylvania is already ahead of the game. Between 2010 and 2017, Pennsylvania's energy sector reduced CO2 emissions by 36% from 120.9 million metric tons to 76.8 million metric tons.⁶ Between 2007 and 2015, RGGI states reduced CO2 emissions, but they also doubled the amount of power they imported, much of it from Pennsylvania and unregulated by RGGI. Also during this timeframe, RGGI states increased wind and solar generation by 2.3%, while non-RGGI comparison states increased it by 5.5%.⁷

DEP has stated that to have the desired impact on climate change models, Pennsylvania's commitment to RGGI would not be enough. In fact, all states would need to commit to similar greenhouse gas reductions, and all nations would have to meet comparable goals. This seems unlikely and makes us question the true benefit to Pennsylvania of joining.

DEP's plan will raise revenue for the state to spend on (unspecified at the point) air pollution reduction programs. If pollution reduction is a primary goal of joining RGGI, again, Pennsylvania is already ahead of the curve. Since 1990, nitrogen oxides are down 83% in Pennsylvania, particulate matter, 31%, volatile organic compounds, 60%, and sulfur dioxide, 93%. Total emissions are down 88% during this time.⁸

Indeed, pollution reduction efforts have been an unheralded success, and our air is cleaner than it has been in decades. Of course, we can always do better, but committing the state to the overhead of an expensive and complicated carbon trading program is not the only answer. Consideration should be given to finding market incentives here in Pennsylvania that improve air and quality of life directly in our local communities. The Wetlands Replacement Project is a successful DEP program that leverages public and private funding to restore and create wetlands. Pennsylvania should consider creating a similar program that would incentivize public and private investment in projects in local communities to improve air quality. Eligible projects could include: reforestation, improved forest management, pedestrian/bike trails, parking areas for shared ride programs, and even abandoned well plugging.

And although RGGI's supporters say it is a market-based solution, the limits placed on allowances create only an artificial market that derives from mandates. True free-market solutions will inspire people to innovate without hindering economic prosperity. In fact, studies have shown that the more prosperous a society, the better it cares for its resources. Some recent examples of how far innovation has taken us include:

- Technology to drill for many miles horizontally underground with minimal impact on the surface above
- Crop yield increases that feed more people with many fewer resources
- Increased green vegetation by 14% on the earth over the past 30 years⁹

⁶ <https://www.eia.gov/environment/emissions/state/>

⁷ <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2018/2/cato-journal-v38n1-chapter-11.pdf>

⁸ <https://www.dep.pa.gov/OurCommonWealth/Pages/Article.aspx?post=38>

⁹ <https://www.spectator.co.uk/2016/10/the-world-is-getting-greener-why-does-no-one-want-to-know/>

- Less water consumed in the U.S. today than in 1970, despite 80 million more people¹⁰

Market forces are creating even more innovations every day that will make the world even better. Many of these ideas will come from entrepreneurs, whose small businesses need strong economic conditions to thrive. Some examples in the works include: the use of enzymes and fungus to consume plastics and the conversion of CO2 in the air to synthetic fuel.

Decision appropriate for the legislature

Given the costs involved in committing Pennsylvania to RGGI, it is most appropriate for the General Assembly, rather than the executive alone, to weigh costs and benefits involved in this important decision. This is why we support HB 2025, which requires that the General Assembly must authorize Pennsylvania's participation in RGGI and that DEP conduct public hearings.

Lastly, RGGI's carbon pricing minimums and allowance limits are, in effect, taxes on the state's energy producers, the revenue for which will be allocated to programs that may not receive legislative review. **In fact, giving RGGI the ability to control the artificially created market for these allowances and the "tax" that results from them may be an unconstitutional delegation of the legislature's ability to levy taxes and make expenditures.** This is all the more reason to consider HB 2025 as a check on the authority of the executive branch.

Thank you again for the opportunity to speak today on behalf of Pennsylvania's small businesses. I would be happy to answer any questions.

¹⁰ <https://thebreakthrough.org/journal/issue-5/the-return-of-nature>