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PROSPERITY
PENNSYLVANIA

July 21, 2020

House Environmental Resources and Energy Committee
Public hearing on Regional Greenhouse Gas Initiative (RGGI)

Dear Chairman Metcalfe, Vice-Chair Vitali, and members of the committee,

It is a great pleasure to be here on behalf of tens of thousands of Americans for Prosperity activists in Pennsylvania.

I want to start my comments by thanking this committee and the full House for the passage of the H.B.2025. We applaud your bipartisan efforts to safeguard the integrity of the regulatory process by upholding the General Assembly's role in determining the public policies of the Commonwealth. We hope your colleagues in the Senate will follow your lead and swiftly consider this legislation.

My testimony today is going to focus on four key aspects:

1. The process for joining RGGI
2. Energy poverty in Pennsylvania
3. The futility of RGGI and its unintended consequences
4. The faulty premises from the Department of Environmental Protection

The Process for Joining RGGI

We believe that it is a reasonable expectation that if the Commonwealth is going to enact a regressive energy tax with significant implications for every family and business in the state, as a matter of principle and good governance, their elected officials should have a say in the matter.

Requiring legislative consent for Pennsylvania to join or enact any cap-and-trade program, such as The Regional Greenhouse Gas Initiative (RGGI), is, in our view, the only sensible and curse of action. By providing unequivocal clarification of the legislature's authority to approve substantive changes to existing state policies, H.B.2025 safeguards Pennsylvanians against administrative overreach that would overhaul the economy and quality of life of every community in the state. Enabling executive branch ratification of RGGI membership without legislative and electoral accountability is contrary to core principles like the separation of powers as well as Pennsylvania's Air Pollution Control Act.

Energy poverty in Pennsylvania

RGGI is a tax on energy with highly questionable benefits, and tangible costs, especially for the least fortunate already experiencing energy poverty. Put simply, joining RGGI is "all pain, no gain" for hard-working Pennsylvanians. Note that economists consider an "affordable" energy bill to be 6 percent of income. But many families around the country pay much, much more.

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According to the most recent results from Energy Information Agency *Residential Energy Consumption Survey* (RECS) Nearly one-third of U.S. households (31%) reported facing a challenge in paying energy bills or sustaining adequate heating and cooling in their homes in 2015.[1] Furthermore, about one in five households reported reducing or relinquishing necessities such as food and medicine to pay an energy bill.[2]

Naturally, our Commonwealth is not an exception to the national rule.

According to the Home Energy Affordability Gap, more than 840.000 households in Pennsylvania are experiencing energy insecurity, spending more than 10 percent of their annual income on their home energy bill.[3] In other words, over 16 percent of households in our state, even before the current pandemic and subsequent economic tsunami, faced crippling financial burdens from their energy bills.[4]

Perhaps more disconcerting is the fact reported by the Pennsylvania Public Utility Commission that found that amongst the least fortunate "Pennsylvania's average energy burdens for all energy sources were among the highest in the country for households below 150% of the poverty level."[5]

Enacting RGGI and embracing antagonistic views towards affordable and reliable energy sources is not a constructive way to address energy poverty. Instead of a new tax on prosperity and economic growth, decisionmakers should work to make energy more affordable by removing subsidies and mandates than decrease competition and increase prices for consumers.

The futility of RGGI and its unintended consequences

RGGI's top-down approach ignores the extraordinary progress that our Commonwealth and our country are having in reducing emissions. This is a story of technological innovation driven by the "ultimate resource" of human ingenuity has been far superior in achieving emissions reductions that the work of any central planner could ever have.

Consider that U.S. per capita carbon dioxide (CO_2) emissions are at their lowest levels since 1955, dropping 23 percent from their peak in 1981.[6]

In our Commonwealth's power sector, where RGGI's purported policy impacts would occur, the declines are also significant. The latest Greenhouse Gas Inventory published by Department of Environmental Protection registers a 30 percent decline in carbon emissions associated with electricity production between 2000 and 2016.[7]

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[1] U.S. Energy Information Administration Residential Energy Consumption Survey (RECS)
[2] Ibid.
[3] Home Energy Affordability Gap: Pennsylvania. 2019 (2nd Series) Published April 2020.
[4] Pennsylvania Census Data: Households & Families
[5] Home Energy Affordability for Low-Income Customers in Pennsylvania. January 2019
[6] U.S. Carbon (CO2) Emissions 1960-2020
[7] Pennsylvania Greenhouse Gas Inventory Report, December 2019

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Additionally, when it comes to harmful pollutants, Pennsylvania ranks #3 in the country in terms of total sulfur dioxide (SOx) reductions from the power sector from 1990 to 2019, only behind Ohio and Indiana, and #2 in reduction of annual power sector nitrogen oxides (NOx) emissions over the same period.[8]

Supporters of the RGGI argue that the program has produced substantial decreases in power plant emissions since its inception. Nevertheless, a peer-reviewed study from the Cato Institute[9] looked at the period from 2007-2015 and challenges this assertion by showing that RGGI states simply tracked with reductions seen across the country in reaction to natural gas prices and a slew of new regulations promulgated by EPA during the past administration.

The fact is that carbon dioxide emissions began falling in RGGI states before the initiative went into effect. An analysis by the New York State Energy Research and Development Authority concluded that "fuel-switching from petroleum and coal to natural gas (due to relatively low natural gas prices)" was a primary driver of declining CO2 emissions in RGGI states from 2005 to 2009.[10]

But while the program did little to contribute to the stated goal of emission reductions, the impact of the higher electricity prices in the RGGI states has contributed to a 12 percent drop in goods production and a 34 percent drop in the production of energy-intensive goods between 2007 and 2015.[11]

Meanwhile, non-RGGI comparison states increased goods production by 20 percent and only lost 5 percent of energy-intensive manufacturing during the same period.

The fact, as mentioned above, is also appreciated in RGGI states 18 percent drop in industrial electricity demand, while non-RGGI comparison states fell only 4 percent.[12]

Therefore, it is a reasonable expectation that in the medium term, RGGI implementation will make Pennsylvania a less competitive place to invest in manufacturing ; a sector employs 9.47 percent of our state workforce and is responsible for 11.65 percent of the total economic output in the Commonwealth.[13]

Furthermore, RGGI's policy goal of reducing emissions would not be accomplished because these losses for Pennsylvania will simply lead to the export of emissions and jobs to other jurisdictions foreign and domestic, some with higher carbon intensity per unit of production, thereby nullifying any potential contributions achieved by Pennsylvania.

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[8] Environmental Protection Agency. Power Sector Programs – Progress Report

[9] A Review of the Regional Greenhouse Gas Initiative By David T. Stevenson https://www.cato.org/cato-journal/winter-2018/review-regional-greenhouse-gas-initiative

[10] RGGI: A Faulty Model for "Successful" Cap-and-Trade https://instituteforenergyresearch.org/analysis/rggi-a-faulty-model-for-successful-cap-and-trade/

[11] A Review of the Regional Greenhouse Gas Initiative By David T. Stevenson https://www.cato.org/cato-journal/winter-2018/review-regional-greenhouse-gas-initiative

[12] Ibidem.

[13] 2019 Pennsylvania Manufacturing Facts. The National Association of Manufacturers

This phenomenon, known as "leakage," is critically to understand the futility of cap-and-trade regimes, especially considering its stated policy goals of reducing carbon emissions overall.

Faulty premises from the Department of Environmental Protection

On July 8, the Department for Environmental Protection (DEP) put out a press release publicizing the alleged benefits our Commonwealth will accrue from its participation in RGGI.[14] However, because DEP has yet to disclose all of the data, inputs, assumptions, and models underpinning these claims, it is not possible at this time to evaluate the key methodologies and assumptions that when into their models.

Despite these limitations, there are a few conclusions to draw from this preliminary press release justification:

- Virtually none of the claimed benefits for RGGI membership are related to reducing CO2 emissions, the stated policy goal of the program.
- Instead, virtually all of the claimed benefits for this carbon dioxide-focused program are a result of ancillary benefits accrued from incidental reductions in emissions of sulfur dioxide and oxides or nitrogen.
- Basing critical public policy decisions on these ancillary benefits and without serious consideration of the costs to low-income Pennsylvanians is highly problematic.
- In a seminal 2017 paper published in the Journal of Benefit-Cost Analysis, and authored by nineteen of the most prominent experts on Regulatory Analysis in America, authors caution that regulatory analysis that presents substantial ancillary benefits as a driver for policy decisions may need closer inspection, "particularity if the co-benefits are much larger than the direct benefits."[15] The authors further explain that "one would expect that regulation targeted directly at a particular outcome can achieve it more cost-effectively than one that achieves it circuitously as a side effect (co-benefit) of an unrelated regulation, and a sound analysis must make a thorough inventory of both the harmful and the beneficial consequences of each alternative."[16]
- DEP incorrectly states that their approach to valuing these ancillary benefits is based on an EPA methodology. However, in recent regulatory actions related to the Mercury and Air Toxics Standards, Cost-Benefit Analysis for Clean Air Act Regulations, and National Ambient Air Quality Standards for Particulate Matter, the Agency and its independent science advisors have expressly rejected this methodology. In addition, in reports to Congress over the past two

[14] Capping Carbon Pollution Would Save Hundreds of Lives and Billions of Dollars, Department of Environmental Protection, July 8th, 2020.
[15] Sudley, S., Belzer, R., Blomquist, G., Brennan, T., Carrigan, C., Cordes, J., . . . Zerbe, R. (2017). Consumer's Guide to Regulatory Impact Analysis: Ten Tips for Being an Informed Policymaker. Journal of Benefit-Cost Analysis, 8(2), 187-204. doi:10.1017/bca.2017.11 P.198
[16] Ibidem. 198-199.

decades, the White House Office of Information and Regulatory Affairs has identified five key uncertainties and assumptions in this approach that undermine its use for policy decisions.[17]

In our view, it appears that DEP has failed to properly weight the alternatives to achieve the intended benefits of the program, mainly if those benefits could be potentially achieved in a more cost-effective way that does not penalize families, workers, and business in our state.

Conclusion

Joining RGGI is not the right policy choice for our Commonwealth.

To date, one of the most thorough reviews of RGGI found that they "were no added reductions in CO2 emissions, or associated health benefits, from the RGGI program. RGGI emission reductions are consistent with national trend changes caused by new EPA power plant regulations and lower natural gas prices."[18]

Similarly, the nonpartisan Congresional Research Service found that from a practical standpoint, the RGGI program's contribution to directly reducing the GHG emissions is arguably negligible.[19]

Simply put, making it harder for Pennsylvanians to make ends meet in a time of economic dislocation by enacting a program that has not been successful in achieving its purported policy goals is not responsible public policy.

In reality, RGGI is a revenue-raising mechanism with the sole purpose of allocating the proceeds, in particularly egregious regressive ways, to politically favored industries and constituencies.

Enacting new barriers to economic opportunity in the form of higher energy prices is never advisable, doing it while ignoring the representatives of the people in the General Assembly in a time of significant economic dislocation, is irresponsible.

I thank you for the opportunity to address this critical issue, and we look forward to working together on cost-effective measures that achieve their stated policy goals without hurting the least fortunate in society.

Sincerely,

Ashley Sisca Klingensmith
State Director
Americans for Prosperity – PA

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[17] For the most recent report, see pg. 25 – 28: https://www.whitehouse.gov/wp-content/uploads/2019/12/2019-CATS-5899-REV_DOC-Draft2018_2019_2020Cost_BenefitReport11_20_2019.pdf.

[18] A Review of the Regional Greenhouse Gas Initiative By David T. Stevenson https://www.cato.org/cato-journal/winter-2018/review-regional-greenhouse-gas-initiative

[19] The Regional Greenhouse Gas Initiative: Background, Impacts, and Selected Issues, Congresional Research Service, July 16, 2019.