Environmental Quality Board
P.O. Box 8477
Harrisburg, PA 17105-8477

January 12, 2021

By E-Mail to RegComments@pa.gov and First Class Mail

Re: Proposed 25 PA Code Ch. 145
CO2 Budget Trading Program
50 Pa. Bull. No. 45 (November 7, 2020)

Ladies & gentlemen:

We are writing as the three energy-intensive labor unions that stand to be among the most adversely impacted by Governor Wolf's decision to join the Northeast Regional Greenhouse Gas Initiative (RGGI).

We have expressed our concerns to the Governor and to other political leaders in the Commonwealth about the adverse impacts on our members of joining the RGGI carbon cap-and-trade program. When a similar action was proposed several years ago, Governor Rendell listened to our views, considered the experience of other states that had joined RGGI, and ultimately decided not to participate in RGGI. With the strong likelihood of national climate change regulations being issued under the new Administration, we see little reason to depart from that decision.

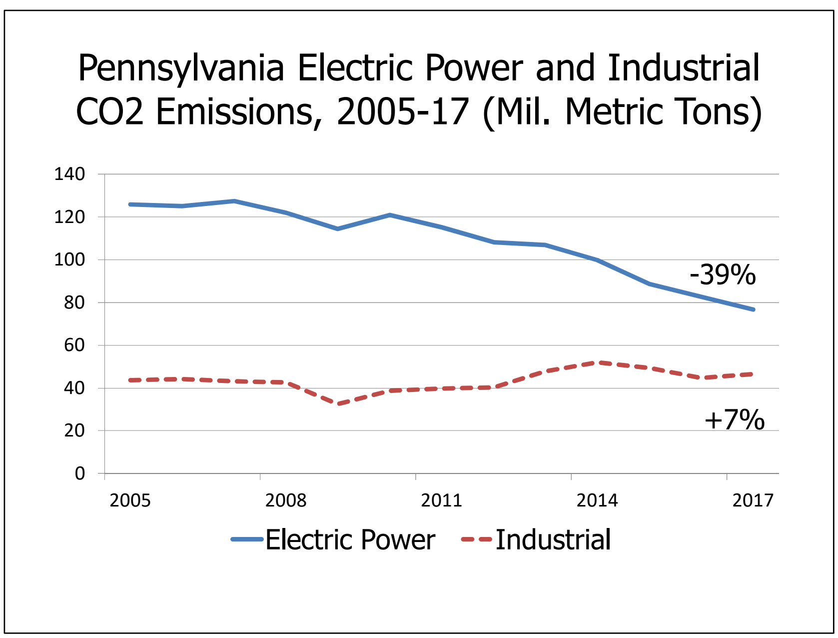
Our unions support national climate legislation that will provide a level playing field for an all-of-the-above energy strategy while advancing carbon emission mitigation through carbon capture and storage and other advanced technologies. Piecemeal state or regional programs such as RGGI skew energy market decisions in favor of preferred energy sources while offering displaced energy workers in traditional energy sectors little or no recompense for the loss of jobs and income.

RGGI employs an auction-based system to sell CO2 emission allowances to emitting sources. Because the cost of these allowances must be added to the price of electricity, the RGGI auction increases the price of electricity to customers from generators located in RGGI-affected states. Consequently, RGGI serves as a *de facto* energy tax on the customers of electricity purchased from RGGI-affected facilities.

Pennsylvania Should Avoid RGGI

The proposed regulations restricting CO_2 emissions from industrial and electric generating facilities will result in the near-term abandonment of virtually all remaining coal generating capacity in the Commonwealth, with significant direct and indirect job losses. This will result from the costs of obtaining RGGI CO_2 allowances at auction, expected to reach $6/ton in the March 2021 auctions.[1] Pennsylvania coal-based generators already operate on razor-thin margins and face vigorous competition from natural gas-fueled power plants. Allowance costs for natural gas combined cycle plants would be less than one-half those of conventional coal plants due to the lower CO_2 content of natural gas and the higher thermal efficiency of gas combined cycle units.

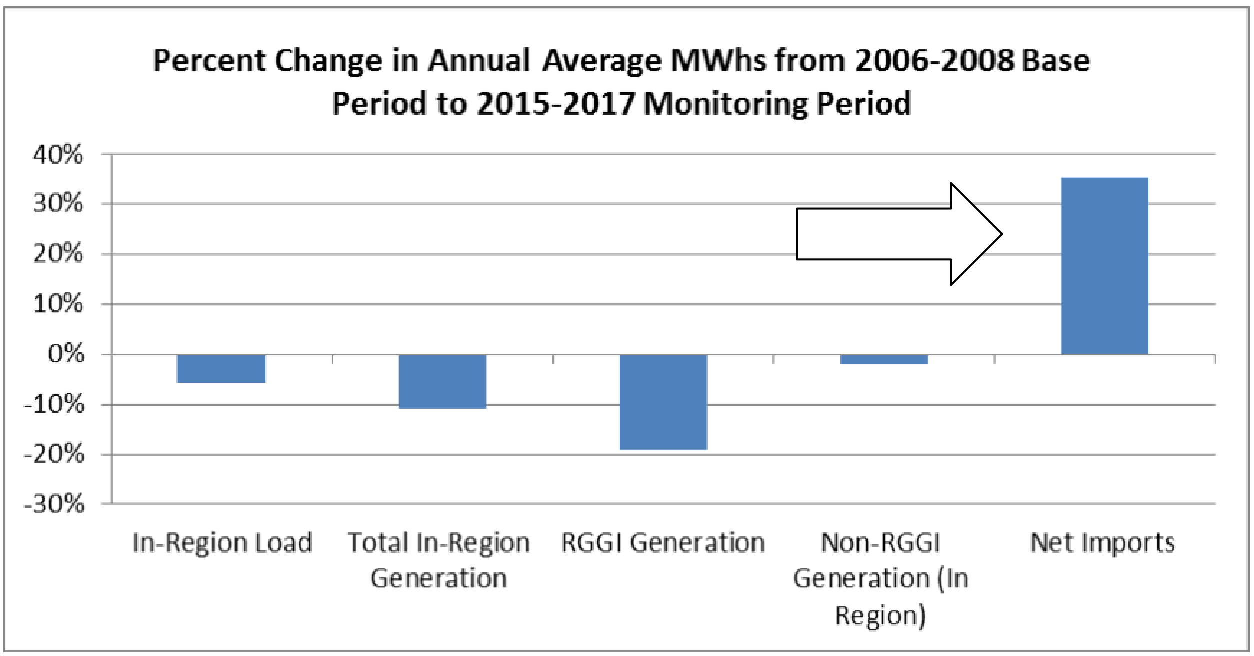
We recommend that Pennsylvania not participate in RGGI. U.S. DOE data show that Pennsylvania electric generators have reduced their CO_2 emissions by 39% since 2005, from 137 million tons in 2005 to less than 80 million tons in 2017, exceeding the 2025 targets set by the rescinded EPA Clean Power Plan (see chart below). These reductions have resulted mainly from the retirement of dozens of coal-fired generating units in the Commonwealth, and increased generation from natural gas and renewable sources.



[1] Potomac Economics, ANNUAL REPORT ON THE MARKET FOR RGGI CO2 ALLOWANCES: 2019 (May 2020) at 7.

RGGI artificially inflates the price of electricity which would harm Pennsylvania electric generators and their residential, commercial and industrial customers. Data compiled by RGGI show that when alternative sources of electricity are available, generation in the RGGI states is reduced and they import more power (see chart below). For the most recent (2015-2017) monitoring period -

> The annual average electric generation from all sources in the nine-state RGGI region from 2015 to 2017 decreased by 41.2 million MWh, or 12.5 percent, compared to the average for 2006 to 2008.
>
> Annual average net imports into the nine-state RGGI region from 2015 to 2017 increased by 22.2 million MWh, or 39.6 percent, compared to the average for 2006 to 2008.[2]



Source: RGGI 2017 Electricity Monitoring Report (2019).

If Pennsylvania joined RGGI, power previously generated in Pennsylvania would be replaced in increasing amounts from Ohio, West Virginia, and other states that are not affected by RGGI's *de facto* energy tax or emissions caps. Emissions reduced in Pennsylvania will be offset by increased emissions in nearby states. This "leakage"

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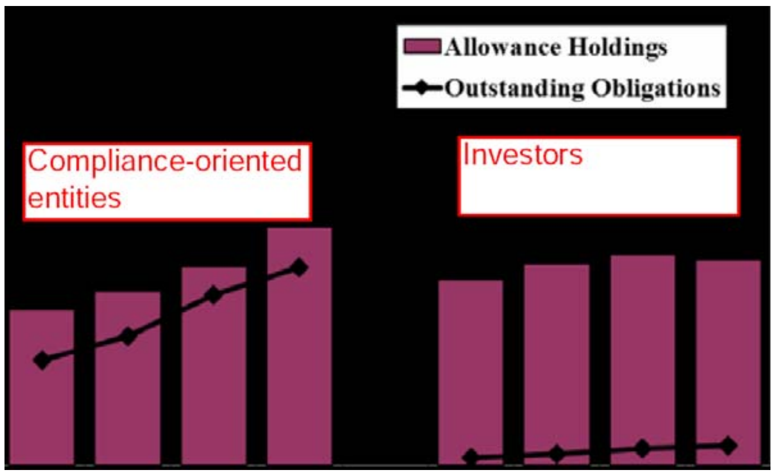
[2] *See*, https://www.rggi.org/sites/default/files/Uploads/Electricity-Monitoring-Reports/2017_Elec_Monitoring_Report.pdf

means that Pennsylvania consumers will bear the costs of RGGI participation, including the loss of revenues from power exports, while nearby states will profit from increased electricity exports to the Commonwealth.

Holdings of RGGI emission allowances are divided between firms with compliance obligations and investors (see chart below). The substantial number of allowances held by investors - nearly 100 million tons at the end of 2019 - suggests that the RGGI market may be used for profit-making or other speculative activities by firms with no emission control obligations.

Distribution of RGGI CO2 Allowance Holdings, 2019 (Quarterly)



Source: See note 3.

Pennsylvania historically is the second largest generator of electricity in the country and exports approximately one-third of the electricity it generates. Participation in RGGI is therefore not in the best interests of the Commonwealth's electric ratepayers or the workers and communities dependent on coal mining and coal-based electric generation. Ultimately, even natural gas-fueled sources would feel the pinch of higher generation costs associated with RGGI allowance costs.

RGGI Allowance Proceeds Are Needed for Labor Transition

RGGI allowance proceeds are collected by the participating states. Through the end of 2019, RGGI has conducted 46 successful auctions, selling a total of nearly 1.025 billion CO_2 allowances for $3.36 billion.[3] DEP modeling indicates that in the first year of participation in RGGI, Pennsylvania consumers would contribute some $300 million annually to RGGI's overall revenues.[4] RGGI investments are determined by the states, and fall into

[3] Potomac Economics, ANNUAL REPORT ON THE MARKET FOR RGGI CO2 ALLOWANCES: 2019 (May 2020).
[4] 50 Pa. Bull. No. 45 at 6228.

four primary program categories: energy efficiency, clean and renewable energy, greenhouse gas abatement, and direct utility bill assistance programs. However, some of these funds have been transferred to state general funds.

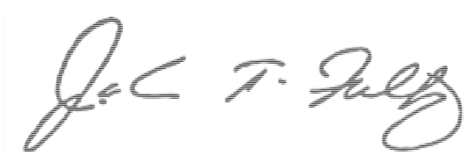
The DEP recognizes the need for labor transition assistance and plans to issue subsequent proposals for the use of RGGI revenues:

> The proceeds generated from this proposed rulemaking would be invested into programs that would reduce air pollution and create positive economic impacts in this Commonwealth. The Department plans to develop a draft plan for public comment outlining reinvestment options separate from this proposed rulemaking. ...
>
> In 2010, coal generation represented 47% of this Commonwealth's generation portfolio and is expected to decline to roughly 1% of this Commonwealth's generation portfolio in 2030. This shift away from coal fired generation occurs irrespective of this Commonwealth's participation in RGGI. Anticipating the need for transition, for these communities and employees, auction proceeds can be used to mitigate these impacts and assist communities and families through the energy transition. This could include repowering of the existing coal-fired power plants to natural gas, investments in worker training or other community-based support programs.[5]

Our unions intend to provide input to DEP's subsequent process for determining the allocation of RGGI auction proceeds among alternative uses. If the Commonwealth proceeds with this rulemaking, we suggest that at least 50 percent of RGGI proceeds should be set aside for labor and community adjustment programs to help mitigate the damages to workers and communities associated with job losses. We also recommend that a detailed assessment of labor impacts be undertaken by DEP on a plant-specific basis to assist policymakers in decisions regarding RGGI revenue allocations.

We will appreciate your attention to our concerns and advice.

Sincerely,



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[5] *Id.*, (emphasis added.)

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