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Jan 15 2021
Independent Regulatory Review Commission

American Petroleum Institute

January 14, 2021

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

Submitted via e-mail:
Ecomment@pa.gov

Comments of the American Petroleum Institute on the proposed $CO_2$ Budget Trading Program

The American Petroleum Institute (API) appreciates the opportunity to provide comments to the Pennsylvania Environmental Quality Board (EQB) on the proposed $CO_2$ Budget Trading Program. API is the national trade association representing about 600 member companies from the U.S. oil and natural gas industry. API members represent the breadth of the industry and, in the realm of electricity markets, member companies include major suppliers of natural gas for power generation, large electricity end-users, and some of the leading investors and developers of low and zero carbon energy technologies.
API supports efforts to address the risks of climate change on a national, economywide basis while meeting growing global energy needs. Policies and programs that address the risks of climate change, such as an economywide or sectoral price on carbon, should be fuel and technology neutral and aim to drive down emissions at lowest possible per unit cost of abatement on a lifecycle basis.

The Regional Greenhouse Gas Initiative (RGGI) is an example of a sectoral, rather than an economywide, greenhouse gas emissions reduction program that aims to be fuel and technology neutral. Fuel and technology neutrality are critical starting points for any emissions reduction program as wider compliance options can make participation more cost effective. API and its member companies are committed to helping the Commonwealth continue its significant emissions reduction progress to date while also providing affordable energy for households and businesses.

API recommends that accession to RGGI comes with a recognition of Pennsylvania's vastly different resource and economic base compared to the existing participating states. Additionally, as the impacts of RGGI may be felt in various segments of the economy, Pennsylvania should work to minimize any unnecessary costs to ratepayers, ensure program efficiency, and address any potential leakage to ensure meaningful emissions reductions.

**Natural gas is the foundation of Pennsylvania's cleaner power grid**
The shift to natural gas as the dominant source of electricity generation nationally is one of the most prominent climate success stories of the past decade. The natural gas-powered electric generation fleet provides cleaner energy through both its lower emissions profile (about half the $CO_2$ emissions as coal) and its relative operating flexibility that enables the reliable integration of variable renewable energy resources. Pennsylvania sits at the heart of the Shale Revolution, which unlocked economically competitive natural gas to transition the country towards cleaner electricity. Nationally, power sector $CO_2$ emissions have fallen 32.3% between 2007-2019—progress that was driven by the switch to natural gas.

Given the local availability of natural gas, it is not surprising that Pennsylvania has led the nation in power sector emissions reductions—outpacing national emissions reductions between the beginning of 2008 (when RGGI auctions began) and the end of 2019 by about 25%[1] while in those same years increasing its use of natural gas for power generation nearly five-fold.[2]

**EQB should make sure Pennsylvania's different economic and resource base is represented in RGGI**
The original RGGI program was developed by states with materially different energy economies and resource endowments than Pennsylvania. EQB and other agency stakeholders should keep this in mind when finalizing the accession plan and even, when a part of RGGI, proposing model rule adjustments to better reflect the energy economies of the program's expanding footprint.

Pennsylvania is the nation's second largest producer of natural gas and home to a robust industry that as of 2018, per a recent analysis prepared by PricewaterhouseCoopers (PwC), supports nearly a half a million in-state jobs and contributes more than $78 billion to the state's economy.[3] These are jobs that tend to pay above average and are highly unionized.[4] Pennsylvania's natural gas and oil production were sixty[5] and twenty-three[6] times, respectively, the production in all other RGGI states combined in 2019. Pennsylvania's energy differences from other RGGI states also include its much larger industrial base, which can be sensitive to any increases in electricity prices. In 2018, Pennsylvania's industrial energy consumption accounted for 4.3% of the national total—at the time this was greater than all the participating RGGI states combined.[7,8] Furthermore, in-state industrial energy expenditures account for 4% of the nation's total[9], which puts Pennsylvania far ahead of other RGGI states and among the top in the nation. As a national industrial hub, Pennsylvania's manufacturing facilities could be disproportionately exposed to RGGI price impacts.

The use of offsets is an element of the RGGI model rule that gives one pathway for regulated entities to reduce emissions at lower costs by helping reduce emissions in other sectors. Under the 2017 RGGI Model Rule, there are only a few types of projects that are eligible for offsets, even if other activities can reduce the same level of emissions.[10] This rigid eligibility structure does not present a fuel and technology neutral approach and Pennsylvania could use its eventual position in the RGGI stakeholder process to expand the options. For example, given the low amount of natural gas and oil production in other RGGI states, it is not surprising to see that upstream sustainability projects that reduce emissions are not included. API provides such an option merely as an example of non-electric generation emissions reductions actions that exist beyond the list of eligible of offset projects defined in the RGGI Model Rule.

1 https://www.eia.gov/electricity/data/state/
2 Ibid
3 https://www.api.org/~/media/Files/News/2020/08/PwC_2018_PA.pdf
4 https://nabtu.org/press_releases/two-new-energy-construction-studies/
5 https://www.eia.gov/dnav/ng/ng_prod_sum_a_EPG0_FPD_mmcf_a.htm
6 https://www.eia.gov/energyexplained/oil-and-petroleum-products/where-our-oil-comes-from.php
7 https://www.eia.gov/state/data.php?sid=PA
8 Number goes from 4% to 5.3% if accounting for Virginia, which was not a participating state in 2018
9 Ibid.
10 https://www.rggi.org/allowance-tracking/offsets

**DEP should work with PJM stakeholders to address potential economic and emissions leakage into non-RGGI states**

As the nation's largest net-exporter of electricity and with the third largest generation fleet,[11] Pennsylvania's electricity sector could be disproportionally harmed if RGGI led to significant outsourcing, or leakage, of generation to non-participating states within the PJM footprint. Recognizing the emissions leakage threat within an RTO with non-uniform carbon pricing obligations, PJM is working with stakeholders to address the issue through the Carbon Pricing Senior Task Force (Task Force). In seeking to minimize leakage, the work of the Task Force could end up in tariff revisions that go before the Federal Energy Regulatory Commission for approval. Pennsylvania should leverage its position within PJM, including raising issues in the stakeholder process and speaking to the Board directly, to minimize any emission leakage that could disproportionally harm the in-state generation fleet.

**API is committed to working constructively with all Pennsylvania stakeholders to promote a cleaner energy future**

RGGI is designed in a fuel and technology neutral way, which is an important element in emissions reduction programs in the absence of an economywide price on carbon. While API has some key questions about the implementation of RGGI in Pennsylvania, it is committed to making the program as equitable, efficient, and cost-effective as possible should the Commonwealth join the program.

Sincerely,

Dustin Meyer

Dustin Meyer
Vice President, Natural Gas Markets
American Petroleum Institute
meyerd@api.org

[11] https://www.eia.gov/todayinenergy/detail.php?id=38912