Pennsylvania Manufacturers' Association

TESTIMONY BEFORE THE:
SENATE OF PENNSYLVANIA
ENVIRONMENTAL RESOURCES AND ENERGY COMMITTEE

REGIONAL GREENHOUSE GAS INITATIVE: A FLAWED PROPOSAL FOR PENNSYLVANIA

JUNE 23, 2020

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Good morning, Pennsylvania State Senate Environmental Resources and Energy Committee Chairman Gene Yaw, Chairman Steven Santarsiero, and esteemed members of the committee. I am Carl A. Marrara, Vice President of Government Affairs for the Pennsylvania Manufacturers' Association. Founded in 1909 by Bucks County industrialist Joseph R. Grundy, the Pennsylvania Manufacturers' Association is the nonprofit, statewide trade organization representing the manufacturing sector, it's 570,000 employees on the plant floor, millions of additional jobs in supporting industries, and more than $93 billion in gross state product in Pennsylvania's public policy process.[1] Headquartered just steps from the State Capitol in Harrisburg, PMA works to improve Pennsylvania's ability to compete with other states for investment, jobs, and economic growth. PMA's mission is to improve Pennsylvania's economic competitiveness by advancing pro-growth public policies that reduce the baseline costs of creating and keeping jobs in our commonwealth, including spending restraint, tax relief, limits on lawsuit abuse, regulatory reform, and ensuring a prepared workforce.

I am honored to join you today to discuss the topic of the Regional Greenhouse Gas Initiative, more commonly referred to as "RGGI." RGGI is a flawed proposal and is not sound public policy for the Commonwealth of Pennsylvania. We, the Pennsylvania Manufacturers' Association, urge you to take any and all legislative action to reject Governor Wolf's Executive Order 2019-7 to enter Pennsylvania into RGGI.

Let us begin by establishing a commonsense baseline: everyone desires a clean, healthy, and sustainable environment. The issue at hand is whether or not a government program, that will undoubtedly add substantial costs to Pennsylvania's electricity consumers, is the best mechanism to achieve the cleanest, healthiest, and most sustainable environment possible. You'll find that the answer to this question is clearly that RGGI does not accomplish this goal, but the program will negatively impact Pennsylvania's economy in a punishing way. This potential economic impact could not come at a worse time given the economic downturn caused by the Wolf Administration's decision-making in response to COVID-19.

It is imperative that Pennsylvania policymakers not enact laws or regulations that place our commonwealth at a competitive disadvantage to our competitor states. Laws and regulations should not be more stringent than federal regulations or laws unless there is a compelling reason that is unique to our commonwealth. Ensuring that environmental regulation is approached on sound scientific evidence to ensure that regulations are

[1] National Association of Manufacturers. 2019. https://www.nam.org/state-manufacturing-data/2019-pennsylvania-manufacturing-facts/

reasonable and within technological limits is paramount. It is likewise prudent that these regulations achieve real environmental benefits and do not advantage one sector of the economy to the detriment of another. RGGI fails all of these bright-line tests and should be rejected by Governor Wolf and the Pennsylvania General Assembly.

Unilaterally enacting a policy such as RGGI will have dire economic consequences, as has been proven in other RGGI states. According to research published by the CATO Institute by David Stevenson,

> "RGGI allowance costs added to already high regional electric bills. The combined pricing impact resulted in a 12 percent drop in goods production and a 34 percent drop in the production of energy-intensive goods. Comparison states increased goods production by 20 percent and lost only five (5) percent of energy-intensive manufacturing. Power imports from other states increased from eight (8) percent to 17 percent."[2]

Manufacturers are energy intensive operations. No matter what is being made, raw materials become finished manufactured goods and energy a large part of that process. For many manufacturers, energy costs are the largest cost output month-to-month. Adding on additional costs will drive manufacturers out of Pennsylvania and make it exceedingly difficult to bring new firms in; essentially making RGGI a hard- cap on economic growth in the manufacturing sector. For every dollar invested in manufacturing the multiplier effect on the larger economy is $1.33; the largest multiplier effect of any industry, making manufacturing the engine that drives whole economies throughout our commonwealth.

Ironically, Pennsylvania was a part of that increase in goods and in power generation cited by the aforementioned study published by the CATO institute. Pennsylvania, over the past decade, has been the largest exporter of energy in the United States[3] and has been the main supplier of energy exports for RGGI states, all while our emissions were lowering at rates faster than theirs. If Pennsylvania enters RGGI, not a single atom of carbon will be lessened because the power generation will just transfer further west to Ohio or West Virginia and be sold back to us for a higher price. We lose the jobs, we lose the power, and we all pay more for no environmental benefit.

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[2] David Stevenson, "A Review of the Regional Greenhouse Gas Initiative," CATO Institute. Winter 2018.

[3] U.S. Energy Information Administration, "California imports the most electricity from other states; Pennsylvania exports the most," Today in Energy. April 4, 2019.

Governor Wolf's arbitrarily proposed targeted emissions reductions of 26 percent by the year 2025 is well within striking distance today, some five years away. The private sector has led the way, doing what the private sector does best – inventing, innovating, and forging a better future for all of us. Energy related CO2 emissions have decreased 22 percent from 2005 to 2016[4] and with more natural gas fired power plants coming online since 2016, that percentage will increase as the data is updated and republished. Governor Wolf's goals are being met without entering Pennsylvania into a regional accord that will thwart private sector innovation, forcing layoffs of thousands of our commonwealth's workers, and putting our economy into a tailspin as entire communities will be negatively impacted.

One of the reasons for these goals being met are thanks to Governor Ridge-era policy changes that moved Pennsylvania into a competitive electricity marketplace. At that time, PMA was at the forefront of supporting the efforts to deregulate electric generation in Pennsylvania. To date, integrating competitive market forces into electric generation has worked for all Pennsylvania consumers - residential, commercial, and industrial. But, by no means has this transition been painless. Abnormally low natural gas prices resulting from booming Marcellus Shale production and a lack of pipeline capacity takeaway, combined with exceedingly expensive state and federal government environmental mandates has taken a serious toll on coal fired generation over the years. We realize that is how competitive markets work. However, RGGI is the antithesis to Pennsylvania's competitive electric marketplace. Imposing a tax that will surely result in the closure of all coal and many natural gas power plants - possibly up to a third of our total generation capacity - thwarts competition and greatly undermines the competitive markets that have proven effective both economically and environmentally.

You'll hear from others today about the importance of coal in our commonwealth's electricity market, but the premature shuttering of coal and waste coal facilities could have even larger impacts. Consider the fact that Pennsylvania's steel makers require coal to make coke and coke to make steel. Coking coal, more scientifically known as Metallurgical Coal, is a necessary ingredient to produce steel. There is no substitute. Many of the same mining operations that extract coal for power generation also mine Metallurgical Coal. If the power plants shut down, this will surely impact the mining jobs that supply the coal to the power plants. If those mining operations have to shutter their businesses, Pennsylvania's steel industry will be impacted as a key feedstock for their product will be more difficult and more expensive to attain. This regional accord

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[4] U.S. Energy Information Administration, State Energy Data System and EIA calculations, United States National-Level Total, *EIA Monthly Energy Review*. September 2018.

threatens entire industries well outside of the realm Governor Wolf is aimed at, and it puts Pennsylvania at a unique competitive disadvantage. Our economy is not like that of Vermont or Massachusetts, and our public policies shouldn't be reflective of the New England states directives.

Once again, all of us desire a clean, healthy, and sustainable environment. Pennsylvania is fortunate to have abundant natural resources. Individuals have been and continue to be attracted to the Keystone state because of the vast choices for outdoor recreation and quality of life. Likewise, many of those natural resources have been the source of prosperity for the state throughout different points in our history. This is precisely why we should want industrial activity to happen here in Pennsylvania than elsewhere in the world. We benefit from the jobs and the economic activity, but we also benefit from the fact that Pennsylvania has some of the strictest regulations when it comes to emissions standards, oil and gas drilling, and mineral extraction. From an environmental standpoint, we should rather that activity happen here, where companies are good stewards of the environment and there is strict oversight, instead of Russia where environmental regulations are skirted, or China where there are serious human rights violations, worker exploitation, and heavy pollution.

By entering into RGGI, industrial activity will be relocated, and who knows where it will go. Tax policies and responses to COVID-19 at the federal level are making it the smart business decision to locate, hire, and expand here in the United States. Let's not drive that activity back across our borders into neighboring states, or worse, foreign countries. It's not a stretch to say that by supporting RGGI you're supporting Russian and/or Middle Eastern global energy leadership and Chinese steel-dumping. Let's work with our industries to invent, innovate, and forge a clean, healthy, and sustainable environment – not overregulate our many vital industries out of existence. For these reasons we, the Pennsylvania Manufacturers' Association, urge you to take any and all legislative action to reject Governor Wolf's Executive Order 2019-7 to enter Pennsylvania into RGGI.