Senate Environmental Resources and Energy Committee

June 23, 2020

Regional Greenhouse Gas Initiative (RGGI)

Good morning, Chairman Yaw, Chairman Santarsiero, 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 over 13,000 members in Pennsylvania and about 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 (RGGI).

<u>The importance of energy to small businesses</u>

Small businesses always have and always will make up an enormous segment of Pennsylvania's business community. More than 99% of Pennsylvania businesses are small. Generally, they are responsible for almost half of the private sector workforce and create two out of every three *new* jobs. They have also been disproportionately impacted by the recent shutdown orders, and many are currently struggling. Some small businesses won't make it.

But even during these difficult economic times, small businesses continue to be the engine of economic growth in the state and in their local communities. Their success will be key to Pennsylvania's economic recovery in the coming months and years. As such, policymakers would be wise to consider policies that set them up for success, and at the very least, don't stack the deck against them.

We believe that the Governor's proposal to join RGGI would stack the deck against small businesses at a most inopportune time. Though they would not be directly affected by the taxes imposed by RGGI, there are second- and third-order impacts that will harm small business, in many ways disproportionately to other businesses.

Because of their size, small business owners are particularly sensitive to energy cost increases. This is especially 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, small business owners usually can't afford to buy new, more energy-efficient equipment if current equipment still has useful life. And unlike many big businesses, they are typically much too small to negotiate reduced rates from electric suppliers.

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 that are impacted by energy prices. Higher energy costs stack along each step of the supply chain, increasing the price of services and supplies businesses need to produce, and as a result, inflating the cost of final products. And in today's interconnected marketplace, even slightly higher costs will make it more difficult for Pennsylvania products to compete.

In this way, RGGI's energy cost increases will in effect be a hidden tax throughout the economy that will put Pennsylvania businesses and jobs at risk.

Pennsylvania's competitive advantages keep rates lower

As it is, 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 horizonal drilling that have revolutionized energy and have already reduced CO2 emissions here in our state and, indeed, throughout the world.

These advantages have helped make Pennsylvania energy competitive among states. This is a key selling point for business location and expansion and a factor that helps existing businesses compete. In fact, **energy costs are currently lower in Pennsylvania than in every other RGGI state**. This will be a critical advantage as Pennsylvania's small businesses seek to recover from the COVID-19 crisis.

Pennsylvania's comparative energy advantages also make us the nation's largest net exporter of electricity,[1] producing more than twice the energy we consume.[2] This export capacity brings needed capital into the state, creates thousands of jobs, and also ensures energy prices continue to stay competitive. As a result, joining RGGI will affect the commonwealth to a much greater degree than it has other RGGI states, squandering the comparative advantage that Pennsylvania has and losing energy market share to non-RGGI states, where energy production is cheaper.

Cost increases on coal and natural gas electric generators, which make up 57% of Pennsylvania's energy mix,[3] will force many power plants out of business. **Jobs will be lost in communities where power plants close—not just the jobs in these plants and their supply businesses, but jobs with contractors, garages, retailers, small grocery stores, and countless other small businesses serving those communities.** With the staggering unemployment rate in Pennsylvania brought about by COVID-19 business closures, the timing could not be worse.

Costs and Benefits

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, especially considering the uncertainty of our economic recovery.

[1] https://triblive.com/news/pennsylvania/report-pennsylvania-largest-net-exporter-of-electricity-in-u-s/
[2] https://www.whitehouse.gov/wp-content/uploads/2019/10/The-Value-of-U.S.-Energy-Innovation-and-Policies-Supporting-the-Shale-Revolution.pdf
[3] http://files.dep.state.pa.us/AboutDEP/Testimony/2019/2019.11.01%20House%20D%20Policy%20Committee%20Hearing%20RGGI%20DEP%20Testimony.pdf

If the primary goal 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.[4] 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.

If encouraging renewable energy is a goal, it's not clear that RGGI is the answer. Between 2007 and 2015, RGGI states increased wind and solar generation by 2.3%, while non-RGGI comparison states increased it by 5.5%.[5]

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. Indeed, DEP's own modeling has found that CO2 reduction and climate benefits would be negligible.

DEP's plan will raise revenue for the state to spend on air pollution reduction programs. But 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% in the past 30 years.[6]

Indeed, pollution reduction efforts have been an unheralded success, and our air is cleaner than it has been in my lifetime. 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 true market incentives here in Pennsylvania that improve air quality and the 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 might consider creating a similar program that would incentivize public and private investment in community projects that improve air quality. Eligible projects could include: reforestation, improved forest management, energy efficiency improvements, pedestrian/bike trails, parking areas for shared ride programs, research grants, 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. Market forces are creating amazing innovations every day that were unforeseen just a few years ago, including energy efficiency innovations, resource conservation measures, and even recycling waste and CO2 into fuel and valuable chemicals. Many of these ideas will come from entrepreneurs, whose small businesses will need strong economic conditions to thrive.

<u>Decision appropriate for the legislature</u>

There is no doubt joining RGGI involves significant tradeoffs Pennsylvania must consider. This was highlighted by the unwillingness of majorities of DEP's Citizens Advisory Council and Air Quality

[4] https://www.eia.gov/environment/emissions/state/
[5] https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2018/2/cato-journal-v38n1-chapter-11.pdf
[6] https://www.dep.pa.gov/OurCommonWealth/Pages/Article.aspx?post=38

Technical Advisory Committee to recommend the proposed regulatory framework when it came up for a vote at their recent meetings. These advisory groups heard heart-wrenching testimony from union workers, manufacturers, community members, and small business owners concerned that the downsides of RGGI are not being considered.

The significant impacts of RGGI on these individuals' livelihoods and communities make clear that costs and benefits must be weighed by representatives of all citizens, not just the executive branch alone. This is why we support Senator Pittman's bill, SB 950, which requires that the General Assembly must authorize Pennsylvania's participation in RGGI. The bill also mandates a thorough examination of direct and indirect costs to the private and public sectors, including industry sectors like small businesses; the impact on the cost of goods, services, and productivity; and effects on the state's energy resiliency. Importantly, it also asks that less costly, less intrusive alternatives be examined.

Pennsylvania's small business owners support a clean environment and healthy communities. In fact, many of them make their living from natural resources, from whitewater rafting operator to farm-to-table restaurant to solar panel installer. But they also understand that balance is key, and they know that responsible decision-making involves considering all factors before making a choice.

We ask that policymakers consider RGGI's significant costs and weigh them against its unclear benefits, especially during what has been an unprecedented time for our economy and small businesses. Now is the time to look ahead to recovery, not to saddle Pennsylvania's job creators and innovators with hidden tax burdens now and for the foreseeable future.

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