



*Sustainability is the bottom line.*

## Pennsylvania Senate Environmental Resources and Energy Committee

### Hearing to Examine Pennsylvania's Participation in the Regional Greenhouse Gas Initiative (RGGI)

#### Testimony of Brianna Esteves, Ceres

**June 23, 2020**

Chairman Yaw, Chairman Santarsiero, and Members of the Committee:

Good morning and thank you for the opportunity to speak to you this morning. My name is Brianna Esteves, and I am a manager of state policy at Ceres, leading our work in Pennsylvania and other states across the region. Ceres is a national sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions to build a more sustainable economy.

Ceres was founded 30 years ago by institutional investors. Today Ceres runs a network of over 175 investors, managing more than \$29 trillion in assets, that are part of our Investor Network on Climate Risk and Sustainability. The Ceres Investor Network includes some of the largest asset owners and managers in the country. Ceres works with our investor members to better manage carbon, water, and supply chain risks across the economy and ramp up investments in sustainable solutions. As the nation's sixth largest economy, Ceres' investor members undoubtedly have significant investments here in the Commonwealth.

Ceres also manages a policy network called BICEP—Business for Innovative Climate and Energy Policy. The BICEP Network comprises 58 major companies, including leading consumer brands and Fortune 500s, that support smart low-carbon policies at the state and federal levels. BICEP Network members with operations and investments in Pennsylvania include **Danone North America, Gap Inc., Kellogg Company, IKEA, JLL, L'Oreal USA, Lyft, Mars Incorporated, Microsoft, Nestlé, Owens Corning, REI, Schneider Electric, VF Corporation, Vail Resorts** and more.<sup>1</sup> All of these companies rely on a thriving economy and a reliable, affordable supply of energy to power their businesses, but they also value—and are increasingly demanding—energy that comes from clean, carbon-free sources. They acknowledge that economic growth and responsible environmental stewardship are not mutually exclusive, and that we must work together to put the economy on a more sustainable path in order to secure a thriving economic future.

In my testimony I will discuss how the unfettered release of greenhouse gas emissions poses a threat to Pennsylvania's economy, why leading businesses and investors are demanding action,

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<sup>1</sup> See a full list of Ceres BICEP Network members in the addendum, visit: [www.ceres.org/BICEP](http://www.ceres.org/BICEP).

and why joining the Regional Greenhouse Gas Initiative (RGGI) is smart for the Commonwealth and the health of its economy.

### Unmitigated Climate Impacts Create Significant Economic Risk

Pennsylvania industries are already feeling the effects of climate change disrupting the economy. While generally warmer temperatures might be favorable for wine production, the increase in erratic weather patterns, floods and droughts provide instability and added risks for farmers relying on the success of their crop to feed their families as well as Pennsylvania's livestock. Companies that rely on international commodities like cocoa, coffee beans, and rice are experiencing climate-related disruptions to their supply chains, impacting plans for processing and manufacturing here at home. Financial institutions and insurers are having to take a hard look at their business models as certain investments become more risky and more frequent storm damage becomes the norm.

Left unmanaged, the increased risks from climate change could have significant consequences for asset valuations, financial markets, and overall economic stability.<sup>2</sup> On a global scale, extreme weather events have already caused billions of dollars in financial losses. A London School of Economics study projects that climate change could reduce the value of global financial assets by as much as \$24 trillion—resulting in permanent damage that would far eclipse the scale of the 2007-2009 financial crisis.<sup>3</sup>

In addition to addressing these risks, state and national policies to mitigate climate change could also create significant low-carbon investment opportunities, resulting in economic growth and job creation.

### Private Sector Leaders Are Taking Action

Leading companies and investors acknowledge the scientific consensus around climate change and are taking bold actions to commit to and invest in low-carbon solutions.

Businesses around the country are working to reduce and eliminate carbon emissions from their direct and indirect operations. To date, more than 240 major companies have committed to power their operations with 100% renewable energy.<sup>4</sup> Meanwhile, Over 900 companies—including more than 70 operating in Pennsylvania—have committed to science-based greenhouse gas emissions reductions across their entire operations, doing their part to hold temperature rise to manageable levels. Leaders from even some of the most heavy-emitting industries, such as steel and cement, are taking action: last fall, U.S. Steel committed to reduce

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<sup>2</sup> To learn more about how climate change creates systemic risks impacting financial markets, see: "Addressing Climate as a Systemic Risk: A call to action for U.S. financial regulators." Ceres. 1 June 2020. [www.ceres.org/addressingclimate](http://www.ceres.org/addressingclimate).

<sup>3</sup> See: <http://www.lse.ac.uk/GranthamInstitute/news/us2-5-trillion-of-the-worlds-financial-assets-would-be-at-risk-from-the-impacts-of-climate-change-if-global-mean-surface-temperature-rises-by-2-5c/>.

<sup>4</sup> See: <http://www.there100.org/companies>.

greenhouse gas emissions by 20 percent by 2030.<sup>5</sup> Such commitments will help companies meet the growing expectation of their shareholders, employees and customers that they conduct business responsibly. Efficiently reducing emissions will also help companies remain competitive and reduce risk from an over-exposure to volatile fossil fuel prices.

The world's largest investors are also taking decisive action to reduce climate-related risks in their investment portfolios. Earlier this year, Larry Fink, CEO of BlackRock, wrote, "The evidence on climate risk is compelling investors to reassess core assumptions about modern finance... In the near future – and sooner than most anticipate – there will be a significant reallocation of capital."<sup>6</sup> Industries and economies that address carbon emissions early on will be best situated to attract investment now and well into the future.

Major companies and investors often have the luxury and sophistication of being able to look forward and plan ahead, particularly in comparison with their smaller counterparts. Their commitments and actions are moving entire supply chains toward carbon neutrality. We are also increasingly seeing smaller businesses move in a more sustainable direction on their own—particularly as the cost of renewable resources come down and the business case for low-carbon becomes more favorable.

### Recognizing the Need for Smart, Proactive Policies

While forward-thinking businesses are taking action to reduce carbon in their own operations, they recognize that their actions alone are not enough. The larger economy is not moving at the pace and scale that is needed to tackle this challenge. They need lawmakers to step up to set smart policy guideposts to protect the economy. That's why, over ten years ago, companies founded the Ceres BICEP Network and why, today, Ceres works with hundreds of businesses in states across the country to advocate for smart low-carbon policies.

While there is a growing suite of promising policy solutions to incentivize the transition to a low-carbon economy, carbon pricing consistently ranks among the most favorable options for the private sector. Policies that price carbon help to account for a costly externality that the free market does not account for on its own: carbon emissions, the cause of man-made climate change. Instead of choosing winners and losers or favoring one technology over another, carbon pricing policies send a signal to let the market decide how best to reduce emissions. This is often lauded as the most economically-efficient way to cut carbon emissions.

Last spring, more than 75 CEOs and major businesses joined Ceres on Capitol Hill to advocate for a price on carbon. The event, called LEAD on Carbon Pricing, included several companies with operations and investments in PA, including cement manufacturer LafargeHolcim; oil and gas companies such as BP, Shell, and Equinor; food manufacturers Danone, Mars Inc., General Mills and Mondelez; major financial institutions; real estate developers; tech and pharmaceutical

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<sup>5</sup> See: <https://www.ussteel.com/newsroom/united-states-steel-corporation-commits-reduce-greenhouse-gas-emissions-intensity-20>.

<sup>6</sup> Larry Fink Chairman and CEO, BlackRock "A fundamental reshaping of finance," Fink's 2020 CEO Letter to BlackRock portfolio companies: <https://www.blackrock.com/us/individual/larry-fink-ceo-letter>.

companies; retail giants and outdoor industry representatives such as Vail Resorts, the owners of five Pennsylvania ski resorts.<sup>7</sup>

While federal lawmakers on both sides of the aisle are increasingly acknowledging the economic risks of climate change, the reality of our federal bureaucracy is that policy leadership at the federal level takes significant time—more time than leading private sector actors would prefer. That's why businesses are looking at the state level—where lawmakers are more able to quickly take on the challenges of our time—to step into policy a leadership role on climate change. As the country's fourth-highest carbon emitter and sixth-largest economy, Pennsylvania has both the responsibility and the opportunity to take proactive action. RGGI provides a key avenue for doing so.

### RGGI Is a Smart, Economy-Friendly Carbon Policy

RGGI is a multi-state carbon pricing initiative designed to reduce carbon from electricity production, which is currently the largest source of carbon emissions in Pennsylvania. RGGI takes a “cap-and-invest” approach to pricing carbon: it sets a pollution cap that gradually tightens over time and lets the market figure out what the price should be. Differently from a “carbon tax,” RGGI provides the guideposts but then gives the market the room to innovate and keep the costs of carbon reductions low. Quarterly emissions allowance auctions also provide proceeds that states can use at their own discretion.

RGGI is a proven economic and environmental success. It has been in operation for more than a decade by a bipartisan grouping of ten states—soon to be eleven when Virginia joins the RGGI market in January 2021. Since 2009, RGGI has helped participating states cut electricity-sector carbon emissions in half. **Meanwhile, in RGGI states over the last ten years, economic growth outpaced the rest of the country and electricity prices decreased,** despite average electricity price increases across the rest of the country.<sup>8</sup> RGGI has also led to the creation of thousands of jobs across the region.<sup>9</sup>

Time and again, RGGI has surpassed expectations in its efficiency in sending a clear market signal to the private sector to innovate and find cost-effective solutions. Even the businesses whose entities fall under regulation of the RGGI carbon cap have stated their appreciation for the RGGI solution, which enables businesses to plan ahead, compete, and innovate.<sup>10</sup>

As the nation's fourth-largest emitter of greenhouse gas emissions, Pennsylvania must at one point or another confront the reality that, in order to stay competitive and attractive in the

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<sup>7</sup> To see the full list of companies that advocated for smart carbon pricing policies during LEAD on Carbon Pricing 2019, visit: <https://www.leadoncarbonpricing.com/participating-companies>. Learn more at: <https://www.ceres.org/news-center/press-releases/LEAD-on-carbon-pricing>.

<sup>8</sup> See: <https://acadiacenter.org/document/the-regional-greenhouse-gas-initiative-ten-years-in-review>.

<sup>9</sup> Between 2015-2017 alone, RGGI activity led to over 14,500 new job-years. See: [https://www.analysisgroup.com/globalassets/uploadedfiles/content/insights/publishing/analysis\\_group\\_rgi\\_report\\_april\\_2018.pdf](https://www.analysisgroup.com/globalassets/uploadedfiles/content/insights/publishing/analysis_group_rgi_report_april_2018.pdf).

<sup>10</sup> See: [https://www.rggi.org/sites/default/files/Uploads/Program-Review/9-25-2017/Comments/Industry\\_Joint\\_Comments.pdf](https://www.rggi.org/sites/default/files/Uploads/Program-Review/9-25-2017/Comments/Industry_Joint_Comments.pdf).

modern economy, it needs to transition away from its reliance on high carbon-emitting energy sources. Although Pennsylvania's total electric-sector carbon emissions have decreased over recent years, this was the result of market-driven fuel-switching from coal to lower-priced natural gas. With so few coal generating plants left in operation today (and even fewer expected to be operating even in the next couple of years), this downward emissions trend is not expected to continue without policy intervention. With the right proactive policies in place, Pennsylvania can simultaneously reduce emissions, take care of its struggling coal communities, and maintain its leadership as a major energy producer. RGGI can help Pennsylvania achieve all of these goals—and with net economic benefits.

#### RGGI Can Create Net Economic Opportunity in the Commonwealth—And Lessen Future Economic Shocks

RGGI has proven to be a net-job creator. This is thanks in large part to the allowance proceeds brought in through quarterly RGGI auctions. Cumulative auction proceeds from RGGI total more than \$3.5 billion.<sup>11</sup> As RGGI is a regional pact that respects the individual sovereignty of participating states, each state gets to determine how and when to reinvest its own proceeds.

In recent years, states have elected to invest more than 72% of their RGGI proceeds into clean energy solutions.<sup>12</sup> Because of these smart reinvestments, RGGI has generated more than \$4 billion in economic benefits—creating new jobs in energy efficiency, renewable energy, and low-carbon technologies; attracting private investments; and helping businesses, hospitals, schools and homeowners save money on their electricity bills.

It is estimated that Pennsylvania's participation in RGGI would generate approximately \$300 million or more annually for the first few years of the program. Per modeling completed by the Pennsylvania Department of Environmental Protection (DEP), if Pennsylvania directs ⅔ of its proceeds into renewable energy and energy efficiency (less than what average RGGI states have invested in these topics), firm power prices in Pennsylvania would decrease compared with business as usual, and electricity exports would increase by 2030.<sup>13</sup> Add in the jobs that these investments would create, and this would result in a very nice situation for Pennsylvanians' economy.

RGGI proceeds could also provide opportunities to direct additional investments in low-income communities and communities impacted by the transition from coal. The freedom for individual states to choose how to best utilize their RGGI proceeds is what has helped appeal to participating states' bipartisan leaders for so long.

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<sup>11</sup> See: <https://www.rggi.org/auctions/auction-results>.

<sup>12</sup> See: "The Investments of RGGI Proceeds in 2017." RGGI Inc. Published October 2019.

[https://www.rggi.org/sites/default/files/Uploads/Proceeds/RGGI\\_Proceeds\\_Report\\_2017.pdf](https://www.rggi.org/sites/default/files/Uploads/Proceeds/RGGI_Proceeds_Report_2017.pdf).

<sup>13</sup> See:

<http://files.dep.state.pa.us/Air/AirQuality/AQPortalFiles/Advisory%20Committees/Air%20Quality%20Technical%20Advisory%20Committee/2020/5-7-20/AQTAC%20PA%20CO2%20Budget%20Trading%20Program.pdf>.

The RGGI program can be particularly beneficial in helping Pennsylvania's economy build back better and healthier in the service of its citizens in the aftermath of the COVID-19 crisis. In 2019, the renewable energy and energy efficiency industries created more than 90,000 jobs across the state. Additional funding for clean energy investments can expand these industries and the jobs they create, while creating more resilient communities.

Participating in RGGI could also protect Pennsylvania's economy during future economic shocks. For example, investing in energy efficiency helps businesses recover faster because they require less input (energy) to produce their products. Electricity bills in RGGI states are projected to be 35 percent less in 2031 than they are today;<sup>14</sup> this represents real savings that consumers and businesses large and small can save for a rainy day or put back into the economy. Meanwhile, investing in low-carbon solutions now would help prepare Pennsylvania's industries for looming federal climate policies.

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To conclude, leaders across the private sector know that lawmakers have a shrinking window of time to take smart, proactive measures to cut carbon emissions. The Regional Greenhouse Gas Initiative provides a gradual, market-based, economy-friendly opportunity for doing so. We urge lawmakers to support smart policies like RGGI to send the market the right signals to decarbonize. Continuing to delay passage of significant carbon-reduction policies would add unnecessary economic risks to Pennsylvania's economy. Meanwhile, smart actions today can help Pennsylvania's economy thrive for many years to come.

Thank you for the opportunity to provide comment today. Ceres commends the Committee for hosting this important discussion.

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<sup>14</sup> See: [https://www.rggi.org/sites/default/files/Uploads/Program-Review/9-25-2017/Customer\\_Bills\\_Results\\_Overview\\_09\\_25\\_17.pdf](https://www.rggi.org/sites/default/files/Uploads/Program-Review/9-25-2017/Customer_Bills_Results_Overview_09_25_17.pdf).

ADDENDUM:



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## Ceres BICEP Network Members



Learn more about Ceres BICEP Network at [www.ceres.org/bicep](http://www.ceres.org/bicep).

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