PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG, PENNSYLVANIA

Date: May 7, 2009

To: PA Congressional Delegation

Fr: Vice Chairman Tyrone J. Christy
Commissioner Kim Pizzingrilli
Commissioner Robert F. Powelson

Re: Cap & Trade Legislation Analysis

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We have been giving much thought to the President's request to pass meaningful carbon legislation in the 111th Congress. Although it is a noble goal and a major initiative by any standard, we believe it has much deeper significance to our state than many of us realize. Left unexamined and unchecked, this policy will have a profound adverse impact on the Commonwealth of Pennsylvania.

Please allow us to explain.

Pennsylvania is the 4th largest coal producer in the nation, distributing over 75 million tons of coal each year. Roughly 7% of the nation's coal supply is in Pennsylvania, and 58% of all electricity used here comes from coal. However, if the Waxman-Markey bill were to pass, Pennsylvania is looking at a bleak scenario by 2020: a net loss of as many as 66,000 jobs, a sizeable hike in the electric bills of residential customers, an increase in natural gas prices, and significant downward pressure on our gross state product.

We are far from convinced that the negative impacts this legislation could have on our state's economy are fully understood and appreciated. The cost estimates are staggering.

Take, for example, a recent study conducted for PJM – the Regional Transmission Organization (RTO) to which Pennsylvania belongs – that provides an assumed cost of $60 per short ton of $CO_2$ emission allowances.[1] By 2013, this would result in an annual PJM-wide market impact of nearly $36 billion in higher energy prices and rate increases of over $400 annually for residential ratepayers. Whether we reach the $60 per short ton figure or not, the impact will likely be a nightmare for regulators.

If we adhere to the energy efficiency provisions of Act 129 of 2008, however, load reduction could reduce annual market costs by billions. According to PJM, a 2% load reduction could cut annual market costs by $4 billion and reduce $CO_2$ emissions by 14 million short tons, while a 10% load reduction could reduce such costs by as much as $18 billion and $CO_2$ emissions by 60 million short tons.

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[1] "Potential Effects of Proposed Climate Change Policies on PJM's Energy Market." http://www.state.nj.us/dep/cleanair/pdf/09_potential_effects.pdf

Additionally, realizing that Pennsylvania already has an 18% Renewable Portfolio Standard (RPS) to reach by 2020 as a result of the Alternative Energy Portfolio Standards (AEPS) Act, we should not discount the impact that increased renewable resources will have on carbon emissions. According to PJM, the addition of 15,000 mw of wind energy could reduce $CO_2$ emissions by as much as 37 million short tons.

We must also seek to better understand and commit ourselves to new nuclear and waste coal generation, as we believe Pennsylvania has a competitive edge on this front, as well as cost-effective renewables.

Congress has a responsibility to ensure that legislation enacted on this important topic is in the best interests of every state and region in the United States. With that being said, it is clear that Pennsylvania holds a unique position in this debate due to its huge reliance on coal.

Residents of Pennsylvania and other coal-reliant states will be severely and disproportionately harmed by carbon legislation. It will be impossible for these states to rapidly or immediately stop using power generated at existing coal-fired or natural gas-fired power plants without causing severe and protracted reliability problems. Therefore, legislators should recognize the different competitive environments of states and regions across the country and seek to harmonize national-scale carbon legislation with pre-existing state policies and major resources.

In essence, it comes down to "common sense." Is Pennsylvania ready to acquiesce behind federal legislation that will choke off our economy by displacing thousands of jobs and increasing utility bills for residential ratepayers? We hope not.

We must take the time to understand the full meaning of cap and trade legislation, bearing in mind the effects it will have on the Commonwealth of Pennsylvania.

Sincerely,

Tyrone J. Christy
Vice Chairman

Kim Pizzingrilli
Commissioner

Robert F. Powelson
Commissioner

## Effects of Climate Change Legislation on the U.S. and the World

"A so-called 'cap-and-trade' plan comes with a $1.9 trillion tax increase over eight years, raising regular Americans' tax bills by $2,000 a year."

*- American Chronicle, 4/29/09*

The National Association of Manufacturers estimates a loss of 3-4 million jobs as a result of a climate change bill.

*- U.S. News & World Report, 4/28/09*

"Additional costs incurred by steel producers under proposed climate change legislation would limit their global competitiveness and undercut the health and viability of American manufacturing. The result would be the influx of cheaper steel imported from countries without climate change laws, the decline of the steel industry, and the loss of thousands of steelworker jobs."

*- Steel Business Briefing, 4/29/09*

U.S. Representative Glenn "GT" Thompson: "This proposal, if enacted, will kill the very segment of the economy best equipped to get this economy back on track [small businesses and family farms]. And with agriculture being the largest contributor to Pennsylvania's economy, farmers will not only have to shell out additional dollars for fertilizer, fuel, and electricity, they will also suffer a competitive disadvantage when competing in the global economy."

"American Electric Power, a utility giant with 5.2 million customers in states from Texas to Michigan to Virginia, [...] said rate increases [will] stretch from 25% to 50% and beyond, depending on the climate change strategy that finally emerges from Washington."

*- Wall Street Journal, 4/18/09*

"Pennsylvania, like all other states, comes out on the losing side from a Lieberman-Warner type cap-and-tax bill (22,000 jobs lost and $5 billion in GDP lost). Forcing Pennsylvanians to buy costlier electricity will only make it worse."

*- The Heritage Foundation, 4/28/09*