



THE VOICE of BUSINESS

April 4, 2018

Mr. David Paylor, Director
Mr. Michael Dowd, Director of Air Division
Virginia Department of Environmental Quality
1111 East Main Street, Suite 1400
P.O. Box 1105
Richmond, VA 23219

Dear Director Paylor and Mr. Dowd:

The Virginia Chamber of Commerce is the largest business advocacy organization in the Commonwealth with more than 26,000 members. The Virginia Chamber recently released *Blueprint Virginia 2025*, a comprehensive business plan for the Commonwealth which outlines the business community's priorities and recommendations for making Virginia the best state for business. Our goal in *Blueprint Virginia 2025* is to make Virginia the best state for business once again, a goal shared with Governor Ralph Northam. Throughout our Blueprint stakeholder engagement process, which included over 6,000 members of the business community, we heard from business leaders on how important affordable, reliable energy is to Virginia's economic competitiveness. In fact, 55 percent of Blueprint survey respondents identified energy affordability as their top energy concern. Unfortunately, the Regional Greenhouse Gas Initiative (RGGI) is not consistent with the Chamber and Governor's goal to make Virginia the best state for business, as it will increase electricity rates and make Virginia less competitive. Therefore, **I am writing you today to encourage you to not move forward with this regulatory proposal.**

The Virginia Chamber of Commerce has long supported policies that promote energy independence and the development of a robust supply of energy. We advocate for an energy portfolio that promotes economic development and job growth through traditional and alternative energy investments. And we believe that environmental protection and energy independence are compatible and complementary goals to achieving economic growth.

It is expected that energy consumption in Virginia will continue to rise, reflecting the increase in population, economic growth, and growing electrification of the transportation system. Therefore, to ensure a vibrant and growing economy, we must develop strategies for an ample supply of affordable and reliable energy to meet the growing needs of our population and business community.

A part of ensuring our success in achieving our goal of being the best state for business is to protect our competitive rates for electricity. Business climate rankings, like Forbes and CNBC, factor energy and utility costs into their "cost of doing business index," which can influence our overall position in these studies. We believe favorable energy costs are an important input Virginia must maintain to remain economically competitive. By joining RGGI or initiating a cap-and-trade program, we believe energy costs for Virginia employers and residents will rise. According to a recent CATO study, the RGGI program creates higher electric bills and shifts jobs to other non-RGGI states.¹ According to the U.S. Chamber of Commerce's Global Energy Institute, the average electricity rate of the nine RGGI states is 39 percent higher than the national average.² By contrast, Virginia has the nation's 19th lowest average electricity rates, 12 percent cheaper than the national average.³

¹ David Stevenson. "A Review of the Regional Greenhouse Gas Initiative." *THE CATO JOURNAL* (Winter 2018); accessed April 2, 2018, <https://www.cato.org/cato-journal/winter-2018/review-regional-greenhouse-gas-initiative>.

² "Average Electricity Retail Prices." U.S. Chamber of Commerce Global Energy Institute, accessed April 2, 2018.

https://www.globalenergyinstitute.org/average-electricity-retail-prices-map?utm_source=Email&utm_medium=Email&utm_campaign=Energy%20Price%20Map

³ Ibid.

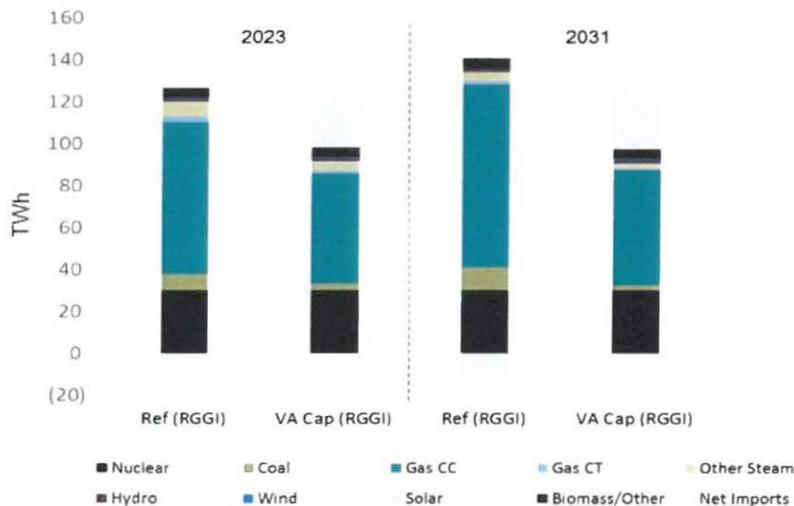
Rates in individual RGGI states are as follows:

Connecticut	17.62 c/kwh	highest in continental U.S.
Delaware	10.99	12 th highest
Maine	12.94	9 th highest
Maryland	12.00	10 th highest
Massachusetts	16.14	4 th highest
New Hampshire	16.16	3 rd highest
New York	14.78	6 th highest
Rhode Island	16.44	2 nd highest
Vermont	14.57	7 th highest

Virginia's affordable rate provides the Commonwealth a competitive advantage when it comes to attracting manufacturing and other energy intensive industries, such as high-tech data centers. Any program that would increase electricity rates—such as RGGI—would reduce this competitive advantage.

Further exacerbating the negative effects to our economic competitiveness associated with the Commonwealth linking to the RGGI program is the problem of carbon leakage, where emissions are not reduced at all, but simply moved from nearby states that have not implemented similar restrictions. It appears that the state's own modeling illustrates the potential impacts of leakage that could result from partnering with RGGI. As chart 1 illustrates, participating in RGGI is likely to significantly increase electricity imports into the state.⁴ Because many of the neighboring states in the PJM electricity region do not participate in RGGI (Kentucky, Ohio, West Virginia, and Pennsylvania) but are powered by resources with a higher carbon intensity, the shifting of generation from Virginia into these states may actually result in an increase in emissions. Under this scenario, Virginia suffers the economic consequences of joining RGGI while achieving no progress towards its environmental goals.

Chart 1. Virginia Generation by Type and Net Imports



In addition, while RGGI backers cite the program as a successful model for cap and trade implementation, there is little evidence to suggest that the program itself has been effective at reducing emissions. In its Agency Background Document, the State Air Pollution Control Board states that a primary advantage to the public of joining RGGI would be "health and welfare benefits associated with controlling carbon pollution."⁵ In the Department of Planning and Budget's (DPB) Economic Impact Analysis, DPB estimates that the benefits of the state's effort to reduce CO₂

⁴ David Paylor, "Proposed Carbon Dioxide Trading Program" (presentation, Committee of Electric Utility Regulation, Richmond, VA December 4, 2017), http://leg5.state.va.us/User_db/fmView.aspx?ViewId=5094&s=7

⁵ "Notice of Intended Regulatory Action Agency Background Document." State Air Pollution Control Board, May 22, 2017, http://townhall.virginia.gov/L/GetFile.cfm?File=C:%5CTownHall%5Cdocroot%5C1%5C4818%5C7931%5CAgencyStatement_DEQ_7931_v2.pdf

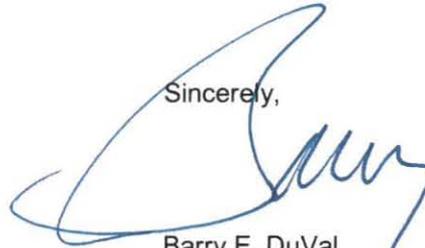
would be between \$42 million and \$50 million annually between 2021 and 2030.⁶ There are several concerns with this estimate. First, it is important to note that the social costs of carbon are a highly controversial and uncertain figure based on long-term assumptions about the damages that may result from increased carbon emissions.

Second, as DPB notes, the \$42 million to \$50 million of CO2 reduction benefits reported in its analysis are global benefits, and not Virginia-specific. DPB states that it is “not possible to quantify the Virginia-specific benefits,” but this is not entirely accurate, a number of analysts employ the use of “equity weighting” as a means to compare impacts to different regions.^{7,8} In fact, the U.S. Environmental Protection Agency (EPA) and other federal agencies now use this method to develop domestic-only estimates of the social cost of carbon (SC-CO2) (for example, this method was used in the Regulatory Impact Analysis for the proposed repeal of EPA’s Clean Power Plan—see page 168).⁹ We can therefore estimate the benefits to Virginia similarly. When such an approach is applied to calculate a Virginia-specific benefit, the mid-range of DPB’s estimate of \$46 million in SC-CO2 benefits is reduced to a mere \$250,000. This is because, at the mid-range of the program (2025), U.S. GDP is projected to be 20.5% of global GDP, and Virginia GDP is 2.7% of U.S. GDP (\$46 million X .205 X .027 = \$250,000). Divided by Virginia’s estimated reductions of 1 million tons per year, this equates to a benefit to Virginia of merely 25 cents per ton of CO2 reduction. Viewed in this more appropriate Virginia-specific manner, it is difficult to see how the costs of the program justify its projected benefits.

As a result of our aforementioned concerns, the Virginia Chamber requests that the Virginia Air Pollution Control Board not move forward with this proposed regulation. However, if the Commonwealth does move forward with this proposal, we ask that the regulation be written in a manner that is least restrictive to Virginia businesses, does not hurt the Commonwealth’s economic competitiveness, and retains an industrial exemption, treats biomass as carbon neutral, and provides for free allowances as opposed to an auction.

Thank you in advance for your consideration of the Virginia Chamber’s comments.

Sincerely,



Barry E. DuVal
President and CEO

⁶ “Economic Impact Analysis.” Virginia Department of Planning and Budget, December 13, 2017, http://townhall.virginia.gov/L/GetFile.cfm?File=C:%5CTownHall%5Cdocroot%5C1%5C4818%5C8130%5CEIA_DEQ_8130_v2.pdf

⁷ Ibid.

⁸ David Anthoff and Richard S.J. Tol, “On International Equity Weights and National Decision Making on Climate Change.” *Journal of Environmental Economics and Management* 60, no. 1 (2010).

⁹ “Regulatory Impact Analysis for Review of the Clean Power Plan: Proposal.” U.S. Environmental Protection Agency, October 2017, https://www.epa.gov/sites/production/files/2017-10/documents/ria_proposed-cpp-repeal_2017-10.pdf.