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Honorable Susan Sosnowski, Chairperson
Rhode Island General Senate
Senate Committee on Environment and Agriculture
82 Smith Street
Providence, RI 02903

Re: Senate Bill 0108 – An Act Relating to State Affairs and Government – Resilient Rhode Island Act of 2014 – Climate Change Coordinating Council and Senate Bill 0365-- An Act Relating To Health and Safety – Energize Rhode Island: Clean Energy Investment and Carbon Pricing Act of 2017

Dear Chairperson Sosnowski and Members of the Committee:

The New England Power Generators Association, Inc. (NEPGA) appreciates the opportunity to provide information to the House Committee on Environment and Natural Resources regarding Senate Bills 0108 and 0365. NEPGA is the trade association comprised of competitive electric generating companies in New England.[1]

NEPGA's member companies represent approximately 25,000 megawatts (MW) of generating capacity throughout New England, and more than 1,375 MW of generation in Rhode Island, or 76 percent of the state's electric generating capacity. NEPGA's mission is to support competitive wholesale electricity markets in New England.

NEPGA's Rhode Island companies provide power for consumers from a portfolio of plants. Overall, these companies pay over $9 million annually in state and local taxes, while providing approximately 80 well-paying and skilled Rhode Island jobs. NEPGA members are good corporate neighbors, contributing to the civic and charitable endeavors of their host communities, donating more than one hundred thousand dollars annually to charitable causes throughout the State.

Power Generators Reducing Emissions
With respect to S0108, on studying a state or multi-state carbon pricing program, NEPGA would like to highlight the remarkable track record that the power generation industry has with respect to carbon emissions.

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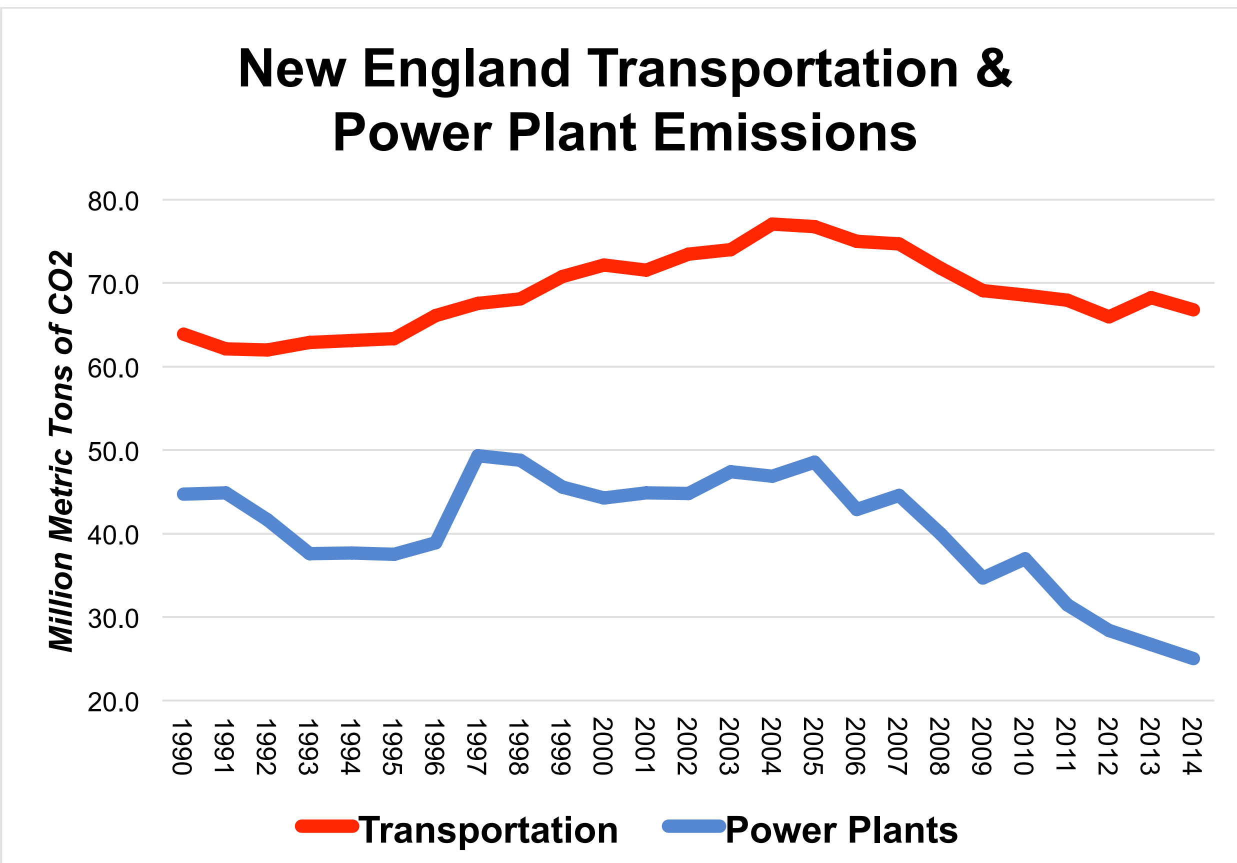
[1] The comments expressed herein represent those of NEPGA as an organization, but not necessarily those of any particular member.

As the Committee may be aware, facilities generating electricity in Rhode Island and the other New England states using a carbon-based fuel participate in the Regional Greenhouse Gas Initiative (RGGI). Participation in RGGI, however, is limited exclusively to the electricity sector. Although the legislation recognizes this by allowing for a credit for a company's RGGI payments, it unfairly adds an additional tax on that sector. RGGI's impact on energy savings, program rebates and emissions cannot be understated: RGGI has already resulted in at least $395 million in energy bill savings, and is on track to return more than $2.9 billion through the lifetime of the program, all while simultaneously reducing carbon emissions by 10.3 million short tons.[2]

In part, driven by programs like RGGI, New England has already seen significant reductions to its carbon emissions. This has been further supported by efficiency gains following the restructuring of the state electricity industry. Since 1999, the efficiency (measured in heat rate) for power plants in New England improved by 22%. Meaning that the electricity output that used to take four plants to produce, today takes only three. According to recent data released by the U.S. Energy Information Agency (EIA), the New England electricity sector has reduced carbon emissions 44 percent between 1990 and 2014.[3]



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[2] http://rggi.org/docs/ProceedsReport/Proceeds-Through-2013-FactSheet.pdf

[3] http://www.eia.gov/environment/emissions/state/, released November 3, 2016

Over the same timeframe, however, transportation – the sector with the highest source of emissions – has actually seen its emissions increase.

NEPGA applauds Rhode Island for recognizing the need to focus on other sectors through mechanisms such as the recently-announced Transportation and Climate Initiative (TCI),[4] which provide opportunities for regional collaboration in a market-based manner.

NEPGA does not take a position on TCI or any other such program, but it would like to underscore the need for this type of focus on the largest sources of emissions that do not already have carbon reduction policies in place. NEPGA appreciates the intent some may have to, for the first time, put in place comprehensive carbon reduction policies across the economy. More attention must be paid to those sectors that don't have mechanisms in place and NEPGA commends the Committee for focusing attention on this critical topic. Moreover, while we believe the focus should be outside the electricity sector, there are more effective market-based policies that can achieve additional low-carbon objectives from the electricity sector.

S0108

To the extent a study is conducted as contemplated in S0108, NEPGA strongly encourages any state-specific carbon pricing regime to exempt sectors of the economy that have a regional carbon reduction program already in place, such as RGGI for electricity. The progress of the electricity sector and participation in RGGI has been recognized in a separate bill introduced last year in Massachusetts that would institute an economy-wide carbon tax that excludes energy industries that already participate in a carbon program – like electricity with RGGI.[5] The electricity sector is also in ongoing discussions among various stakeholders and the states considering proposals for further alignment between electricity markets and state policy proposals through the NEPOOL Integrating Markets and Public Policy (IMAPP) initiative.[6] NEPGA encourages Rhode Island to allow regional programs like RGGI and IMAPP to move forward as the best ways to meet emissions goals from power plants.

Moreover, RGGI is in the midst of an important program review expected to conclude in 2017. Given that RGGI currently encompasses many states, including some from outside the New England region, efforts by individual states to reduce CO_2 in the power sector beyond RGGI are potentially disruptive to formulating a strong RGGI program. A more prudent course would be for Rhode Island to examine how the RGGI review will enable the State to achieve its carbon goals before including the power sector's role in an economy-wide program

[4] http://www.transportationandclimate.org/five-northeast-states-and-dc-announce-they-will-worktogether-develop-potential-market-based

[5] See S.1747. See also NEPGA's comments in opposition to S0365.

[6] http://nepool.com/IMAPP.php

NEPGA Opposes S0365 As Discriminatory and Redundant

It is for these same reasons that NEPGA opposes S0365. S0365 authorizes a new tax of $15 per ton of carbon dioxide (CO_2) to be levied against the sale or distribution of any fossil-based fuel. While the bill purports to aim the tax at sellers or distributors, the true payer of the new tax is the electricity consumer.

An electric generator, like any manufacturer, incorporates all the costs of making a product into a final sales price. Simple economics dictate that if a generator's cost of production increases, the cost of its product increases and the ultimate cost to consumers will increase. This is particularly so in the case of carbon emissions, since facilities generating electricity by way of a carbon-based fuel participate in RGGI.

Due to the structure of the electric market in New England, the upward pressure this redundant carbon tax would institute would not just be felt by Rhode Island's consumers but by the region's consumers as well. Although the bill also calls for a distribution of the funds collected in accordance with the framework established in the bill, those refunds will not likely result in a dollar for dollar refund equal to cost to consumers caused by this the increased tax.

In addition, while a state-specific $C0_2$ tax, as contemplated in S0365, will mean that Rhode Island-based power plants will run less (because their production will be more expensive than other regional generators), electricity demand in the state must still be met. What that means is that plants outside of Rhode Island, which wouldn't run as much if not for the Rhode Island-specific CO_2 tax, will have to increase production to makeup for the shortfall. ISO New England, the regional electricity market operator, recently conducted an analysis of a Massachusetts proposed emissions regulation. That analysis showed that if Massachusetts' plants were compelled to run less to comply with the draft regulations, emissions would increase region-wide by 34,000 to 136,000 tons of CO_2 per year.[7]

NEPGA does not believe that it is the intention of the supporters of S0365 is to create a scenario that would increase emissions in New England in the name of reducing them in Rhode Island. Instead, regional approaches, such as RGGI or what are being discussed at the IMAPP initiative, should be the focus for the electricity sector, while also shifting attention to sectors – like transportation – that have not yet done their part.[8]

[7] https://iso-ne.com/static-assets/documents/2017/02/iso_dep_comments_022017_submit.pdf

[8] If the New England states are committed to pricing carbon in the power system by some method in addition to RGGI, the most efficient method for doing so would be by participating in programs that span the New England-wide electricity market, not by a patchwork of state-specific programs.

Conclusion

NEPGA appreciates the opportunity to comment on S0108 and S0365 and the intention behind the bill to look economywide on emissions policy. NEPGA urges the Committee and the state to recognize the dramatic reductions that have already been made in CO_2 emissions under RGGI and through the efficiencies gained through the competitive electricity markets and to avoid redundant taxation.