CONSUMER **ENERGY** ALLIANCE
THE VOICE OF THE ENERGY CONSUMER

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TCI Draft MOU Comments

On behalf of Consumer Energy Alliance and the families and businesses it represents across the country, we appreciate the opportunity to offer our comments on the draft Memorandum of Understanding (MOU) for the Transportation Climate Initiative (TCI).

Consumer Energy Alliance (CEA) is a nationwide grassroots organization that supports policies that ensure affordable, abundant and reliable domestic energy supplies. With nearly 300 affiliates and over 550,000 members nationwide, we are committed to supporting an all-of-the-above energy policy that includes all forms and sources of energy. CEA supports environmental stewardship and works to ensure a diversity of supply options for energy consumers that includes traditional sources, renewables, and expanded technology options that can help provide a cleaner future.

Our organization is primarily concerned with protecting consumers, seniors, motorists and those on fixed incomes who are struggling with energy bills as well ensuring the effectiveness of the proposal to meet the outlined objectives under the draft MOU for TCI states.

Unfortunately, the draft MOU as currently constructed does not provide enough clarity on the true cost implications and whether or not the economic pain proposed is actually offering enough meaningful future environmental improvement. Further, many of the structural and procedural aspects of the framework with respect to state oversight, control over additional fuel tax revenue, specific details on the structure of the offset programs, and clarity on the rationale behind the selection of certain methodologies are still very much conceptual and vague. Far too many cost and programmatic uncertainties have been left unanswered and the timeline envisioned for adoption of a Final Rule is much too truncated for serious state, stakeholder, and public review and input.

From the time comments are due for the draft MOU, it is envisioned that a multi-state Final Model Rule will be released by December 2020 regulating an unknown universe of entities impacting more than 72 million people based essentially on a range of assumptions outlined in a webinar. This is not how the public policymaking process should work – especially when it will alter the lives of so many people across 12 states – if public buy-in, awareness, and feedback is truly being sought.

Below is a range of our key concerns with the draft MOU and modeling scenarios of the TCI:

- **Cost** - Three cost scenarios were outlined in the December 2019 webinar that described the expected financial impacts of the MOU with a 20%, 22% and 25% reduction in emissions by 2032. As page 27 noted, "If fuel companies decide to pass on allowance costs it could mean an incremental price increase in 2022 of \$0.05, \$0.09 or \$0.17 / gallon in the 20%, 22% and 25% Cap Reduction Scenarios, respectively." It can be safely assumed that covered entities are most certainly going to pass on the billions of dollars of costs associated with this regulatory scheme to the driving public and fuel-intensive industries. As mentioned in the presentation, initial annual proceeds from the emissions cap range from \$1.4 billion at the start of the 20% case up to \$5.6 billion when the 25% case begins in 2022. Assuming these numbers are accurate, and without accounting for annual cost increases, this is an additional minimum \$10.4-- \$56 billion by 2032 out of the pockets of drivers, truckers, manufacturers, seniors, and single parents trying to make ends meet. To put these figures in context, the President's 2019 Budget Request for the Federal Highway Administration and the Federal Transit Administration was roughly $56 billion.[i] This is not an insignificant amount of money. Further, these cost assumptions are very conservative considering they just estimate the price per gallon impact at the beginning of the program. A common rule of thumb used to calculate fuel price impacts from greenhouse gas emission pricing schemes estimates that for every $1 in tax levied per ton of emitted carbon amounts to an additional penny per gallon in price increases. On page 26 of the webinar, the draft MOU predicts that allowance prices would climb to $10, nearly $20 and over $35 per ton in the 20, 22, and 25 percent scenarios respectively. This roughly translates into 10, almost 20 and over 35 cents per gallon in future price increases – depending on the scenario endorsed in the out-years of the TCI.

- **Effectiveness** – As the December 2019 webinar and public presentation shows, under the Reference or "Business as Usual" Case – which means no regulatory action takes place – transportation emissions from vehicles in the TCI states will *decrease by 19 percent* by 2032. This is due in large part to increasing federal fuel economy standards that are already significantly improving fuel efficiency and from expected penetration of more electric vehicles in the fleet mix. Again, this is happening independent of a cumbersome and expensive regulatory scheme like the TCI. From a macro-climate perspective, is there really any appreciable difference between a 19 percent, 20 percent or even a 25 percent reduction in transportation emissions? Assuming the lowest-cost scenario outlined by the webinar, the public would spend – at the very minimum- $10.4 billion by 2032 to get an extra 1 percent reduction in carbon emissions. Is this really the highest and best use of billions in public tax money? Are there better ways to drive emissions reductions in states and let them retain control of the fuel taxes envisioned in this proposal rather than ceding authority to an unaccountable new regional entity?
- **Modeling Assumptions –** While improving air quality and reducing emissions is certainly a positive for the region, there appears to be no mention of the value of the public health benefits from the Reference Case. What would those public health values be from simply having the 19% reduction in emissions outlined earlier in the presentation? Unfortunately, the public was not provided that information. The modeling analysis puts significant confidence in truly unknowable factors in the future by predicting that billions of dollars will be saved from hundreds of avoided transportation-related deaths and injuries because of a cap and trade plan placed on fuel. It is similar to the recent policy debate over the use of so-called "co-benefits" by the EPA a few years ago to justify the cost of very expensive air rules that employed the conjecture and guesswork of "avoided death or harm" to mask their real financial impacts to society. Based solely on the study's projected air quality benefits, the TCI draft MOU will provide somewhere between $105—$447 million in air quality improvements by 2032 at the minimum cost of $10.4 to $56 billion to consumers. This is a stunningly low 1 percent return on an involuntary investment by the public. Nearly all the projected benefits in the modeling scenarios are based on very speculative assumptions such as "improved physical activity" will automatically lead to verifiable economic benefits from the building of new pedestrian infrastructure, bike lanes or trails – many of which will be inaccessible to rural populations, seniors and less physically able people.
- **Offsets, Management of Consumer Money, and Accountability –** Scenario B was highlighted in the draft MOU presentation as the illustrative portfolio for directing spending from offsets collected in additional fuel taxes for a range of various programs. Under this scenario, 22 percent of the proceeds are being directed towards "Pedestrian and bike safety" initiatives as well as "indirect/other" programs. A more detailed explanation is needed as to why more than

one-fifth of the offset proceeds are going towards programs without a direct, significant nexus to reducing transportation emissions. Under the most stringent cost scenario that was modeled, this would represent, at a minimum, over $12.3 billion in offset credit value in the first 10 years of the program. This is one of the many reasons why CEA has repeatedly called for more involvement, consultation, and oversight hearings as well as votes by state legislators to more fully understand where their constituent's money is going and why. It further illustrates the need for more transparency and mechanisms to ensure additional funds are going towards the stated intent of the TCI in the first place – which is reducing emissions from the transportation fleet, not creating revenue streams for special interests or pet projects with consumer money.

CEA wants to reiterate that our members want a cleaner future, clean air, reduced emissions and expanded technologies for transportation needs. However, the vague structure and lack of concrete details of the draft MOU leaves far too many questions and policy concerns unresolved for tens of millions of people in the Northeast and Mid-Atlantic before a Final Rule will be set in place in just nine months. Based on the limited information provided, it does not appear that the Draft MOU will make that much of an appreciable difference in environmental quality or avoided climate impacts compared to the status quo while raising energy prices and straining the budgets of truckers, manufacturers, and those employed in the service economy. Much more thought and consideration should be given to providing greater detail on the offset program for ways to reduce the economic burden as well as address the significant limitation of mass transit options for large swaths of rural communities who do not have the option of taking a train, bus or bicycle to work. States can do much of this type of policy work on their own now without a new, Byzantine regulatory construct that removes accountability and transparency from the public via their elected officials, at an exorbitant cost with minimal return.

We appreciate the opportunity to provide these comments and urge the policymakers involved in the TCI to take a few steps back to consider the full ramifications of such a sweeping proposal. In addition, more explicit focus and involvement of state legislators is needed in this process before moving forward with such an aggressive timeline for a Final Model Rule.

Respectfully,

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[i]US DOT 2019 President's Budget Request https://www.fhwa.dot.gov/cfo/508dotbh2019-b.pdf