November 2, 2020

Georgetown Climate Center
Hall of States, Suite 422
444 N. Capitol St., NW
Washington, DC 20001

Submitted electronically to the Transportation & Climate Initiative (TCI) of the Northeast and Mid-Atlantic states.

RE: Comments on the Draft Memorandum of Understanding and the September 15 Webinar on Program Design, Modeling, and the Implications of COVID-19

The Energy Marketers of America (EMA) submit the following comments:

We appreciate the Georgetown Climate Center's (GCC) efforts to develop a framework for reducing greenhouse gas (GHG) emissions from the transportation sector. The Energy Marketers of America (EMA), formerly known as the Petroleum Marketers Association of America (PMAA), is a federation of 47 state and regional trade associations representing energy marketers throughout the United States. Energy marketers represent a vital link in the motor and heating fuels distribution chain. EMA members supply 80 percent of all finished motor and heating fuel products sold nationwide including renewable hydrocarbon biofuels, gasoline, diesel fuel, biofuels, heating fuel, jet fuel, kerosene, racing fuel and lubricating oils. Moreover, energy marketers represented by EMA own and operate approximately 60,000 retail motor fuel stations nationwide and supply heating fuel to more than 5 million homes and businesses. Our organization represents thousands of small business stakeholders throughout the TCI region. Energy marketers are largely family owned, multigenerational "mom-and-pop" operations that deliver fuel to towns from Caribou, Maine to Crockett, Virginia and everywhere in between.

Ever since the November 2017 UN Climate Change Conference (COP23) when governors representing seven states in the Northeast announced their intent to create a regional program addressing GHG emissions in the transportation sector, the Energy Marketers Association have been monitoring and participating in the TCI process. As we learned from the 2018 listening sessions convened by GCC, the participating states were considering a variety of policy strategies aimed at reducing emissions including: reducing traffic congestion; developing new state and local land use strategies to include transit-friendly design; and promoting mixed-use and higher density development in both residential and commercial areas. We were eager to participate in such worthwhile discussions.

As these listening sessions progress however, it is now clear that many participating jurisdictions are more interested in a broader and more formal "cap-and-invest" scheme for the transportation sector, similar (but not identical) to the existing Regional Greenhouse Gas Initiative (RGGI) program for the electric power sector in the region. We are concerned about this shift in focus because the complexity of the liquid fuels supply chain in the TCI region has little in common with the fossil fuel fired electric plants subject to the RGGI. First, not all petroleum fuels consumed in the TCI region are produced within the region as electricity is under the RGGI. Unlike electricity, petroleum products are internationally traded commodities with complex ownership transactions and distribution networks. Moreover, there are several hundred liquid fuel producers and distributors within the region as opposed to the far smaller number of stationary fossil fuel fired powerplants subject to RGGI. For all these reasons, a TCI cap and trade scheme for petroleum products would be complex, unwieldy and difficult to administer fairly. This shifting focus begs the questions, what exactly do the participating jurisdictions envision and, more importantly, what are the finer details of such a cap and trade program?

The GCC's Memorandum of Understanding (MOU) and the rules governing the TCI program has left many questions unanswered. This lack of clarity limits our ability to provide informed comments that could help prevent the participating states from developing a program that could needlessly harm consumers, cost jobs, and fall short of its goal to efficiently reduce GHG emissions from the transportation sector. Once again, we respectfully request GCC address these outstanding

questions so stakeholders can participate in the TCI development process in a meaningful way. Specifically, we ask GCC to provide for public comment more detailed information about the projected costs of TCI, including its impact on consumers and businesses as well as the costs associated with administering the program.

Currently, both consumers and businesses across the TCI region enjoy historically low fuel prices that help stimulate regional economic activity, lower the cost of goods and services and create jobs. However, implementing a cap and trade TCI program that intentionally drives up the cost of producing and distributing transportation fuels would erase all these economic benefits and stifle growth throughout the region. Ultimately, consumers will pay the price for a cap and trade program as costs for purchasing permits will be passed down as higher prices at the pump.

We believe the TCI cap and trade program amounts to a de facto gasoline and diesel fuel tax that will disproportionately impact middle-class families and the working poor. Moreover, the incremental increases in the cost of fuel under TCI will fall on consumers in a region that already has some of the highest costs of living in the U.S. Fuels marketing below the terminal rack is a highly competitive market. Wholesale and retail margins are slim, a few pennies per gallon in most cases. Marketers know that margins must be kept slim because of the sensitivity of the consuming public to higher prices at the pump, even when those increases are just a few cents. The resulting fuel price escalation a cap and trade program would impose will create a significant and ongoing political backlash on the part of consumers that will jeopardize the TCI program itself.

The administrative costs associated with creating a new cap and trade program involving multiple jurisdictions and as many as one thousand regulated entities will likely require millions of dollars in annual administrative overhead. Without a fully funded administrative structure supporting TCI, the liquid fuel distribution network would experience ongoing disruptions due to regulatory log jams. GCC must provide stakeholders with clear and detailed information and projections regarding the trans-regional administrative costs related to the TCI program.

Further questions remain about the reporting requirements under the cap and trade program, not just for the regulated state fuel suppliers identified by GCC, but also for the thousands of downstream entities that may be pulled into the reporting framework. These companies currently remain in the dark as to whether they may be required to report information to a single centralized collection point or to a collection point in each participating jurisdiction. In a region where fuel moves from a single terminal across multiple state lines every day, the lack of clarity to date regarding reporting requirements is creating unnecessary levels of regulatory uncertainty for businesses across the TCI region. GCC must provide detailed explanation of the reporting requirements so that stakeholders can help craft a workable and efficient program and plan for implementation.

Furthermore, the Energy Marketers of America is concerned that GCC is not planning to coordinate the TCI program with the existing RGGI. Creating a new regulatory framework for TCI will create yet another government program, imposing additional and unnecessary costs on consumers and businesses. As a result, money away from the expressed purpose of the program which is to invest in GHG emissions reductions. Failure to coordinate the two programs essentially guarantees that these sector-specific silos will never be harmonized to achieve market efficiencies.

According to GCC's modeling, GHG emissions in the transportation sector will decline by 19 percent by 2032 without the creation of any new programs. The modeling further estimates that TCI would need to impose what would effectively be a $1.4 billion annual carbon tax on the region to achieve a one percent marginal reduction (20 percent overall) in GHG emissions. Achieving a six percent marginal reduction (25 percent overall) would cost $7 billion annually. This is simply too high of a price to achieve such relatively small emissions reductions.

In other words, the most stringent scenario GCC modeled would achieve an incremental reduction of 14 million tons of GHGs per year over the baseline case, at a cost of $6.9 billion. This equals roughly $492 per ton of avoided GHG emissions – more than ten times the Obama-era social cost of carbon (SCC) and more than seventy times the latest price per ton for an allowance in the RGGI program of $6.82. In fact, it seems that much of the justification for TCI lies not on the marginal environmental or public health benefits, but on the anticipated government revenue to fund new state programs. When developing new programs aimed at reducing GHG emissions, policymakers should strive to make these changes at the least possible cost to the public. GCC does not attempt to make a case that such a "cap-and-invest" program would represent the most cost-effective way to reduce GHG emissions in the region's transportation sector, much less in the region economy-wide.

Other key questions that must be addressed deal with the diverging emissions reduction targets among the participating jurisdictions. Will allowance prices change at different rates over time, as states like Massachusetts and New York pursue far more aggressive targets than states like Virginia and Pennsylvania? Furthermore, how will these allowances be sold to entities that sell fuel in multiple states, including states not participating in the program? These are critical implementation questions that need to be answered given that this program will dramatically affect the liquid fuel supply chain for more than 70 million consumers.

We urge GCC and the participating jurisdictions to slow down, to allow for more input and thoughtful discussion among stakeholders (and especially the regulated entities), and to not rush forward to meet an arbitrary deadline. Conducting these discussions in a more thoughtful, deliberate, and transparent manner will ultimately yield a more effective program with greater buy-in that will help to better achieve the stated goals of the participating jurisdictions.

Please feel free to contact me should you have questions or need additional information.

Sincerely,

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