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TESTIMONY

Written Testimony Concerning House Bill 939, Regional Carbon Cost Collection Initiative

Wesley Look

Prepared for Committee on Economic Matters

Maryland House of Delegates

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Written Testimony Concerning House Bill 939, Regional Carbon Cost Collection Initiative (will give a briefer oral statement)

Wesley Look, Senior Research Associate, Resources for the Future

Dear Distinguished Members of the Committee:

Thank you for the opportunity to speak today, it is an honor to offer testimony in favor of House Bill 939.

In the vacuum of federal activity on climate change, the leadership of states is more important than ever. Roughly 15 states and the District of Columbia are currently considering carbon pricing policies, including the majority of states in the Northeast and Mid-Atlantic regions.

Maryland, as a coastal mid-Atlantic state, faces unique vulnerabilities to climate change, such as increased exposure to heat waves, coastal storms and flooding—all of which will compromise and impose costs on Maryland agriculture, fisheries, infrastructure and communities.

Carbon pricing policies like the one being discussed today, present an opportunity to account for the true cost of the pollution responsible for these risks, while investing revenues back into the Maryland economy.

As my colleagues have stated, most economists agree that economy-wide carbon pricing is the most efficient policy for cutting harmful emissions and addressing climate change.

My testimony will focus on the proposed carbon price amount, how to account for imported electricity, interactions with the Renewable Portfolio Standard, the rebate and regional issues.

First, the amount of the carbon price is key, and I encourage you to increase the ambition of the carbon price in House Bill 939.

From the economic perspective, the price is the primary driver of emissions reductions; and the proposed price path is not commensurate with price levels needed, writ large, to achieve the emissions reductions required to stabilize the climate. While, obviously, Maryland alone cannot stabilize the climate, I would argue that it is important to model the levels of ambition needed nationally and globally to address climate change.

There are multiple rationales for setting the price amount. First, is the textbook economic rationale, which says the price should reflect the marginal *cost* of pollution to society.

The current price path follows this rationale, by gradually rising to the level of the Social Cost of Carbon, a metric developed by the federal government to estimate the marginal cost of carbon to society.

The current central estimate of the social cost of carbon is about $40 per ton, increasing to about $70 per ton in 2050. While this is the most credible cost estimate available, it does not yet include all of the widely recognized ecological and economic impacts of climate change. And, for that reason, many experts agree this is much lower than the true costs of carbon pollution.

Another way to set the price is based on emissions reduction targets and conducting economic modeling to estimate the prices that will achieve those targets.

It is my opinion that carbon pricing policies should follow this second rationale. This aligns with the fact that the best atmospheric science we have outlines what must be done to stabilize the climate based on actual emissions levels. This also aligns with the political reality that climate goals all over the world are articulated in terms of targets, including the U.S. commitment under the Paris Agreement.

Recognizing the inherent uncertainty about the price levels needed to achieve emissions targets, I also recommend the bill include a provision that ties the carbon price to actual measured emissions reductions. Briefly, this would be a statutory provision that allows the price to adjust if emissions reductions fall short of targets. The Swiss carbon tax includes such a provision, and research on this approach is currently being conducted by a number of economists and think tanks, including work I am involved with at Resources for the Future.

Finally, as you evaluate various price paths, you may want to consider the Chesapeake Climate Action Network proposal for a carbon price in the District of Columbia, which starts at $20 per ton and rises $10 per year up to $150 per ton, as well as the Whitehouse-Schatz federal carbon price proposal which starts at $50 per ton and rises at 2 percent above inflation.

I would like to make a few other brief points on the implementation of the carbon price.

First, I implore the legislature to ensure that emissions from imported electricity are calculated in a way that preserves the incentive to reduce emissions. Specifically, using PJM grid averages alone can mean there is little to no incentive.

Second, the interface with the Renewable Portfolio Standard (RPS) should be straight forward. The carbon price should not apply to carbon-free electricity represented by Renewable Energy Credits (RECs). Passing a carbon price should align nicely with and support the achievement of the RPS targets.

Briefly on revenue-recycling, I would like to applaud the use of a rebate to make households whole, with an emphasis on low- and moderate-income households. As you are aware, carbon pricing is generally regressive, which requires an economically progressive approach to revenue allocation, so as to offset the regressivity of the price. A rebate is a strong way of doing this.

The rebate also has the economic benefit of *not diluting the price signal*, because it does not lower the cost of dirty energy. And to that end, I would flag for you that, from an economic efficiency perspective, it is *not* advised to return revenues to households through the Maryland Energy Assistance Program, as vital as this program is. The reason for this is that the purpose of the carbon price is to encourage people to shift to clean energy by including the cost of pollution associated with dirty energy. When you reduce energy costs for households you strip away the price signal and the ability to invoke change. My recommendation is that all revenues allocated to households be delivered through the rebate, not by reducing energy costs. This still provides strong and tangible economic benefits to households, without distorting the underlying policy.

Similarly, it is not advised, again from an economic perspective, to provide an additional rebate to households that consume fuel oil, for this provides a perverse – if modest – incentive to consume fuel oil, which runs counter to the primary intent of the policy.

I grant that these comments are purely from the economic perspective and may not align with political imperatives. In my role on this panel, my aim is to advise you on the economic perspective, and I leave it to you to determine the political.

While I encourage provisions to promote regional collaboration, I advise against placing a whole-hog regional constraint on the implementation of the bill (per sections 2-1222 and 1223). If you do feel it is important to create some regional conditionality there are less drastic ways of doing so. One possibility would be to create a higher price path contingent on regional collaboration, or to include provisions that promote participation in the developing Transportation Climate Initiative.

If you are to go ahead with a regional constraint, I would advise adding a state definition to the bill that includes the District of Columbia, a prominent member of the regional economy.

In closing, it is my opinion that House Bill 939 is an efficient and cost-effective way for Maryland to cut carbon pollution and take a leadership role in addressing climate change. Thank you again for the opportunity to provide testimony.