Testimony for EPA, June 29, 2014, by Cathy Carruthers, for ETR-US.ORG

I am Cathy Carruthers, President of Environmental Tax Reform – US. I am a retired energy economist.

The current draft rule for power plants and the original existing implementing rules of 111(d) do not straightforwardly allow states to adopt a carbon excise tax as an "emissions standard."

We would like EPA to modify the definition of "emissions standard" to clearly allow states to tax GHG emissions from power plants and other sources. The rule could encourage states to look at this solution.

We value the extensive work and the data you have provided as background for decision making and for the Regulatory Impact Analysis.

Given that this rule making is data driven we are providing additional data and four economic studies on the effect of a carbon tax for the US and for 3 individual states.

We request that EPA look at the potential cost savings available to states if they choose to use a revenue neutral carbon tax.

Each of these four studies was done by Regional Economic Modeling Incorporated (REMI). REMI is used by many state governments for analysis of tax policy. The US study,
which was done for this rule making, relies on the Regional Energy Deployment System (ReEDS), which was developed by the National Renewable Energy Lab. NREL’s work is highly regarded by the power sector.

The first study is for 9 regions of the US. It reviews the impact of a tax equal to the social cost of carbon, which EPA used in its analysis.

The national study shows that a revenue neutral tax on carbon dioxide will meet the EPA goals. Compliance costs are reduced if the carbon tax is coupled with reductions in corporate and personal income taxes, and with an increase in the earned income tax credit.

- All the tax rate scenarios reduce emissions from power plants and meet EPA’s new Carbon Rule goals. Even the low Social Cost of Carbon scenario creates sufficient reductions in power-based emissions to meet the requirements of EPA’s new Carbon Rule by 2027, when the marginal price on carbon dioxide is $15.75 per metric ton in 2012 dollars.
- All scenarios reach the targeted emission reductions earlier than required under the draft rule.

In addition this solution improves the economy, indicating the costs forecast in the Regulatory Impact Analysis may be higher than they need to be.

- All scenarios increase national gross domestic product (GDP).
• All scenarios increase total employment in all regions of the US.

In addition we are providing economic studies for California, Massachusetts, and Washington. Each of these studies shows that:

• The states can more than meet the goals laid out in the rule using a carbon tax.

• Reductions in Carbon Dioxide take place faster than the Carbon Rules require.

• In each state, the tax reductions that best fit the state differ depending on the existing tax structure.

• Environmental tax reform based on a carbon tax can improve the economy.

In short, a carbon tax coupled with reductions in other taxes for each state may be a faster, better, cheaper way to obtain the goals in the draft rule.

Given this set of analyses we respectfully request that EPA modify the definition of "emissions standard" to clearly allow states to use a tax on GHG emissions.