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AOI TESTIMONY BEFORE THE SENATE COMMITTEE ON ENVIRONMENT AND NATURAL RESOURCES

June 10, 2015

Subject: *Testimony on Carbon Policy and SB 965 and HB 3470*

Dear Chair Edwards and Members of the Committee:

Thank you for providing Associated Oregon Industries the opportunity to submit written testimony for the House Committee on Energy and Environment public hearing regarding greenhouse gas emissions policies and carbon pricing.

Associated Oregon Industries (AOI) is Oregon's largest statewide business association representing approximately 1,500 businesses that employ nearly 200,000 people. AOI members are diverse and are representative of both large and small businesses closely tied to many urban and rural Oregon communities. Like many Oregonian's, AOI members and their employees value both the environment and economic prosperity; and therefore, support legislation that recognizes one does not have to be exclusive of the other. In that regard, AOI opposes SB 965 and HB 3470 because these bills fall short of that goal.

Generally, SB 965 and HB 3470 (collectively "the bills") propose to regulate greenhouse gas emissions through different regulatory mechanisms. Each mechanism will subject Oregon businesses to increased energy costs without providing any meaningful contributions to worldwide greenhouse emission reductions. In short, Oregonian's and Oregon businesses will be asked to pay for a program, through increased energy prices, that is designed to attack an inherently global issue without enjoying the benefits. Consequently, due to the higher input costs, Oregon businesses especially manufacturers, will be at a significant disadvantage to other states and countries.

AOI businesses agree that protecting our environment is a deserving goal, so long as the policies intended to protect the environment both provide a meaningful environmental benefit and do not unfairly burden Oregon businesses. It is important to note that the business community continues to do its part through voluntary public/private partnerships and ongoing investments in innovation. AOI believes this is the best formula to encourage businesses to operate in Oregon, grow employment opportunities for Oregonian's, and provide meaningful and lasting environmental benefits.

As the Committee reviews the bills and future carbon emissions proposals, AOI requests that the Committee consider the following information and weigh the impact on

Oregon businesses that these policies and other climate change-related policies will have now and into the future.

First, it is important to remember Oregon is doing its part in protecting the environment and reducing greenhouse gas emissions. In fact, Oregon has one of the lowest carbon intensity values based on economic activity, it is the 5th lowest in per capita energy-related carbon dioxide emissions, and has reduced its carbon intensity of its economy by nearly 12% (based on EIA's most recent information). All of this shows Oregon's economy is efficient as it relates to carbon emissions.

Moreover, Oregonians are already making significant investments in reducing greenhouse gas emissions. For instance, Oregon has implemented over one hundred energy and climate-related policies since 1975; including more recently: an emissions offset law for new power plants, a public purpose charge to pay for energy efficiency and small-scale renewables, a supplemental energy efficiency charge, a renewable portfolio standard for electricity, a solar capacity mandate, an emissions performance standard, a voluntary greenhouse gas reduction incentive for gas companies, a low-carbon fuel standard, and a plethora of different taxpayer and ratepayer subsidies intended to promote renewable energy and energy efficiency. All of these laws and regulations have come at a significant cost to businesses and ratepayers; and as a result, Oregonians are already paying for carbon reduction policies.

Second, climate change policies are best set, and most effective, at the federal level. The federal government has instituted a renewable fuel standard for transportation fuels and will soon issue its final rule on power plant emissions reduction, also known as the Clean Power Plan or 111(b) and 111(d) rulemaking. Compliance with these regulations, specifically designed to reduce greenhouse gas emissions, will be costly to ratepayers and require the State of Oregon to develop a plan for meeting the new mandates. Like the programs previously identified above, these regulations will again add to the price on carbon.

Third, as applied to both the transportation and electricity sectors, a state carbon tax or cap-and-trade represents one of the most unfair and regressive forms of taxation for Oregonians. While the concept may be simple: tax the things you don't want – in this case emissions – in practice a carbon tax ignores decades of public policy that has created the systems we use now and is insensitive to the economic conditions of many communities throughout the state. Likewise, a cap-and-trade will unevenly allocate costs to ratepayers despite ratepayer investments.

This is not to say that Oregon electricity mix is not changing without a carbon tax or cap-and-trade policy. Instead, the electricity mix is built on a legacy of state and federal laws that have shaped its development. Some of those laws continue to mandate change. A couple of quick examples include:

- Oregon's electricity is largely provided by investor-owned utilities. Under the **NW Power Act**, IOUs do not have preference access to the federal hydropower system. Instead, Oregon gets most of its electricity from private investment, not government owned facilities.

- Federal policy has shaped the types of investments that were made to serve Oregonians – in the late 1970s Congress passed the **Power Plant and Industrial Fuel Use Act**, which essentially forbade the use of natural gas for electricity generation and encouraged the building of coal and nuclear power plants – which Oregon utilities did. Instituting a state carbon tax could undermine and unravel the balance of interests between public and private utility systems that was achieved in the NW Power Act. If IOU customers will carry a new tax burden not shared by those served by the Bonneville system, then there is a new incentive to amend the act to allow direct power benefits for IOUs.
- State and federal air quality standards are forcing greenhouse gas emitters to meet new, more stringent standards. As previously mentioned, the Clean Power Plan regulations will be issued by the Environmental Protection Agency later this year that will directly regulate greenhouse gas emissions.

A recent study by Northwest Economic Research Center and Portland State University, reveals that a carbon tax burden falls most heavily on the customers of investor-owned utilities who have developed resources according to state and federal policies. In essence, an Oregonian's new carbon tax liability will be based on where they live and what kind of utility serves them, not their income, economic activity or contribution to climate change. Subjecting ratepayers to a new tax on top of the direct and indirect costs of regulatory policies that address the same environmental concerns is unfair, inefficient, and unsustainable. Especially if the tax does not produce real, additional carbon emissions reduction benefits as it relates to climate change in Oregon. Again, protecting our environment is a deserving goal, so long as Oregon policies both provide Oregonian's meaningful environmental benefits and do not unfairly burden Oregon businesses and ratepayers.

Instead of creating new tax burdens, whether through a direct carbon tax or cap-and-trade, that are additive to other costs addressing the same problem, the Legislature should explore opportunities that will assist citizens and job creators to better position themselves to grow prosperity and increase Oregon's competitiveness. That means removing costs where necessary, such as the costs associated with siting clean energy resources, easing strict land use restrictions, ensuring adequate funding for transportation infrastructure, and encourage innovation.

In conclusion, AOI opposes SB 965 and HB 3470 because these proposals unfairly burden Oregon businesses, Oregonian's are already paying for carbon emissions through current policies, and the bills will constrain the state as it prepares for new federal regulations.

Thank you for your consideration.

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