NORTHWEST INDUSTRIAL GAS USERS

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Testimony in Opposition to HB 2135 and HB 2468
SB 557 748 and LC 1242
Senate Environment and Natural Resources Committee
House Energy and Environment Committee
March 1, 2017

Good afternoon members of the Senate Environment and Natural Resources Committee and the House Energy and Environment Committee. For the record my name is Ed Finklea and I am the Executive Director of the Northwest Industrial Gas Users. My members use natural gas in their businesses in Oregon, Washington and Idaho. NWIGU's membership reflects the diverse uses of natural gas in the State of Oregon, with companies in the businesses of food processing, pulp and paper, wood products, steel, specialty metals, chemicals, electronics, aerospace, wallboard manufacturing and many others.

My members support measures to reduce carbon dioxide emissions in Oregon. Our members have already spent millions of dollars implementing efficiency measures, and continue to embrace efforts to reduce Greenhouse Gas (GHG) emissions. We are proud to be leaders in energy efficiency. Many NWIGU member companies have employed efficiency measures in the past to reduce their consumption of natural gas. If future compliance with a cap and trade law is measured by ratcheting down permitted emission levels from current emissions, early adapters of energy efficiency will be penalized for employing the measures before the law was enacted.

We are very concerned about the impacts of imposing a cap and trade system on the use natural gas in Oregon. HBs 2135 and 2468 and SB 557 and SB 748 impose ever increasing carbon taxes on all natural gas consumers. Authorizing the Department of Environmental Quality (DEQ) to impose greenhouse gas emission limits that become more and more severe over time will not necessarily result in significant carbon dioxide emission reductions from the use of natural gas. In many cases there is no practical alternative to using natural gas whether for home heating, commercial applications, or in industrial processes. Instead of resulting in emission reductions, a cap and trade law will simply force businesses and individuals to pay higher and higher prices for so-called allowances that will have to be purchased to enable consumers to still use natural gas in Oregon.

The recently released study by the Department of Environmental Quality offers very little detail regarding how the program would impact natural gas consumers and especially energy intensive businesses. We note that in 2015 when Portland State University studied a carbon tax, it concluded that the carbon price would have to be at least $60 per ton to result in any meaningful reduction in carbon dioxide emissions in Oregon. A $60 per ton carbon price is the equivalent of paying $3.20 per MMBtu more for natural gas. Natural gas as a commodity sells today for less than $3.00 per MMBtu. If $60 per ton allowances had to be purchased for even 25% of Oregon's natural gas consumption, the cost increase would be $194.5 million based on 2013 natural gas consumption in the state.

DEQ has not prepared a careful analysis to determine the likely impact on the Oregon economy from imposing more stringent caps each year on carbon dioxide emissions and forcing consumers to purchase allowances from the state in order to consume the energy. Oregon businesses are preparing such a careful analysis and it should be available soon.

Our primary concern with a State of Oregon implemented cap and trade is that raising the cost of using natural gas in Oregon far above the cost in other states will harm the competitive position of Oregon businesses struggling to come back from the recession. The cap and trade bills under consideration would impose a complex and expensive regulatory scheme on individuals and businesses that use energy, without any demonstration that the law would lead to meaningful reductions in global GHG emissions. Carbon dioxide emissions after all are a global, not a local, problem.

If cap and trade is in place, as Oregon facilities compete for capital with facilities even within the same company, Oregon businesses would be handicapped by higher energy prices. In addition to harming existing manufacturing, Oregon would damage its ability to attract new businesses that are energy intensive. Would all new energy uses be above the cap? Presumably an Oregon expansion would put a company further above the caps, thus putting the full price of allowances on any expansions.

HBs 2135 and 2468 and SBs 557 and 748 would certainly raise the price of using natural gas in Oregon, while competitors of Oregon businesses in other parts of the United States and the world would not see those price increases. We are very concerned that the competitive position of energy intensive businesses will be negatively impacted by a cap and trade regulatory structure. For energy intensive businesses, a significant increase in energy costs can erode a large percentage of a business's profits. If natural gas costs more to use in Oregon than elsewhere, Oregon risks losing energy intensive businesses to other states. In many cases, business will go to states that have higher carbon footprints because their electricity is not as clean as it is in Oregon. The unintended consequences of these bills could be not only taking away good job opportunities in this state, but increasing the carbon footprint of products that will continue to be manufactured.

The very manufacturing jobs we so often hear are sought after in today's economy would become that much more difficult to sustain and grow in Oregon under a cap and trade system. The damage to Oregon businesses and jobs would continue even if the United States one day enacts a carbon tax or national cap and trade system, as nothing in any of the bills sunsets the state law if federal legislation is enacted. Oregon energy consumers could end up paying twice, once to the state and once to the federal government.

The bills before the Committee authorizes DEQ to avoid "leakage" as a result of the cap and trade regulations. However, nothing in the bills explicitly exempts energy intensive, trade dependent businesses from having their emissions capped based on current natural gas usage, and being forced to purchase allowances. The continuing viability of many Oregon businesses would rest squarely in the hands of DEQ, which would be empowered to decide the long-term fate of many manufacturers in our state. This is not the way to foster a healthy economy in the competitive world Oregon companies operate in today.

Carbon pricing is inherently regressive. Oregon prides itself in having a progressive tax system based on income and corporate taxes. Carbon pricing using cap and trade is just another term for an energy sales tax, which will fall most heavily on individuals and companies that use more than the average amount of energy. In many cases the tax burden will fall on struggling individuals and businesses that must use energy. Even if the money collected from allowances is returned to the economy in a revenue neutral manner as a whole, it will not be revenue neutral to all individuals and businesses.

The actions Oregon takes to reduce GHG emissions should be targeted to really reduce such emissions and to help solve the technological challenge facing the entire world. We urge the legislature to look for ways to encourage individuals and businesses in Oregon to use natural gas where appropriate instead of coal and oil. My organization is working with the Oregon Public Utility Commission and gas utilities in the state to implement SB 844, passed in 2013. It is a voluntary carbon reduction program that promises real reductions in GHG emissions while protecting gas consumers from unreasonable rate increases. Incentives would be paid by natural gas ratepayers for investments in Combined Heat and Power and other specific measures that achieve real GHG emission reductions. The progress we have made in implementing SB 844 could be entirely undone by passage of a cap and trade law as all incremental natural gas consumption would exceed caps based on historical use.

We appreciate the opportunity to be heard on this important issue and urge the Committee to reject HBs 2135 and 2468 and SBs 557, 58 and LC 1242. Oregon should incentivize real reductions in GHG emissions, not impose a complex regulatory scheme on all energy consumers that taxes energy consumption but does not necessarily reduce GHG emissions.