NORTHWEST INDUSTRIAL GAS USERS

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Testimony in Opposition to HB 4001 and SB 1507

Senate Committee on Environment and Natural Resources
House Committee on Energy and Environment
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Senator Michael Dembrow, Senate Committee Chair
Representative Ken Helm, House Committee Chair

Good afternoon Chairs Dembrow and Helm and members of the Senate Committee on Environment and Natural Resources and the House Committee on Energy and Environment. For the record my name is Ed Finklea and I am the Executive Director of the Northwest Industrial Gas Users (NWIGU). 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.

Oregon businesses, including members of our organization, support measures to reduce carbon dioxide emissions in Oregon. We are, however, opposed to HB 4001 and SB 1507.

Our organization's primary concern with the State of Oregon implementing a cap and trade program 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. If cap and trade is in place in Oregon, but not in the vast majority of the United States, let alone the world, Oregon businesses would be handicapped by higher energy prices as Oregon facilities compete for capital, even within the same company. 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 purchasing allowances on any expansions. Cap and trade could have a severe and chilling effect on the ability to attract new investment in manufacturing in Oregon.

HB 4001 and SB 1507 would certainly raise the price of using natural gas in Oregon. 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. Without explicit statutory exemptions for all energy intensive businesses facing any competition, the unintended consequences of these bills could take away good job opportunities in this state as well as increase the carbon footprint of products that will continue to be manufactured.

The very manufacturing jobs 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 either bill 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 for the consumption of the same MMbtu of natural gas. Every $10 price of carbon dioxide allowances translates to a 53 cent increase in the price of natural gas. Natural gas commodity sells for approximately $3.00 per MMBtu. A $30 carbon price would add half again as much to the cost of the natural gas.

The cap and trade program proposed in the bills is an extremely complex regulatory mechanism that will certainly lead to higher energy prices for natural gas consumers, but will not necessarily lead to meaningful reductions in greenhouse gas emissions (GHGs) in Oregon, much less worldwide. The caps would apply to natural gas local distribution companies (LDCs) that would certainly pass the cost of allowances on to their customers.

NWIGU has serious concerns about the impacts of imposing a cap and trade system on natural gas consumers in Oregon. The so-called caps in the bill are illusory, as natural gas consumers will be forced to pay for allowances purchased by their serving utility if the LDC's throughput exceeds the caps, but obviously the customers cannot stop heating their homes or fueling their businesses. "Purchasing allowances" is a euphemism for paying a consumption tax in order to burn 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. Under the system proposed in the bill, as caps go down the quantity of allowances that must be purchased by the LDC goes up. The price of allowances are also expected to go up over time as more and more consumption exceeds the caps. Rather than targeting investments in energy efficiency and other techniques to lower carbon dioxide emissions, cap and trade uses a blunt force instrument to create the illusion that reductions can be ordered by state government, when in fact state government will simply collect money so that individuals and businesses can still use natural gas where there is no practical alternative.

NWIGU members have already spent millions of dollars since the Western Energy Crisis of 2000-01 implementing efficiency measures, and continue to embrace efforts to reduce GHG emissions. We are proud to be leaders in energy efficiency. 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. Neither bill before the committee attempts to address the unfairness the program could have on early adapters of GHG emission reduction measures.

Carbon pricing is inherently regressive. Oregon prides itself in having a progressive tax system based on income and corporate taxes. The cost of purchasing allowances, the energy consumption tax component of the cap and trade system, 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 every day. Once a consumer has purchased the most efficient natural gas appliance that exists for the particular application and weatherized the structure, there is nothing else the consumer can do to reduce their energy consumption further, short of not running the appliance or not heating the space. 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. Calling the spending "investment" does not change the fact that any dollar spent under the program has to come from an energy consumer. If the GHG bureaucracy at the Department of Environment Quality spends a significant amount of money administering this complex program, which can be expected, then dollars go out of energy consumers' pockets purchasing allowances, and a fraction of those dollars are invested in actual GHG reduction programs. This is not a desired outcome from the prospective of natural gas consumers that might be happy to spend some extra money acquiring cost-effective GHG reductions.

We appreciate the opportunity to be heard on this important issue and urge the Committee to reject HB 4001 and SB 1507. Oregon should incentivize real reductions in GHG emissions and research and development of alternative technologies; not impose a complex regulatory scheme on all energy consumers that taxes energy consumption but does not necessarily reduce GHG emissions.