Testimony of Anthony Bailey, Chief Financial Officer
Oregon Trail Electric Cooperative (OTEC) on HB 2020
Joint Committee on Carbon Reduction
March 5, 2019

Chair Dembrow, Co-Chair Power, and Members of the Committee: For the record, I am Anthony Bailey, the Chief Financial Officer of Oregon Trail Electric Cooperative (OTEC).

OTEC thanks the Carbon Policy Office for working constructively during the interim with our trade association, ORECA, on provisions that impact the Bonneville Power Administration (BPA) and utilities such as OTEC, a member-owned cooperative that is governed by a nine member-owner board of directors and relies upon the Federal Columbia River Power System (FCRPS). As a result of these conversations, we believe there is a greater understanding of BPA, consumer-owned utilities, and the role that the federal hydropower system can play in helping Oregon meet their greenhouse gas targets.

OTEC serves approximately 23,000 members, in over 31,000 locations, covers over 6,700 square miles and has over 3,000 miles of line, with a customer density of approximately 10 electric meters per mile. OTEC is a full requirements customer of BPA. Ninety-six percent (96%) of power we purchase from BPA is carbon-free. Based on this, our carbon foot print is extremely low for the electric power we provide to our member-owners.

Jobs and the local economies of the 22 communities we serve across four counties are very important to us as they are our member-owners. One job (let alone five, ten or a hundred jobs) in one of our communities has a more significant effect on the overall economy than in larger, more metro-centered communities. For comparison, based on 2016 census data, Baker County has a total employment base of 4,208 jobs. Washington County (Portland-metro) has 265,790 jobs. The household income in Baker County is $43,765, In Washington county that number is at $74,033. To have the same impact on Washington County's economy, if Baker County lost an employer with 100 jobs, Washington County would need to lose 13,996 jobs to suffer the same economic consequences. Presently, 17.7 percent of our residents are living below the poverty line, where in Washington County that number is 8 percent. In this type of environment, every job counts, otherwise we risk widening the divide between rural and urban.

When you look at these numbers, the impact of this legislation, conceived with good intentions, could have a disastrous effect on our local businesses, manufacturing facilities, ranches and ultimately our individual member-owners and their families. As we reviewed this bill one question came to mind, "What part of this bill encourages new business to come to OUR state? Let me share with you the impacts of this bill on a few of our businesses:

This bill references Energy Intensive Trade Exposed industries (EITEs). Many of these EITEs are located in the rural electric cooperative service territories. The people that work in these industries are our friends, neighbors and member-owners of our cooperative. The bill gives some cover to EITEs in their “manufacturing processes”, but there is no sensitivity to transportation costs and their impacts to their bottom line. Many of these businesses are in highly competitive industries with competitors in other states that don’t have a carbon tax or a cap and trade plan. Carbon emissions are not an Oregon problem, to the extent they are a problem, they are a global problem. If this bill were enacted, and ALL of Oregon’s carbon emissions were to be removed from the planet, global emissions of carbon would fall by 0.2 percent (0.002). This bill creates several hardships for businesses that are both above and below the 25,000-ton emission threshold in the bill.

- Each time the BPA hydro system is de-rated (capacity reduced), the value of low-cost carbon-free hydro generation is lost. An example of this would be the requirement to spill more water over the dams instead of using alternative means to increase juvenile salmon migration including barging or predator mitigation. The end result is other **base-load** generation needs to be developed (usually natural gas generation) to provide the needed stability to keep our power system reliable. This new generation comes at a higher cost, and a higher carbon emission output that could have been avoided.
- Transportation costs are a very significant operating expense to our region because of the great distances raw materials are shipped in and finished goods are shipped out. This transportation element adds costs to everything we buy and sell. As the cost of fuel increases (from a cost not born by all in the market place), any competitive advantage with neighboring states (or other countries) dissipates.
- Lumber mills are getting some of their logs from Idaho because of the lack of available timber in Oregon. Mills in our service territory include Boise Cascade, Woodgrain Millwork and Malheur Lumber Company. By harvesting the timber, these industries help reduce the overall output of carbon. When it is cut into finished lumber products (dimension lumber, plywood, particle board), the normal decaying process that takes place in the forest stops. By thinning and creating fire-breaks, the opportunity for a mega-fire decline. Proper forest management reduces fire. By replanting, as required by the Oregon Forest Management Plan, more new, younger carbon-consuming trees are planted utilizing carbon to spur their growth.
- We have a manufacturing plant in Baker City, Behlen Manufacturing (Behlen). They manufacture “everything agriculture.” From cattle chutes, to steel gates, fencing and watering tanks. The raw materials are shipped in, the product is manufactured and then the majority of it heads south, primarily to California. Transportation costs are extremely high. Just the proposed $15 tax per ton (equating to $0.15 per gallon of fuel) is estimated to increase transportation costs for them by $120,000 per year. Put more simply, for every nickel ($.05) this tax goes up it is an additional $40,000. To you this may seem insignificant. To them it could be the straw that broke the camel’s back. Behlen has already testified that when compared to other locations they presently operate in, or are

looking at moving to, comparatively speaking, Oregon has an extremely high cost of doing business.

- Although we do not serve Ash Grove Cement Company, they have a significant impact on our local economy. They provide good, high-paying jobs to residents in our communities. In the recent past, Ash Grove voluntarily spent over $20M to remove 99% of mercury emissions to meet the federal standard. There is no technology available to reduce CO_2 emissions to the level required by HB 2020. In fact, it is technically impossible since 65% of the CO_2 emissions are from process liberation of CO_2. If Ash Grove were shuttered, cement would be supplied by China and other foreign producers and global CO_2 emissions would increase over 400,000 tons per year. This would mean the loss of a significant amount of jobs, with NO decrease in overall emissions and a reduction of in-state income tax revenue. Oregon loses on both accounts. If this occurs, how does the climate or Oregon win?

These examples are just a few of many potential detrimental effects on our local businesses. Not only do these situations exist in businesses presently operating in our area, but they illustrate the problems this bill would create for future potential new businesses that would have considered Oregon as their future home.

The above employers are at, or above the 100-employee mark. I ask you to take a second look at the economic data I presented on page one. Losing any of these employers would have the same economic impact of Washington County losing almost 14,000 jobs!

In a Wall Street Journal article on October 28, 2018, ***Washington's Carbon Tax: Take Two***, it discusses the failed attempt to move Washington state to a carbon tax. In this article, there is a quote that I would like to restate:

> "Washington's tax might reduce **global** emissions by all of 0.02% in 2035, and the Intergovernmental Panel on Climate Change (IPCC) recently estimated a global price on carbon of between $135 and $5,500 per ton would be necessary to forestall a climate apocalypse."

The carbon price in 2021 is estimated to be $15 per ton. At this carbon price, this tax is estimated to increase the price of fuel by $0.15 per gallon. If the carbon tax is at the lower end of the range proposed by the IPCC, that would mean an increase to the price of a gallon of gas by $1.35. If the carbon price is at the upper end of the range at $5,500 per ton, this would add $55.00 TO A GALLON OF GAS. It is estimated that the average car emits 4.6 tons of carbon per year. Based on the IPCC range for the price of carbon, an individual could pay an additional tax of between $621 and $25,300 PER YEAR to drive their car.

Initially, a 15-cent increase is a shock and based on the IPCC statement above, it appears to only be the beginning. As an unmitigated carbon tax on fuel continues to rise, the mills, farms, and other businesses, such as Behlen, will be at greater risk. The uncertainty of where the price of carbon will be in five or ten years is a factor most businesses will want to factor into expansion plans or even whether they decide to stay or leave. THEY WILL JUST LEAVE and other businesses will never come. Our service territory is less than seventy miles from the Idaho border and the issues of the proposed cap-and-trade law could spur companies to shift production and employment to Idaho, harming Oregonians and our economy (and income tax revenues) without any benefit to the climate. One only has to look at the exodus in Ontario, Oregon. Since implementing a local sales tax, city officials cite many businesses that have jumped across the river into Idaho, including hospitals!

However, we also have some suggestions that can help improve the bill for Oregon's electric cooperatives and our member-owners.

- As the bill language is currently drafted, electric cooperatives that have emissions under the 25,000 metric ton threshold are exempt.
    - This bill gives investor owned utilities (IOUs) exemptions until 2030…. consumer owned utilities start paying from day one if they are over the limit.
        - The net profits from the IOUs go to the shareholders of the utility, in most cases, these are not the same people paying for the energy (ratepayers). Many of these shareholders who will benefit do not reside in Oregon, for a cooperative, the member-owner and the end-user are one in the same. This bill, as written, gives preference to shareholders instead of the residents of Oregon.
    - OTEC is presently under that limit. There should be some sort of a safety net for those utilities that exceed the limit shortly after enactment of the bill. Presently, ORECA is working on an amendment that can provide this safety net.

- While BPA is a clean resource, it still has market purchases to help meet demand. HB 2020 provides for an initial direct distribution of 100 percent of allowances to BPA based on "representative years." In order to provide certainty to BPA and its customers about our starting point, we urge the Committee to define this term as average historic emissions attributable to the FCRPS starting in *2002* until the most recent reporting year. This will be a more accurate snapshot about the variability of the hydro system. ORECA is supporting an amendment to the bill to provide this certainty.

- We are also concerned with the increase in the cost of fuel because of this legislation. The transportation sector creates the greatest amount of carbon emissions in the state, and a rise in gasoline prices could disproportionately affect rural Oregonians who drive greater distances for work, health care and for all types of goods and services, both existing and new services.

In summary, for any cap and trade bill to successfully fulfill its goals in Oregon, it must use a balanced approach to reducing greenhouse gas emissions. For this to occur, this bill should contain:

- **The outcome results in actual greenhouse gas emission reductions** – if the bill causes business to leave the state or abroad to less burdensome regulations, this is not a win for Oregon or the environment.
- **The regulation should not be a general revenue generating source** – legislation designed to reduce carbon should only raise revenue to mitigate carbon, not provide funds for other state priorities.
- **Consideration of both positive environmental and economic outcomes** – cost/benefit analysis should be considered before any new mitigation measure is taken.
- **Be affordable for all Oregonians** – impacts of carbon legislation tends to be regressive in nature (the costs will hit people that spend a higher percentage of their incomes on necessities harder). That being said, the outcomes from this bill should not be re-distributive, but should work to minimize the impact.
- **Does not result in a competitive disadvantage to Oregon businesses** – legislation needs to consider all forms of leakage. It should not only deal with manufacturing processes, but it should consider businesses that are significantly affected by the cost of transportation. (Transportation is an area that presently may end up being hit the hardest by this legislation). The cost of doing business is already high. Adding additional burdens on businesses will reduce their desires to expand in Oregon, or for new businesses to locate here.
- **Nurtures Oregon-based innovation** – Oregonians have a history of being highly innovative. It is important to provide incentives within the legislation that allows free-thinking innovation to be supported, rather than one-size fits all government-based solutions.
- **The requirements/costs of the legislation must have certainty** – business will not expand or invest in markets where they cannot predict increasing business costs. Transparency is important. For example, if the legislation detailed increasing costs per ton of carbon for the next twenty years, businesses could plan and invest accordingly. With certainty, businesses will decide to either invest (and potentially earlier because their returns can be calculated) or not, to stay in Oregon or leave based on economic factors.

Oregon, since the 1970’s with Oregon’s introduction of the “Bottle Bill”, has always been thought of as a leader in environmental issues, working for a better environment, more efficient use of resources and increasing conservation through incentives. This is how a cooperative works. We work for the good of our member-owners. Over the past decade, OTEC has committed more than $7,000,000 to energy conservation programs and incentives. We too feel a

responsibility to be good stewards of the environment and to our member-owners. Our desire is to strive toward a cleaner environment and efficient use of our resources without breaking the backs of our local businesses and removing the opportunities that abound in our great state from the natural resources we have been blessed with such as timber, mining and low-cost clean hydro power. Thank you for your consideration of our issues and those of our members.
I can be reached at the following address, email and phone number:

Oregon Trail Electric Cooperative
Anthony Bailey, CPA, CGMA
Chief Financial Officer
PO Box 226
Baker City, OR 97814
abailey@otecc.com
541-524-2824