

# NORTHWEST INDUSTRIAL GAS USERS

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## **Testimony in Opposition to SB 1574** Senate Environment Committee February 2, 2016

Good afternoon members of the Senate 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, large hospitals 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. SB 1574 imposes an ever increasing carbon tax 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. 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.

No study has been done on the impact of imposing cap and trade on all Oregon energy consumers. We note, however, that 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 approximately \$2.50 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. Careful analysis would have to be done 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. That careful analysis cannot be completed prior to the time the 2016 session of the legislature adjourns.

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 bill 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 GHG emissions.

California is the only state that has thus far imposed economy-wide caps on carbon dioxide emissions. The caps imposed in the Northeast United States only apply to electricity; natural gas and oil are not covered by the Regional Greenhouse Gas Initiative. Oregon has a very different economy than California, as we are much more dependent on manufacturing to provide family-wage jobs. Thus there is no real precedent in our country for Oregon to look to in order to estimate what impact cap and trade will have on our state's economy.

SB 1574 would certainly raise the price of using natural gas in Oregon, while our competitors 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. The damage to Oregon businesses would continue even if the United States enacts a carbon tax or national cap and trade system, as nothing in SB 1574 sunsets the law if federal legislation is enacted. Oregon energy consumers could end up paying twice, once to the state and once to the federal government.

Lower natural gas prices over the past several years have helped businesses stay in operation. 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 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 bill before the Committee authorizes DEQ to avoid "leakage" as a result of the cap and trade regulations. However, nothing in the bill 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, who 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.

We appreciate the opportunity to be heard on this important issue and urge the Committee to reject SB 1574. 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.