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STATEMENT OF ASSOCIATED INDUSTRIES OF MASSACHUSETTS (AIM) BEFORE SENATE CHAIR MICHAEL J. BARRETT, HOUSE CHAIR THOMAS A. GOLDEN, JR AND MEMBERS OF THE JOINT COMMITTEE ON TELECOMMUNICATIONS, UTILITIES AND ENERGY IN OPPOSITION TO BILL NUMBER S.1821 - AN ACT COMBATING CLIMATE CHANGE

For the record, I am Robert A. Rio, Senior Vice President and Counsel for Government Affairs at Associated Industries of Massachusetts (AIM). On behalf of our membership, which represents every sector of the Massachusetts economy, I wish to express our opposition to S.1821- *An Act Combating Climate Change.*

AIM's mission is to promote the prosperity of the Commonwealth of Massachusetts by improving the economic climate, proactively advocating fair and equitable public policy, and providing relevant, reliable information and excellent services on behalf the thousands of members throughout the state. This legislation would hinder these shared goals, which are to create jobs and create a more positive business climate for Massachusetts.

With 6.5 million residents and 250,000 business in Massachusetts, the bureaucratic and inefficient refund mechanism envisioned in this bill guarantees failure. Administrative costs will be large, reducing potential rebates and with the program arbitrarily picking winners and losers for additional rebates, the majority of "payers" will not receive anything in rebates near what they pay. In addition, some of the sectors subject to taxing under this proposal will be in essence double taxed since they already pay a de-facto carbon surcharge on their energy use. Finally, elements of the proposal run counter to greenhouse gas (GHG) reduction policies that the legislature has embraced under previous laws.

S.1821 as written is not an effective way to combat climate change.

We believe there is a better way.

Our full summary of the bill and the details of our opposition follow later in this testimony. First, I would like identify the type of greenhouse gas reduction program that *will* reduce greenhouse gas emissions and that AIM could support if there is willingness to take a different approach.

RECOMMENDATIONS

AIM continues to support many programs to reduce greenhouse gases. In fact, not only are our members often recognized nationally for their energy and carbon reduction efforts but our own annual Sustainability Impact Awards recognizes companies that have gone above and beyond the law to make a difference. AIM is also a charter member of the Massachusetts Energy Efficiency Advisory Council (EEAC) and we have supported recent plans to bring onshore and offshore wind and hydroelectric power to Massachusetts energy consumers. AIM also supported recent increases to the gasoline tax earmarked for infrastructure improvement (which reduces greenhouse gases in the transportation sector).

What separates Massachusetts from others that have instituted a similar carbon tax, however, is that Massachusetts already has numerous programs to reduce greenhouse gases funded by surcharges on fossil fuel use for non-transportation sectors (home heating and process use of natural gas and other fuels) and electricity. These programs provide financial incentives to make alternative energy (solar, etc.) and energy efficiency investments (insulation and boiler replacement or oil-to-gas conversions) more appealing - exactly the type of investments envisioned under this proposal. In essence, this legislation ignores all those efforts and establishes an entirely new system instead of reforming the current ones.

These surcharges already generate almost 2 billion dollars per year, about what this program will generate in a few years. The problem with the existing programs, however, is they are often placed in their own siloes, with no regard as to how much better they would work if they worked together. Investments are not necessarily channeled to the projects that create the most efficient reductions in greenhouse gases but to those with the loudest constituency.

With that in mind, AIM suggests that should a well-designed carbon tax be instituted, the funds should not be used for rebates, but rather as an opportunity to coordinate all these other disparate and oftentimes competing programs and use some of the lessons learned to expand them into the transportation sector. These programs could be more efficiently managed through the one source of revenue envisioned in this legislation.

Therefore, we urge the legislature to make enactment of a carbon tax contingent on the following changes:

- All carbon emissions should be subject to the carbon tax, including the electricity sector.
- This carbon tax should replace the carbon tax instituted under the state’s participation in the Regional Greenhouse Gas Initiative (RGGI).
- All current programs that deal with energy efficiency and renewable energy that are funded by ratepayers or taxpayers should be eliminated, including those currently directed at the transportation sector.

With all programs eliminated, the single funding source envisioned in this legislation would be overseen by a new advisory council – the Carbon Reduction Advisory Council, made up of a diverse group of stakeholders similar to the current EEAC. Under the direction of this advisory council, the funds would be channeled to programs that compete for the highest and best carbon reduction efforts strategies. Funding could include public transportation, energy efficiency, or, perhaps energy storage. The programs would be flexible as needs and technologies change – something that is nearly impossible with the current programs.

This would be a bold change to the way Massachusetts operates these programs. However, a bold change is needed. Many of the existing programs have become hidebound and uncoordinated where new ideas that could help our collective carbon reduction goals are not instituted because they do not fit into easy silos. This new thinking is not only better but necessary to attain the Commonwealth's greenhouse gas reduction commitments.

AIM would be happy to work with the committee on specific legislative changes necessary to accomplish this goal.

Summary of S.1821

S.1821 will establish a tax on carbon containing fuels, including motor fuels (gasoline and diesel) and fuels used for home heating and commercial and industrial heating and processes (i.e. natural gas, propane, heating oil). Fuels used for electric generation serving the electric grid will be exempt. The carbon tax on motor fuels will apply to all forms of transportation (on and off road vehicles, trucks, recreational and commercial vehicles, including multi-passenger vehicles for public transportation (buses, trains, vans, etc.)). Carbon emission factors for each type of fuel use will be developed by the Department of Energy Resources (DOER) and the Department of Environmental Protection (DEP) to establish tax rates. The tax would begin at 10 dollars per ton of carbon emitted, increasing 5 dollars per ton each year until year 6, when it reaches 40 dollars per ton. Additional increases would be allowed after that time with additional review and approval by the DOER the DEP and the legislature.

Based on our analysis and estimates of the carbon content and uses of various fuels, the carbon tax will raise approximately 600 million dollars the first year, increasing to 2.4 billion dollars in year 6, with possibly more increases after year 6 if optional carbon price increases are adopted. The origin of the revenue collected will be roughly proportional to the use of fuels in various sectors and each sector's fuel use contribution to total greenhouse gas emissions. For example, under current usage data, approximately 60% of the total fees collected under this proposal will come from motor fuels (residential and commercial), with an additional 20% coming from residential sector heating use. The remainder will come from commercial and industrial uses of fuels for heating and process uses.

After deducting administrative expenses the money collected will be returned to residents and commercial and industrial companies in a mechanism to be established by DOER in a proportional amount based on the sector's contribution to the fund. For example, all monies received from the transportation sector will be dispersed to all residents in Massachusetts equally and to companies based on the total employee size of their company in proportion to total employees in the state. Rural residents (as defined in the bill) will receive 30% more than other residents from the motor vehicle fund. Fees from heating and process use of fuels will be divided similarly (without the rural adder for residential uses), again in rough proportion to each sector's use. Like the rural credit for residents who received enhanced transportation rebates, the legislation allows certain industries to receive proportionally more in rebates than other industries with proper approval.

AIM opposes this legislation as written and urges the committee not to report this bill as favorable for the following reasons:

MOST CONSUMERS WILL RECEIVE LESS IN REBATES THAN THEY PAY

The notion that everyone will be made whole from rebates from this tax is illusory and does not conform to financial reality.

To understand the shortcomings of this approach, we will use the motor fuels tax as an example, since the gasoline and diesel tax will account for nearly 60% of the revenue raised.

The current state gasoline tax of 24 cents per gallon was last raised in 2013. A law to further increase the gasoline tax at the rate of inflation automatically (which would have added about 1 cent per year to the existing gasoline tax) was defeated overwhelmingly by voters in a ballot referendum in 2015.

The carbon tax proposed will equate to an increase in gasoline and diesel prices the first year of approximately 10-11 cents per gallon, increasing about 5 cents per gallon per year to 40-44 cents per gallon by year 6. A consumer driving 12,000 miles per year driving an automobile with an efficiency rating of 21 miles per gallon will pay approximately 60 dollars in additional taxes per year, increasing to 240 dollars per year by year 6. The motor fuels tax will raise approximately 330 million dollars per year in addition to the 140 dollars each driver pay in this example under the state's current gasoline taxes, which is earmarked for transportation related needs.

Per the legislation, the proposed tax will be rebated to all "residents" and businesses in Massachusetts with specific details still to be decided by DOER.

Unfortunately, under the overarching proposal most if not all drivers will get less than they pay and the rebate scheme will not only result in an enormous administrative and logistical burden but it will result in a an inequitable distribution of rebates bearing no relation to who originally paid the fee.

First, there are 6.5 million "residents" in Massachusetts who will receive a check from the motor fuels fund. However, there are far less licensed drivers and even less vehicle owners – currently about 4 million. While individual ownership data is beyond our scope, it is likely many of these vehicle owners own more than one vehicle and also own recreational vehicles (off road or watercraft). Either way, there are many residents in Massachusetts who will not pay into the fund either because they are not licensed to drive or not old enough to obtain a license. Yet under the law, these non-payers will receive a refund, diluting the refund amount from those who pay.

Second, because multi-passenger vehicles are included, even those who rely on public transportation will pay significantly more – yet steering people to public transportation is precisely the type of behavior this legislation should be encouraging. Fares will need to be raised to pay for this tax, as the Massachusetts MBTA is the largest user of diesel fuel in the state. There are very few opportunities to reduce fuel use in the public transportation sector.

Third, sending a check to 6.5 million residents is likely to be an enormous administrative cost. For comparison purposes the overhead (administrative expenses, evaluation and other costs) related to running the state' energy efficiency program is nearly 25%.

Finally, there is no rational relationship to the size of a business and its motor fuel use. Many companies may have virtually zero uses of motor vehicles (law firms, insurance companies, hospitals, and to a lesser extent universities) but they will receive checks based on the number of their employees.

AIM support the gasoline tax increase in 2013 and the yearly inflation adjustment because it was the right thing to do as the money was earmarked for state transportation needs. However, the scheme proposed here for collection and distribution of the new carbon tax is inefficient and will only serve to increase costs for the clear majority of consumers.

With the overhead and rural added and the dilution factor from those who do not own cars or drive, we estimate the average payer will receive only about 50-60% of the revenue they pay into the fund.

HEATING AND PROCESS NATURAL GAS USERS WILL BE DOUBLE TAXED

Residential heating, which accounts for about 20% of total raised, will also be impacted – raising costs for people to heat their homes. For customers using 100termsms per year (annual average use of natural gas for residential customer) the annual cost would be 60 dollars annually rising to 240 dollars by year 6. Cumulatively, this will result in an additional heating cost increase of 144 million dollars.

Commercial and industrial heating and process use which also accounts for the about 20% of the will see an additional cost increase of about 120 million dollars.

These additional costs will not only double tax natural gas residential, commercial, and industrial users but also *discourage* current behavior the Commonwealth should *encourage* because it is good for our energy profile and will reduce carbon emissions.

First, Massachusetts has a very vibrant energy efficiency program that includes a surcharge on heat and process use of natural gas for thermal reduction efforts (i.e. high efficiency boilers, insulation and Wi-Fi ready electronic thermostats). This fund totals about 225 million dollars per year. Additional rebates to reduce thermal load also come from the electricity sector to help oil and propane users reduce energy. Therefore, there is already an incentive to reduce usage generally by installing energy efficiency measures.

Second, this tax is a never ending. Over time, the EEEAC has seen efficiency become routine and widely adopted – any notion that consumers are not adopting energy efficiency measures is misplaced. However, under this legislation there is no “out.” Even after a consumer adopts every energy efficiency measure available, payment will continue. While the efficient consumer will obviously pay less than someone with a less efficient system will, inefficient systems are far less common they used to be. In addition, with very few alternatives to natural gas for heating and process use and with a baseline amount consumers must use to heat their homes or businesses (including those who may be home all day and cannot reduce their heating at all), this tax on natural gas and other fuels becomes an additional expense residents and businesses are forced to shoulder from their budget with no way out.

Third, while this legislation encourages customers to use less energy since they will pay less, in fact, sometimes using *more* energy on an individual basis is not only more efficient for society but is better for greenhouse gas reduction efforts and this legislation could discourage that.

For instance, many businesses now generate their own electricity and steam onsite (known as combined heat and power). These users will pay a tax under this proposal, even though their natural gas in fact generates electricity because they do not export electricity to the grid and therefore are not exempt under this legislation. This is counterproductive since these distributed generation systems are not only encouraged by the Massachusetts energy efficiency program; they are in fact more efficient than centralized systems. Yet under the legislation the company doing the right thing will be penalized, as their natural gas usage – and cost under this program – will rise exponentially, possibly making these investments less financially appealing.

Finally, the rebate mechanism suffers from the same bureaucratic process that the transportation program suffers from. Under this legislation, more than 250,000 businesses will need to report their employee total and someone will calculate the rebate based upon total employment in Massachusetts, regardless the amount the company uses. With 32% of the companies in Massachusetts under 100 employees – rebate calculations will be incredibly time consuming. With a total 3.5 million non-fam employees in Massachusetts, (although farm employment should be counted) a company with 100 employees will be entitled to 0.00000028% of the total proceeds! Moreover, this number must be calculated 250,000 times! Additionally, there is often no relationship between company size and use of heating or process fuel. For instance, a warehouse could have comparably few employees but major energy use for heating or process use.

THERE IS NO GUARANTEE THAT MONEY FROM THIS PROGRAM WILL BE REFUNDED IN ACCORDANCE WITH THE LAW.

While admittedly the legislation calls for refunds form this program, there is absolutely no guarantee that this money will remain untouched by other legislative priorities that could use an extra 2.4 billion dollars. In fact, the amount raised the first year is roughly equal to the state's current budget deficit.

Many programs, including those in the energy and environmental program, have had their fees used for other purposes despite earlier promises. This includes the RGGI greenhouse gas fund and the unclaimed bottle deposit fund, both of which equal hundreds of millions of dollars in money used for purposes other than their original intention. Additionally, fees related to environmental permitting (which AIM supported as part of its membership in the DEP Fees Committee), have also largely been diverted to the general fund.

Despite good intentions, there can be no assurances that this money will not suffer the same fate as other dedicated funds.

For these reasons, we urge this committee to not act favorably on this legislation.

Should you have any questions, please do not hesitate to contact me.