



REDUCE MANUFACTURING ENERGY COSTS BY ELIMINATING THE 11 PERCENT ENERGY TAX/SURCHARGE AND PROMOTING EFFICIENCY

DESCRIPTION

NJBIA recommends an 11 percent reduction in manufacturer's (defined as a business location where at least 50 percent of equipment and machinery is used in the production of goods) electric costs by exempting them from the 7 percent sales tax and the "temporary" 4 percent "Transitional Energy Facilities Assessment (TEFA)." Manufacturers should also be exempt from the sales tax on natural gas. The Department of Environmental Protection (DEP) should amend its industrial permit regulations to achieve maximum energy grid stability and demand-side management.

BACKGROUND

Taxes and Deregulation

New Jersey Commercial and Industrial (C&I) electricity customers comprise 64 percent of the State's electricity load. According to the US Energy Information Administration, New Jersey's industrial electricity prices are the seventh highest in the nation. Skyrocketing energy prices have impacted the ability of New Jersey companies to compete with other facilities around the nation and around the world.

As part of electric industry deregulation in 1997, the 13 percent "gross receipts and franchise tax" was scheduled to be reduced to eight percent over five years, such that users would pay only the then 6 percent sales tax and a 2 percent Corporation Business Tax assessment. Instead the phase-down was stopped at 10 percent with the increase in the sales tax, this has been increased to 11 percent. This is an additional cost on companies not imposed in other states.

Demand-Side Management

The Board of Public Utilities (BPU), PJM (the electric grid operator) and energy utilities encourage commercial and industrial customers to participate in demand-side management programs designed to curb power usage during emergency and high-demand periods. This involves private sector companies generating their own electricity to prevent blackouts, brownouts or restore the grid. However, the DEP's permitting process discourages participation in the program. Anyone with a DEP air permit is limited in the amount of emissions their operation can produce and the number of hours it can produce them. If a facility engages in on-site electricity generation, those emissions are going to increase. If the additional emissions exceed what is allowed under the permit, the facility faces fines and

penalties for an environmental violation even though the facility is operating normally.

Societal Benefits Charge

All energy consumers pay a Societal Benefits Charge which funds an annual \$140 million program of subsidies for alternative energy sources, such as solar and wind energy projects, as well as energy efficiency upgrades in lighting, building structure and equipment. Commercial and industrial (C&I) consumers pay the bulk of the money into the fund. BPU regulations, however, cap payments for efficiency upgrades to businesses at \$200,000 per customer utility account. And BPU has allocated the majority of the Societal Benefits Charge for energy efficiency to the residential sector.

NJBIA POSITION

Legislators should lower energy costs and encourage companies to conserve energy and maintain reliability in New Jersey's power grid with concrete financial incentives.

Legislators should stop delaying the phase-out of TEFA and exempt manufacturers from the 7 percent sales tax on electricity and natural gas.

The State should provide greater conservation incentives by lifting the \$200,000 cap on energy efficiency projects for C&I energy users.

DEP should revamp its air permitting process so it does not punish businesses that engage in on-site electricity generation as part of PJM's Demand-Side Management Program. DEP air permits should be more flexible to allow those participating in demand-side management to increase emissions during an energy demand emergency.

ARGUMENTS IN SUPPORT OF ENERGY COST REDUCTIONS AND INCENTIVES

Manufacturing remains an important industry sector in New Jersey, but is experiencing across-the-board job declines. Just since 2001, New Jersey has experienced a 23 percent decrease in manufacturing employment, representing 92,600 jobs lost.

Despite these job declines, manufacturers will relocate/expand operations in New Jersey if economic development incentives help reduce their cost of doing business.

With 308,600 manufacturing jobs remaining in New Jersey and another 170,000 jobs dependent on manufacturing, a public policy imperative should be to construct incentives to help retain manufacturing jobs.

Manufacturers are among the largest users of electricity and natural gas. High energy costs are continually cited as a major obstacle to manufacturing success in New Jersey. By eliminating the 11 percent energy tax/surcharge, manufacturers will realize significant production savings.

When TEFA was imposed in 1997, it was intended as a temporary surcharge to help the industry transition to a deregulated market. Delaying the intended phase-out is effectively increasing taxes on energy users.

A comprehensive energy efficiency upgrade at a manufacturing facility typically costs more than \$1 million. Capping energy efficiency grants at \$200,000 prevents the program from providing a meaningful incentive to promote efficiency.

It is in the public interest for companies to generate electricity on-site during periods of unusually high demand. It takes pressure off of the power grid and helps prevent brownout and blackouts. DEP should not punish companies with higher fees and fines for engaging in demand-side reduction activities.

COST

Previously, the Office of Legislative Services had estimated that the complete elimination of the then energy tax/surcharge on manufacturers would reduce State budget revenues at most by \$80 million annually. No estimate was provided for counter-balancing revenue increases due to preserved jobs and manufacturing operations.

LEGISLATIVE HISTORY

A-1085 was introduced January 8, 2008 and referred to the Assembly Appropriations Committee. S-1032 was introduced January 28, 2008 and referred to the Senate Economic Growth Commission. Both measures would reduce taxes on the consumption of energy. Previous versions of the bills were endorsed by the New Jersey Sales and Use Tax Review Commission.

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