

**NJBIA**

New Jersey Business &  
Industry Association

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# AGENDA FOR ECONOMIC GROWTH

## *2006 State Issues Briefing*

### **REDUCE ENERGY COSTS FOR MANUFACTURERS**

- Manufacturers directly employ 350,000 people with another 180,000 jobs dependent on manufacturing. Reducing their cost of doing business is critical to retaining manufacturing jobs in New Jersey.
- New Jersey industrial electric rates are the third highest in the nation, even after nearly a decade of deregulation.
- Government taxes and surcharges add 10 percent to the cost of industrial energy rates.
- Environmental regulations are not designed to maximize energy diversity and grid stability.
- Board of Public Utilities funds for energy efficiency is not “manufacturer-friendly,” providing little assistance to manufacturers.

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### ISSUE

**Reduce manufacturing energy costs by eliminating the ten percent energy tax/surcharge and by promoting efficiency in environmental regulations and targeting more energy efficiency spending to manufacturers.**

### DESCRIPTION

We recommend the reduction of 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 ten percent by exempting manufacturers from paying the six percent sales tax and the "temporary" four percent "Transitional Energy Facilities Assessment (TEFA)." Natural gas manufacturing users would save six percent since they currently do not pay the TEFA surcharge. We would require the Department of Environmental Protection to amend industrial permit regulations to achieve maximum energy grid stability and demand side management. Finally, we would recommend that the BPU's annual \$140 million Societal Benefit program remove impediments to investing in manufacturing improvements and target more spending to manufacturers.

### BACKGROUND

New Jersey Commercial and Industrial customers comprise 68% of the State's electric load. Manufacturers provide over 350,000 high paying jobs and another 180,000 jobs are directly linked to the manufacturing process instate. Skyrocketing energy prices have impacted the ability of our companies instate to compete with other facilities in the country and with the world. Industrial electric prices are the third highest in the nation, even after deregulation (Source US Energy Information Administration Jan-June 2004 average retail price of electricity).

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: consisting of the six percent sales tax and a two percent Corporation Business Tax assessment. Instead the phase-down was stopped at ten percent. This is an additional cost on companies not required in other states.

The 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 to prevent blackouts, brownouts or restore the grid. However, the DEP does not encourage this participation by crafting industrial permits to recognize such participation. For example, adding additional hours to an air permit would allow a manufacturer to curtail electric use and/or switch to a back up generator in times of peak electric system demand.

All energy consumers pay a Societal Benefits Charge which funds an annual \$140 million program of subsidies for alternative energy sources (solar and wind energy projects) as well as energy efficiency upgrades in lighting, building structure and equipment. Commercial and industrial consumers pay the bulk of the money into the fund. BPU rules, however, prohibit business access to this money in State Plan-designated preservation areas, cap efficiency payments to businesses at \$100,000 per facility and have allocated the majority of the money to uneconomic and unmarketable solar and wind generation projects.

### **ARGUMENTS IN SUPPORT OF ENERGY COST REDUCTIONS FOR MANUFACTURERS**

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 ten percent energy tax/surcharge, manufacturers will realize significant production savings.

Targeting energy efficiency incentives to manufacturers is the best way to reduce overall energy consumption in New Jersey, as manufacturers are the largest users of power.

### **SUPPORTERS OF ENERGY COST REDUCTIONS**

Manufacturers of all types (high tech, pharmaceutical, low tech) and sizes would welcome this tax relief.

### **COST**

The Office of Legislative Services estimates that the complete elimination of the ten percent energy tax/surcharge on manufacturers would reduce State budget revenues by \$80 million annually. No estimate was provided for counterbalancing revenue increases due to preserved jobs and manufacturing operations.

### **LEGISLATIVE HISTORY**

Energy tax cut legislation (A-3443 Cryan/S-1981 Rice) has been introduced. The bills were endorsed by the New Jersey Sales and Use Tax Review Commission.

### **NJBIA POSITION**

NJBIA strongly supports legislation and policies that keep our manufacturers in this State.

### **CONTACT**

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