



WISCONSIN'S BUSINESS VOICE SINCE 1911

TO: Members, Senate Select Committee on Clean Energy
FROM: Scott Manley, Environmental Policy Director
DATE: February 2, 2010
RE: Assembly Bill 649 – Wisconsin Global Warming Legislation

Wisconsin Manufacturers & Commerce (WMC) has serious concerns with the energy and economic impacts of numerous proposals in Assembly Bill 649 (AB 649), which seeks to implement sweeping global warming regulations in Wisconsin. For the reasons cited below, we respectfully urge Committee members to oppose this legislation.

WMC is the state's largest business trade association, with roughly 4,000 members in the manufacturing, health care, retail, energy, banking, insurance and other service sectors of our economy. WMC is dedicated to making Wisconsin the most competitive state in the nation to do business, and toward that goal, we support consistent, cost-effective and market-driven regulatory approaches that recognize a balance between environmental protection and the competitiveness of Wisconsin's jobs and economy.

Before highlighting some of our specific concerns with this legislation, it is important to understand the importance of manufacturing to Wisconsin's overall economy, as well as the relationship between affordable energy and the viability of Wisconsin's manufacturing sector.

The Importance of Manufacturing to Wisconsin's Economy

Wisconsin leads the nation with the single-most manufacturing intensive economy in the United States. In 2008, manufacturing accounted for \$48.9 billion in economic output—a 20.3% share of Wisconsin's overall economy. Wisconsin ranks in the top ten nationwide in exports, and manufacturing accounts for 94% of Wisconsin's exported goods.

Manufacturing is also one of the highest-paying sectors of our economy. The average manufacturing job in Wisconsin pays \$62,959 per year, which is 37% higher than the state average of \$45,905. These family-supporting jobs provide work for more than 430,000 Wisconsinites. Unfortunately, we have lost nearly 160,000 manufacturing jobs in the last decade, with more than 60,000 manufacturing jobs lost since 2008 alone.

The Link Between Manufacturing & Affordable Energy

There are various reasons for the recent decline in Wisconsin manufacturing jobs, including rising prices for electricity. Manufacturing is one of the most energy-intensive sectors of Wisconsin's economy—factories consume more electricity each year than residential or commercial electric users. For example, electricity may account for 20% of a manufacturer's operating costs, with some manufacturers paying monthly electric bills that exceed \$1 million.

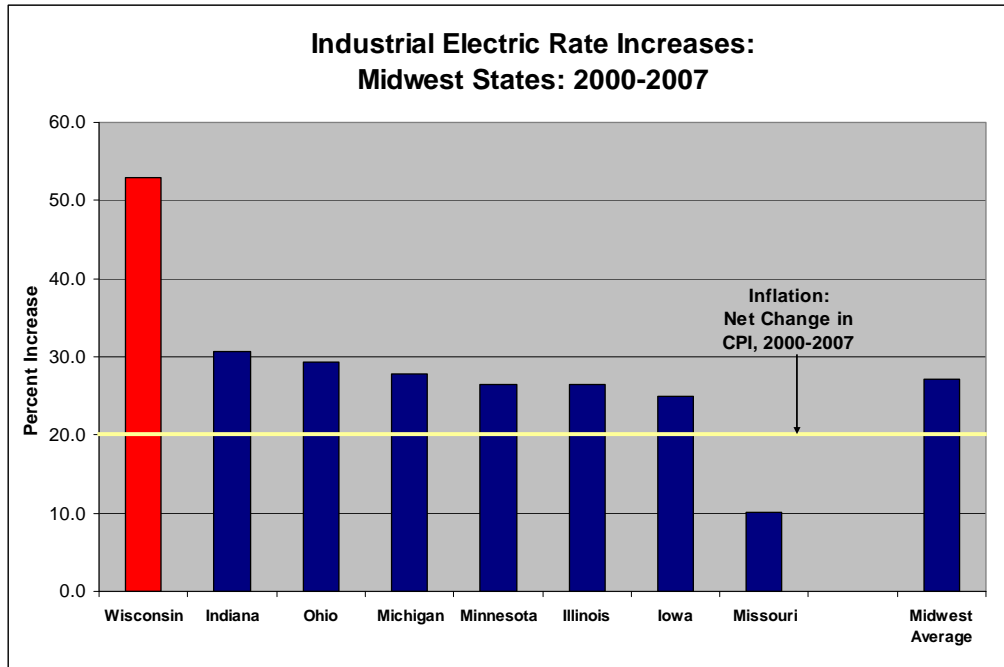
Many manufacturing sectors, including the food processing, pulp & paper, and foundry industries, are under intense regional, national and international competitive pressure. Increasing the cost of energy in our state may force the loss or migration of Wisconsin manufacturing jobs to other states and countries.

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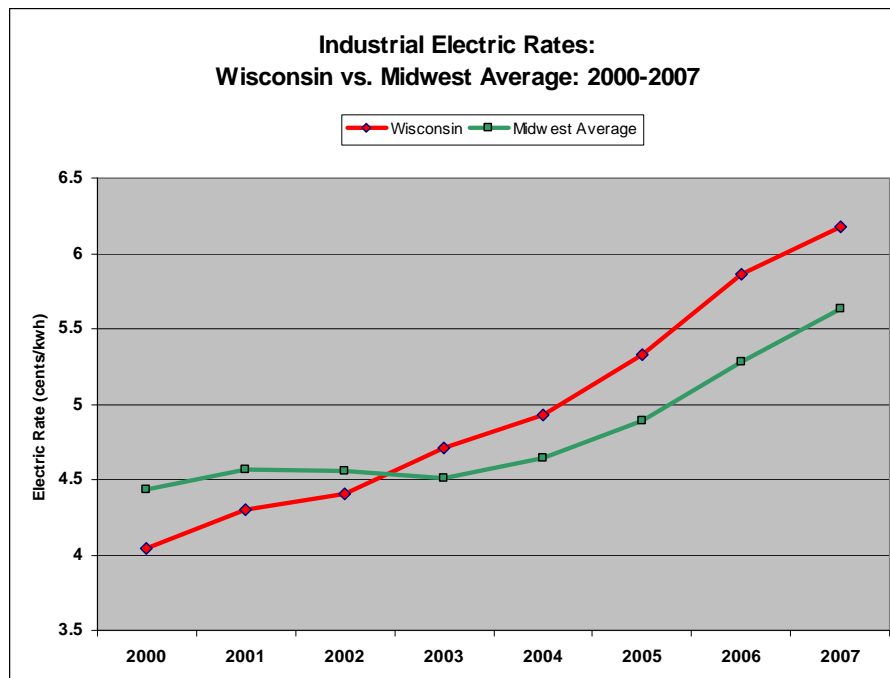
WMC is a business association dedicated to making Wisconsin the most competitive state in the nation.

Wisconsin Electricity Prices are Trending in the Wrong Direction

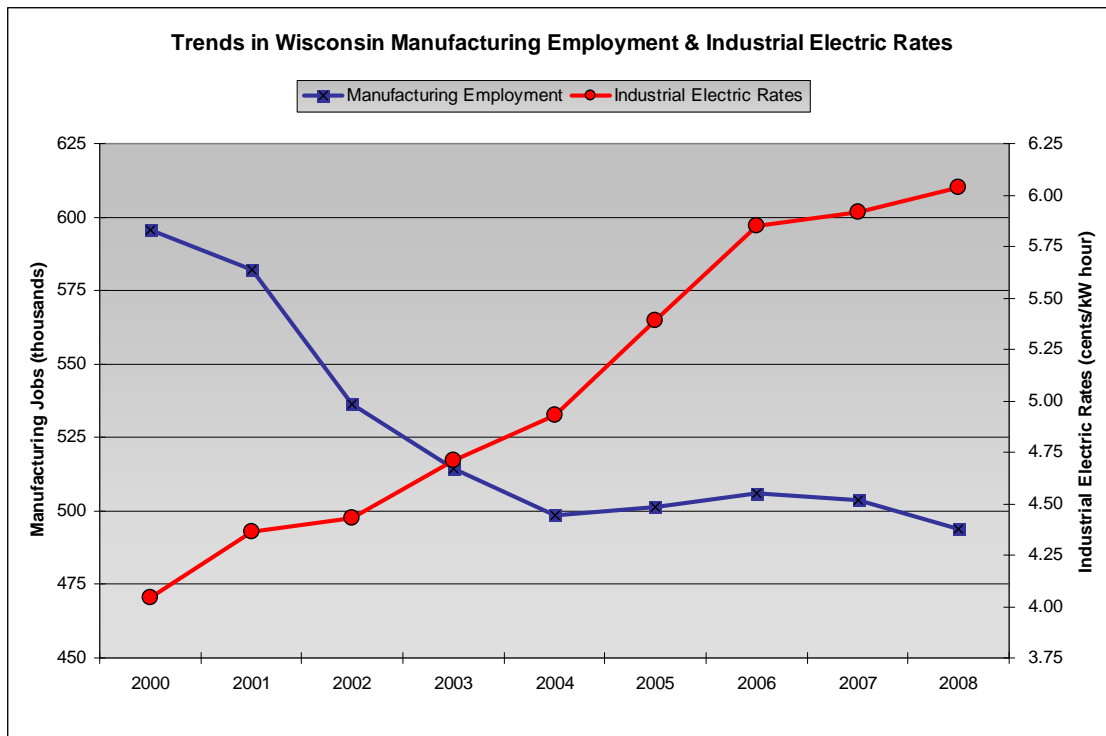
As shown in the graph below, industrial electric rates grew by more than 50% between 2000 and 2007—much faster than any other Midwest state, and more than twice the rate of inflation. While much of this increase is due to needed investments in additional generation and transmission to promote a reliable grid, Wisconsin cannot expect to attract and retain manufacturing jobs if we continue to make electricity more expensive here than in competing markets.



In 2000, our comparatively affordable electric rates gave Wisconsin businesses a competitive advantage in the Midwest. Since that time, steeply rising electric rates have placed Wisconsin employers at a competitive disadvantage as rates have climbed above the Midwest average.



There is a link between the affordability of electricity, and Wisconsin's ability to attract and retain well-paying manufacturing jobs. As the cost of electricity has risen, the number of manufacturing jobs has declined.



WMC is concerned that the expensive energy policies proposed in AB 649 will further widen the gap between the cost of electricity in Wisconsin, and the cost of electricity in competing states and countries. Manufacturing jobs rely upon affordable and reliable sources of energy, and the proposed bill threatens the viability of thousands of jobs by making our electricity significantly more expensive.

25 Percent Renewable Portfolio Standard (RPS)

WMC believes that renewable energy must continue to play a role in Wisconsin's future energy mix, and our organization supported the current 10% renewable mandate. However, the extent to which renewable energy exceeds the existing 10% mandatory threshold should be driven by market factors such as cost and demand, rather than an arbitrarily-imposed mandate from the Legislature. Wisconsin homeowners and businesses simply cannot afford to pay for ever-increasing renewable generation requirements regardless of cost.

The 25% RPS requirement proposed in SB 450 will be tremendously expensive. A study published last November by the nonpartisan Wisconsin Policy Research Institute (WPRI) concluded that the 25% RPS would cost \$16.2 billion in increased costs to generate electricity in Wisconsin. By comparison, Wisconsinites pay roughly \$5.5 billion each year for electricity. Consequently, electric customers in Wisconsin should expect double-digit increases in their electric bills each year if the Legislature adopts the 25% RPS policy.

Another cost estimate of the 25% RPS policy, which utilizes the assumptions of Governor Doyle's Public Service Commission (PSC), results in a very similar cost figure. The PSC published its *Strategic Energy Assessment 2014* (SEA) in April of 2009, and specifically examined the cost of meeting a 25% RPS. The PSC found that meeting the 25% RPS would require the addition of at least 400 megawatts of new renewable generation each year until 2025. The PSC further concluded that wind would be the most cost-effective source of generation, with a capital cost of \$2.32 million per megawatt.

Using the PSC's published assumptions, it would cost roughly \$15 billion to construct 400 megawatts of wind each year between now and 2025 in order to meet the 25% RPS. Notably, this figure does not include the additional cost associated with constructing new transmission lines to add electricity to our grid. Because AB 649 would allow 60% of the renewable generation to be built outside Wisconsin's borders, the cost to transmit the electricity back to Wisconsin customers from states like Minnesota, Iowa and South Dakota is likely to be considerable.

Wisconsin businesses and families cannot afford to pay many billions of dollars in higher costs for electricity. We must find a way to curb the increasing cost of electricity in Wisconsin if we hope to keep employers in a competitive position to emerge from the current economic recession. Unfortunately, AB 649 would take us in the wrong direction by mandating expensive new renewable electricity requirements at a time when our state can least afford it.

According to the PSC, Wisconsin had a 30% surplus of electric generation capacity in 2008. We should not be mandating the construction of additional electricity when we already have more power today than we need to meet customer demand. Wisconsin is already on track to double our renewable generation over the next five years because of the existing 10% RPS law. Requiring Wisconsin electricity customers to spend \$15 billion or \$16 billion on additional renewable generation that is not needed to meet consumer demand is an unwise use of ratepayer dollars. Lawmakers should instead allow the current 10% mandate to work, and let market factors like cost, demand and affordability determine our future renewable energy portfolio.

Energy Consumption Goals & Energy Efficiency Spending

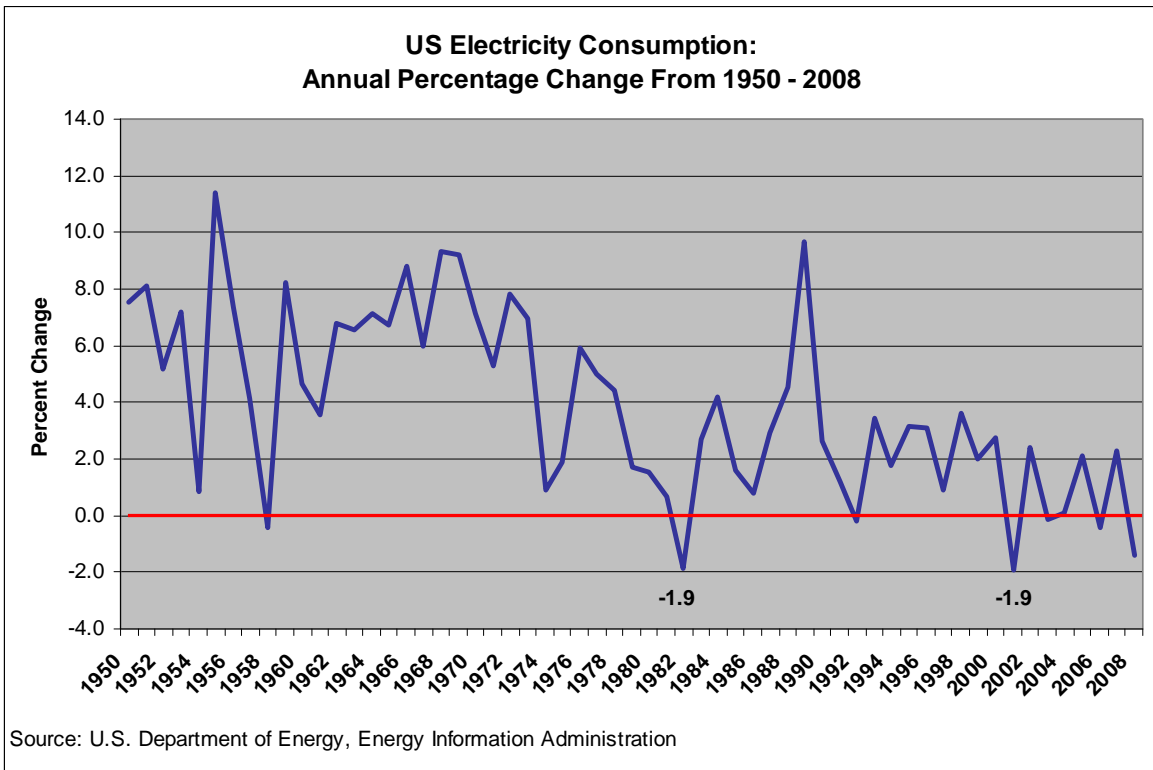
WMC believes that energy efficiency and conservation efforts remain the most affordable mechanism to reduce our state's energy footprint while keeping Wisconsin businesses competitive. Wisconsin businesses continually strive to conserve energy and make their operations more efficient. Significant progress has been made toward this goal, and will continue to be made by Wisconsin businesses.

Assembly Bill 649 would establish aggressive energy consumption reduction goals, and give the PSC broad authority to assess utility surtaxes on monthly energy bills to fund programs designed to meet the 2% annual reductions in consumption. The model proposed in AB 649 suggests that government can tax and spend its way toward meeting energy efficiency and conservation goals.

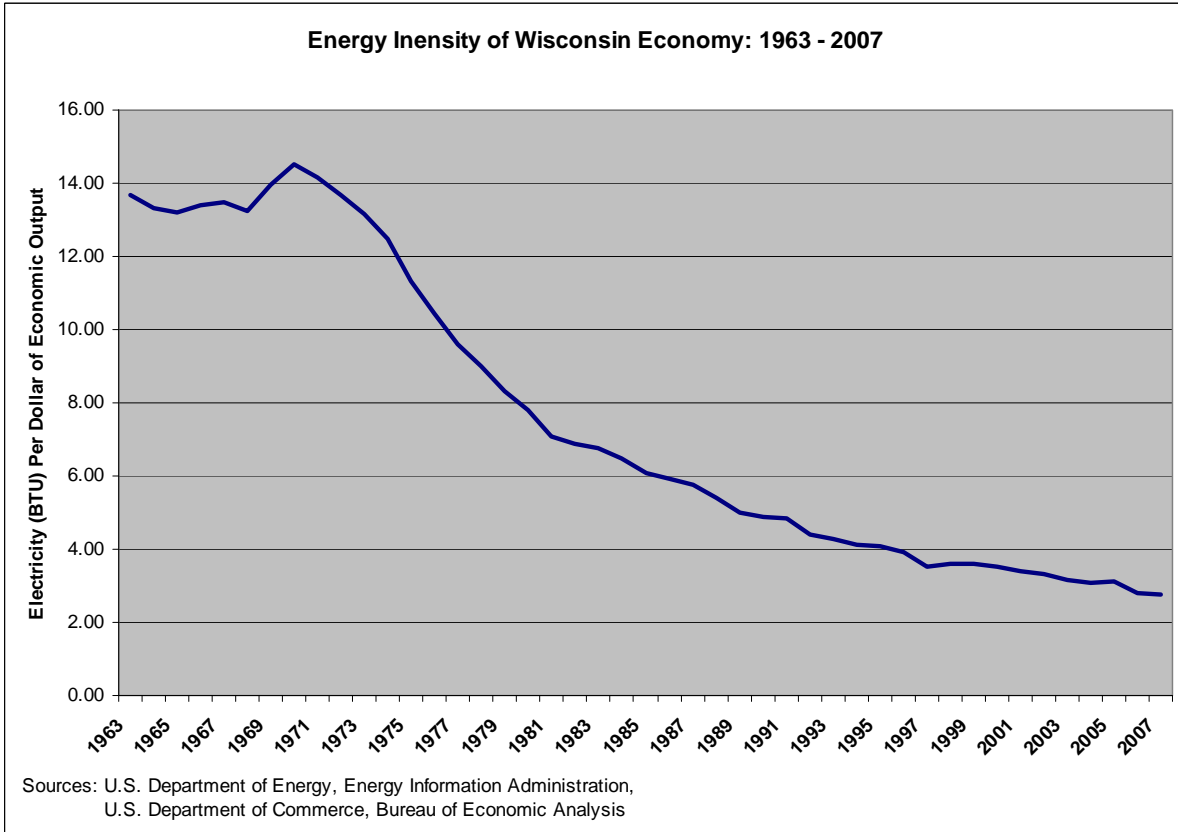
It is important for lawmakers to understand that reductions in overall consumption do not equate to energy efficiency. Rather, energy consumption is a measure of our overall growth and economic output. For example, when our population and economy are growing, there is a corresponding increase in electric consumption. When our economy is contracting, there is typically a reduction in electric consumption. Policies which seek to arbitrarily limit electric consumption are essentially limits on growth and economic output.

The 2% annual reduction goals proposed in AB 649 are unrealistic and unattainable. As the chart below shows, the United States has never seen a 2% reduction in electric consumption in the post-WWII history of our country. In fact, the data shows that we typically see significant increases in electric consumption, and those increases are attributable to a growing economy.

There have been only two instances where we have come close to a 2% reduction in electric consumption, and those occurred in 1982 and 2001 – both of which are instances of severe economic downturns. As bad as our post 9/11 economy was, at a 1.9% reduction in electric consumption, we still did not reach the levels called for in AB 649.



Without the need for monthly energy taxes and spending programs, Wisconsin's economy has become much more efficient when measuring the amount of electricity consumed per dollar of economic output.



As the graph shows, Wisconsin used 14.5 units of energy to produce each dollar of economic output in our state in 1970. By 2007, we were using only 2.7 units of energy to get that same dollar of economic output. That is a more than 5-fold increase in efficiency over a 35-year period.

History has shown that businesses have already made significant progress in terms of energy efficiency, and will continue to do so. This is an issue where the market drives innovation without the need for government intervention. That is, fuel and electricity are expensive—businesses cannot afford to waste either. The price of energy will continue to drive businesses to find ways to become more efficient. While grants and incentives are certainly helpful toward achieving that goal, it is important to ensure that increases in energy surtaxes do not make electricity less affordable. WMC, therefore, supports maintaining the agreed-upon cap on utility charges that applies to large industrial customers enacted in 2005 Act 141.

As noted above, WMC is concerned that the funding mechanism proposed in AB 649 is essentially a “blank check” grant of authority to the PSC to assess surtaxes on energy bills to pay for efficiency spending programs. This could result in significant increases in monthly energy bills, especially given the absence of legislative oversight. The Global Warming Task Force recommended at least tripling the amount collected in monthly energy surtaxes, and estimated the financial impact to be \$285 million by 2012, and \$380 million by 2020.

Aside from the magnitude of the higher energy taxes proposed in AB 649, we are concerned that money collected for energy efficiency and conservation purposes will be spent on unrelated programs. Since 2002, nearly \$166 million in utility surtaxes have been skimmed by the Legislature for unrelated budget spending, including more than \$18 million in the current biennium. Diverting utility taxes to pay for non-utility programs does not promote energy efficiency or conservation.

Advanced Renewable Tariff (ART)

The ART policy would authorize the PSC to force utilities to purchase renewable energy from small-scale renewable energy facilities located within their service territory. By their very nature, these smaller projects often produce the least cost-effective renewable energy, which may explain the need to *require* their purchase by government mandate rather than having purchases occur voluntarily in the market.

In this regard, the ART policy implicitly requires utilities and their customers to purchase the most expensive renewable energy sources, and to do so at levels above and beyond their RPS requirements. The policy of forcing utilities to purchase renewable energy without regard to cost, and in place of less expensive alternatives, is not in the best interest of consumers. WMC also believes that the proposed ART language goes beyond what was contemplated by the Global Warming Task Force.

Nuclear Moratorium

WMC supports legislation to repeal the state nuclear moratorium, and place nuclear generation on a level playing field with other generation types. Nuclear remains the only commercially available technology that generates base load electricity with no carbon emissions, no smog emissions, no particulate emissions and no mercury emissions. Nuclear is a safe, clean and reliable form of energy, and lawmakers should allow Wisconsin to consider it as an option to meet future generation needs.

Unfortunately, AB 649 falls well short of the reforms necessary to allow nuclear to be considered as a viable option for Wisconsin’s energy future. The numerous preconditions related to cost and need, which are restrictions that do not apply to the renewable generation mandate, place nuclear on an unlevel playing field. Moreover, the proposed restriction on selling nuclear power to other states is almost certainly unconstitutional, and is, therefore, likely to invalidate the entire nuclear language in the bill. Rather than the restrictive approach in AB 649, the Legislature should enact legislation consistent with

Assembly Bill 516 and Senate Bill 340 to allow nuclear generation to receive serious consideration in the future.

Conclusion

WMC believes the energy policies in AB 649 will significantly increase the cost of electricity in Wisconsin, and result in thousands of lost jobs. Wisconsin's electric rates have risen faster than those of any other Midwest state in the last decade, and more than twice the rate of inflation. The 25% RPS mandate will add at least \$15 billion to the cost of generating electricity over the next 15 years, making our current competitive disadvantage relative to energy prices even worse. This is not a recipe for creating jobs.

While the proposals in AB 649 may be very well-intentioned, they are the result of a task force process that did not meaningfully study economic costs or benefits. In reality, these policies will not make a significant reduction in greenhouse gas emissions – the task force's own modeling demonstrates that emissions in 2025 are expected to remain higher than 2005 baseline levels even after implementing all of the proposals, including the 25% RPS. These policies are therefore not an effective means to reduce greenhouse gas emissions.

WMC stands ready to work with legislators on reforms that will improve our business climate, and place our employers in a position to create jobs. Reducing our state tax burden, controlling state spending, eliminating unnecessary bureaucratic red tape, and curbing lawsuit abuse are steps the Legislature can take to immediately improve our state's business climate. By contrast, dramatically increasing the cost of doing business in Wisconsin with the expensive energy policies proposed in AB 649 will result in net job losses, not job creation. We therefore respectfully request that the Select Committee not move this legislation forward.

Thank you for your thoughtful consideration of this legislation. Please feel free to contact me if you have any questions, or if I can provide you with additional information at (608) 258-3400 or smanley@wmc.org.