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February 6, 2023

The Honorable Joshua Kail
128 Main Capitol Building
P.O. Box 202015
Harrisburg, PA 17120
via electronic submission

RE: House Majority Policy Committee Meeting; Energy Costs

These comments are submitted on behalf of the National Federation of Independent Business in Pennsylvania (NFIB PA). NFIB is the nation's leading small business advocacy organization, representing nearly 13,000 members in Pennsylvania and about 300,000 members throughout the United States. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses.

Small businesses continue to face truly unprecedented challenges. During the height of the COVID-19 pandemic, tens of thousands of small businesses were deemed non-essential and forced to close for months to protect public health. This led to depressed consumer demand, non-existent or stagnant sales, increased costs, and significant debt. Three years later, many small businesses never made up the losses incurred while now facing labor shortages, supply chain disruptions, continually high inflation, increased energy costs, increased labor costs, and higher Unemployment Insurance tax bills.

These challenges have led to continued pessimism about future economic conditions. In NFIB's latest COVID-19 Small Business Economic Trends (SBET) report from December 2022, business optimism continued to be below average for the twelfth consecutive month and 32% of owners reported that inflation was their single most important problem in operating their business. In addition, NFIB's SBET data indicates that the economy continues to slow, as monthly job creation averaged 562,000 in 2021, but only 375,000 in 2022, with December closing the year at only 223,000.

Inflation remains well above the Fed's 2% target, and the Fed is expected to raise rates again, though increases are expected to be smaller than those of 2022. This means it's more expensive

for owners to borrow money for capital outlays and discourages owners from taking risks to grow their business and hire new employees.

Owners continue to call inflation their top business problem, lamenting the cost increases for their inputs (inventory, supplies, labor, **energy**, etc.) which compel them to raise their selling prices to cover the costs. In the most recent NFIB survey in December, owners still **blamed rising input costs** as the main cause, rather than labor costs (which will be the more stubborn costs to remediate). Sixty-eight percent cited input costs compared to 34% blaming compensation costs. As prices of energy and other inputs soar, businesses are left with little flexibility to make up those costs.

Overall, owners are not optimistic about 2023, as sales and business conditions are expected to deteriorate. Owners will focus on their businesses and do their best to deal with the fallout from all of the uncertainties in a year of slow growth and still-persistent inflation.

Why do the above statistics matter? Because it is important to understand the multitude of challenges that Main Street faces, and how public policy can have dramatic consequences for the small business community. Many small businesses do not have the economies of scale to simply absorb sharp price increases. While we are here today to discuss energy costs and the impact that low-cost energy has on a business, it is not the only component in which business owners are seeing drastically increased prices.

Energy Costs for Small Businesses

Several years ago, as a House staffer, I had the pleasure of orchestrating the “Energize PA” package of bills that was spearheaded by then Speaker of the House Mike Turzai. This was a pro-growth, pro-jobs, package of bills aimed at harnessing the Commonwealth’s abundant energy supply. Some of you on the committee today had a key role in that package and understood the importance that our energy sector plays in building a healthy business climate in the Commonwealth.

Several years later, I testify before you today as State Director for the largest and most effective small business advocacy organization in the country (National Federation of Independent Business) to tell you the Commonwealth has a long way to go in harnessing the abundance of natural gas beneath our feet which would provide cheaper more reliable energy for residents and small business owners. This is something you already know, though.

NFIB is agnostic to any one energy source. NFIB is not pro-natural gas or anti-solar/wind. We believe that there are benefits to a variety of energy sources. NFIB also believes that no local or municipal government should be able to restrict any type of energy. NFIB was extremely supportive of HB 1947 (O’Neal) from the prior session for this reason. Prohibiting or restricting a utility service based upon the type of energy source is poor public policy because it restricts

competition and impedes upon the free market, forcing residents and businesses to spend significant sums of money to power their home or restaurant.

Our members care about energy sources that are reliable, effective, clean, and cheap, because it directly affects their ability to survive as a business. NFIB members also believe in personal freedom of choice. In Pennsylvania, you can choose the company that generates your home or businesses' electricity — also known as your electric supplier. This means that you have the power to choose to switch to a competing supplier that can offer the lowest price, best price, or provide a specific service you want. NFIB would oppose any legislative infringement to energy choice.

NFIB remains opposed the Regional Greenhouse Gas Initiative (RGGI) because it will drastically raise costs on businesses, while providing no greater service. This policy decision, which imposes a tax, was unilaterally entered into by former Governor Wolf, and NFIB is hopeful that Governor Shapiro will withdraw from the compact before the court is forced to render a decision. Rather than penalizing electric distribution companies for carbon-emissions, let's incentivize them to utilize emerging technologies such as carbon-capture, and reward them for their efforts. Costs roll downhill all the way to the end-user and having hostile energy policies can and will thwart investment in the Commonwealth, resulting in less competition and higher prices.

Recently NFIB PA surveyed our members on energy costs and I would like to briefly share some of the data and their testimonials:

- Members whose energy costs have increased plan to increase selling prices, leave open positions unfilled, delay capital spending plans, and decrease inventory.
 - Members are adding fuel surcharges on bills to customers and keeping temperatures in their brick & mortar businesses many degrees below their previous temperatures.
- A home heating oil company member from northeastern PA stated that "rising fuel oil costs are driving customers to seek cheaper ways to heat their home, cutting into the businesses' bottom line."
- A doctor from the Lehigh Valley stated that, "I am a small medical practice, subscription based called Direct Primary Care. I operate on a small margin and DO NOT want to have to pass these costs onto my patients since the goal of my practice model is to provide affordable primary care medical services. The higher cost of energy is ALSO being seen in my vendors' fees--such as document shredding, shipping supplies, etc."
- A body shop member stated, "Our paint runs off fossil fuels. The increase in this has raised our costs for paint and materials for the vehicles. We have also seen a decrease in self pay customers due to the pricing being raised as well as consumer electricity hikes."
- A diner/bar member stated, "My natural gas has doubled since a year ago. I have to keep temps turned down. Electricity is high but there's not much I can do about that. I have to have lights, beer coolers, freezers, etc. I closed my diner on 9/20/22 due to lack of help. So, I thought these bills would go down some with just the bar open! Boy, was I wrong."

- A machine shop from Northampton stated, "Regulation needs to be reasonable. Government spending, even intended to 'help' business needs to be reduced. Companies that receive funds have a non-free market advantage."

Not only are energy prices soaring for brick & mortar shops, but, gasoline and fuel costs are crushing small businesses, leading to higher prices for consumers.

- A rental company member in York County stated, "Delivery costs from 2 years ago were \$80 in a ten-mile radius. We recently had to increase delivery up to \$150. This is just shy of a 90% increase."

Conclusion

Energy affects every single thing we do in life. Not one item in this room was made without the use of energy, whether it be in production or transportation, or both. Small businesses need to know that when they flip the light switch in the morning, the lights come on. They need to know that in the coldest days of winter their energy source will continuously power for food freezers so that thousands of dollars of inventory doesn't rot.

Small businesses rely on consistency, clarity, and certainty. This includes having smart energy policies. Energy choice in Pennsylvania has allowed consumers to shop for providers and fostered competition to keep rates low. In recent years though, the energy industry has come under attack as polluters and price-gougers. Energy companies will not invest in the Commonwealth if the policies and rhetoric from the government are hostile.

We have the opportunity for a renaissance of American manufacturing, bringing businesses and manufacturing back to the nation, and to the Commonwealth. But to do so, we need smart policies that encourage growth and promote competition.

Pennsylvania possesses natural resources few other states have. Let's not squander an opportunity for growth.

Thank you again for the opportunity to comment on behalf of Pennsylvania's small and independent businesses.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory B. Moreland". The signature is fluid and cursive, with a large initial "G" and "M".

Gregory B. Moreland
NFIB PA State Director