Remarks of Mr. Phil Eastman, Manager, Regional Economic Development

PECO

Pennsylvania House of Representatives, Committee on Finance

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Mr. Chairman and members of the Committee, thank you for the opportunity to testify here today regarding proposals to establish targeted tax incentives to promote economic development in the Commonwealth. I am Phil Eastman, Manager of Economic Development for PECO. PECO has provided electric service to approximately 1.6 million customers in southeastern Pennsylvania and natural gas distribution service to approximately 500,000 customers in the Philadelphia's suburban county's of Bucks, Montgomery, Delaware and Chester for more than a century. Promoting economic development has always been a critical element of our company's mission and growth, as our success as a company is fundamentally linked to the success of the region we serve. With a decades-long commitment to economic development, PECO has established a reputation as a key player in the economic development network. PECO collaborates with state, regional and local economic development and real estate stakeholders to attract new businesses to our region. We also recognize that most growth is organic, so we work with existing customers to make sure that they remain in our region as they grow.

On behalf of PECO, I commend you for holding this important hearing today. I'd also like to commend Representative Dwight Evans for his leadership in introducing a series of bills, HB 2181, HB 2182, HB 2183 and HB 2184 designed, to promote economic development in the Commonwealth through the use of targeted tax incentives.

In general, we believe that proactive, targeted tax incentives to promote economic development are the best tool for attracting jobs and investment, to the Commonwealth. A tax credit that can be placed on a project balance sheet is something that companies looking to locate facilities and their consultants generally prefer. These types of tax credits provide greater certainty and require less investment of time and legal resources to bring projects to execution than ad hoc approaches.

I would like to emphasize that PECO does not anticipate taking advantage of the potential tax credits that Rep. Evans has proposed or others that the Committee might consider, because, as a regulated utility, our rates are adjusted for the taxes that we pay, so these types of incentives typically do not apply to us. However, to the extent that incentives spur investment, job creation and a more vital economic climate, PECO would expect favorable impacts for the company in the area of load growth and employment, for the region and all of Pennsylvania.

We also would encourage the Committee and the legislature to look at the issue of potential economic development tax incentives in the context of all Pennsylvania's economic development policies, including benchmarking against other states in the region and best practice analysis.

PECO would like to suggest a few recommendations in terms of the goals of economic development tax credits:

1) Establish tax credits that support achievement of broad public policy goals. For example, a tax credit that supports new capital investment in emissions reducing technologies would generally be preferable to tax credits to support specific industries or products

2) Target tax credits to investments in long-lived capital assets that demonstrate a long-term commitment to Pennsylvania and cannot be easily or cheaply relocated after the requirements period of the credit are satisfied.

3) Target tax credits to areas where multiple public policy priorities can be achieved at the same time, such as investing in areas where existing infrastructure is under-utilized or there are opportunities for re-use of abandoned or under-utilized property.

Finally, we think that the development of the Marcellus Shale should provide economic growth opportunities throughout the Commonwealth. There are a couple of opportunities here.

First, while the amount of natural gas that is being produced in Pennsylvania is growing dramatically, any effort to bring gas to more Pennsylvanians will require significant capital investment. This is a classic "first mover" issue where up-front costs of investment create market barriers.

At PECO, we are working aggressively to implement a gas growth strategy to make natural gas available to more of our customers who live or operate businesses along the main. This strategy is limited, however, by the significant capital cost of extending service mains.

The best way of overcoming this is through the identification of first movers, or "anchor tenants", for main expansion who can make major commitments to expansion projects. Once these anchor tenants make these commitments, a new main can be extended and gas service becomes an economical option for smaller commercial and residential customers. Thus, a tax credit for commercial or industrial customers who pay up-front costs of main extension could enable much more Pennsylvania gas to fuel jobs and growth and allow more Pennsylvanians to use gas for their own energy needs.

Second, there are some specific industry segments that are high opportunity targets for natural gas-fueled production or export. The review of economic development policies mentioned earlier should include a particular focus on these opportunities.

The bills that State Representative Evans has introduced represent a great starting point in the discussion of how to promote economic development in Pennsylvania through targeted tax incentives. We're pleased that the Committee is working on a bipartisan basis to develop legislation that will achieve these goals for all Pennsylvanians.

We thank the committee for its interest in this public policy initiative and willingness to allow us to testify in support of these goals. I'm happy to answer any questions the committee may have.