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Cleveland: 3631 Perkins Avenue Suite 4C - East • Cleveland, Ohio, 44114 • tel: 216/361-9801 • fax: 216/361-9810
Columbus: 300 East Broad Street, Suite 490 • Columbus, OH 43215 • tel: 614/221-4505 Fax: 614/ 224-8132
<http://www.policymattersohio.org>

Mitigating the Impact of Climate Legislation On the Low- and Middle-Income Residential Consumer

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Last year, as the Mississippi swamped the heartland (again) and Hurricane Ike ravaged Central Ohio, insurance companies ramped up investment in climate modeling and the Senate debated comprehensive climate legislation. The insurance industry and the Congress have both been increasingly worried about climate change: in fact, the Senate has held 40 days of hearings with more than 300 witnesses during the past two Congresses.¹ Change is upon us, and has been for some time.

In this brief memo, we look at what the EPA said about climate change in its recent rulings on greenhouse gas emissions. We touch on the current climate change proposal under debate on Capital Hill: the “American Clean Energy and Security Act of 2009,” proposed by House Subcommittee on Energy and Commerce Chairs Henry Waxman and Edward Markey. We compare the principles and positions of major groups involved in the discussion of how to hold harmless the household budgets of low- and middle-income Americans.

We find agreement that these households should be protected from hardship. Debate centers on mechanisms for distribution: whether relief should be narrowly targeted to electric or natural gas bills through utilities, or broadly targeted to include other household costs affected by the legislation (transportation, food and other consumer goods) by giving direct rebates to consumers through tax credits, social service payment mechanisms (electronic benefit transfer) and/or Social Security or VA checks.

Climate Change and the Midwest

Climate change threatens America and Ohio. Under the EPA ruling on greenhouse gas², direct impacts of global warming on the Midwest include:

- Violent weather extremes, such as severe heat waves in which elderly, young and poor have perished of dehydration and heat stroke;
- Violent weather events, such as flooding, tornados, fires and high winds, in which low- and moderate-income communities have suffered disproportionate impacts;

¹ From a letter from Chair Henry Waxman to ranking members, dated April 27, 2009, at http://energycommerce.house.gov/Press_111/20090427/aceshearings.pdf

² The Federal Register, April 24, 2009

- Disruption of agriculture, impacting local and regional economies and global food supply (Environment Ohio recently reported that global warming could cost Ohio corn growers more than \$50 million a year, ranking the state eighth for the highest damage estimates).³
- Disruption of water supply in terms of rain, streams and rivers, ground water, aquifers and lakes, affecting potable water supply, agriculture and shipping.

The cost of doing nothing is greater than the cost of doing something.

Insurance companies in many Midwestern and virtually all coastal states have dramatic evidence of costs of climate damage. Such costs are expected to rise. A comprehensive study commissioned by the British government found that doing nothing would put 20 percent of the world's wealth at risk, later revising that figure to 50 percent. The British newspaper The Independent (April 17, 2008), reported on that follow-up study as follows:⁴

"The 700-page Stern Review on the Economics of Climate Change said the costs of acting to counter climate change, by stabilizing emissions of carbon dioxide in the atmosphere, might be about 1 per cent of annual global GDP by 2050. But the cost of doing nothing was found to be far greater – risking up to 20 per cent of the world's wealth. Yesterday, Lord Stern revised this prediction, saying the cost of inaction would be "50 per cent or more higher" than his previous highest estimate – meaning it could cost a third of the world's wealth.

The conference has been hearing detail on research done following the Stern review, including claims sea levels are likely to rise twice as fast as predicted in the last UN climate change report in 2007. Lord Stern said the world's population needed to be aware of the implications of climate change, with many areas devastated by hurricanes and others drying out.

"What would be the implication of that? Extended conflict, social disruption, war essentially, over much of the world, for many decades. This is the kind of implication that follows from temperature increases of that magnitude. I think it's vital that people understand the magnitude of the risks, but also that they understand that [by cutting emissions] we can reduce the probability of going there very dramatically," Lord Stern said."

-Danny Fortson, The Independent, April 18, 2008

The American Clean Energy and Security Act of 2009

In recent years, numerous climate change proposals were discussed but not moved on the Hill. At the end of March, a new proposal was introduced. The "American Clean Energy and Security Act of 2009" would dramatically change domestic energy policy. This proposal includes a carbon cap and trade mechanism, which will make it more expensive to do activities that result in carbon emissions. This will result in individuals and companies reducing their use of carbon-emitting fuels, which will have significant environmental benefits. The proposal will include some rebates to consumers and some assistance to companies that need to retool.

³ "Hotter fields, Lower Yields," Environment Ohio, April 2009, p.2

⁴ Danny Fortson, "Stern Warns that Climate Change is Far Worse than 2006 Estimate," The Independent at <http://www.independent.co.uk/environment/climate-change/lord-stern-on-global-warming-its-even-worse-than-i-thought-1643957.html>

The carbon cap and trade mechanism in the proposal works in part by putting a price on emissions, thereby ending the free use of the atmosphere to dispose of pollution. This raises prices for home energy and gasoline, as well as other products such as food. The higher prices operate as a market signal that encourages investment in energy efficiency and development of cleaner source of energy. It will also encourage certain activities that can benefit particular industries and workers in Ohio: For example, under this proposal, it would become more cost effective to use alternative energy, to purchase energy-efficient windows or insulation, to hire people to do weatherization, or to buy more fuel-efficient vehicles. This is likely to benefit those who manufacture energy efficient building materials or parts for alternative energy equipment, those who do residential and commercial construction, and those who produce high-performance cars, among others. However, a carbon cap will also make certain costs higher, disadvantaging some firms, workers, and consumers, unless policies to assist these groups are included.

Mitigating the Impact of Climate Change Legislation on the Low and Middle Income Household

Positions on amelioration of the effect of climate legislation on low- and moderate-income households have been proposed by the Edison Electric Institute, The US Climate Action Partnership; the Climate Equity Alliance; the Center on Budget and Policy Priorities; and a coalition of the National Community Action Foundation, the National Consumer Law Center, Friends of the Earth and Public Citizen, with others. In this section, we summarize some of the principles and recommendations of these groups.

The Edison Electric Institute (EEI) represents the utility sector in the United States. Highly influential and deeply involved in ongoing climate legislation debates, the position of the EEI is that the local distribution companies (LDCs) regulated by state oversight bodies should receive free allowances that should address mitigation on a grand scale, including amelioration of impacts on residential households. The published position of the EEI is that forty percent of the emissions permits ('allowances') to be made available under the carbon cap and trade system should be given to utilities:

“The best way to mitigate the impacts of federal climate legislation on customers is to flow-through the benefits of free allowances to customers, rather than auctioning allowances to the highest bidder. This can best be achieved by having allowances for regulated utilities allocated at the local distribution company (LDC) level—a process that would be overseen by state utility regulators—with appropriate adjustment to address impacts on unregulated generators.

Allowances should be allocated in the early years of a climate program, with a gradual transition to a full auction as more technological options become available and costs are more stable. The initial allocation to the electric power sector should be consistent with its level of carbon dioxide (CO₂) emissions (i.e., 40 percent).”⁵

The U.S. Climate Action Project, a coalition of private business, foundations and environmental groups, focuses mostly on the impact of climate change legislation on business, but provides recommendations on protecting low- and moderate-income households from price shocks. The position of USCAP mirrors that of the Edison Electric Institute, but goes beyond in recognizing that the impact of climate legislation will go beyond the home heating (or cooling) bills.

⁵ Edison Electric Institute, “EEI Global Climate Change Points of Agreement,” February 2009

“Impacts of a climate program could fall most heavily on those least able to afford it unless these costs are mitigated. Allocations to LDCs (Local Distribution Companies – utilities) on behalf of their customers will help to address this need, but will not fully address other costs such as increases in transportation costs or indirect costs embedded in other essentials, such as food and clothing. These impacts are best addressed by direct rebates to low-income consumers. Rebates to low-income consumers should be based on the relative impact of energy prices and price increases on their household budgets.”⁶

The EEI and USCAP do not present structured proposals for how the LDCs should approach mitigation, leaving it up to the regulatory powers of the states. A proposal for federal legislative language to instruct state regulators on key aspects of relief has been developed by local advocacy groups. This proposal would provide allowances to LDCs, who in turn would sell those allowances on the private market, raising funds to comply with the provisions of the climate change legislation. Twenty percent of the value of those free allowances would be used to provide relief to consumers earning up to the national household average income through supplemental funding through:

- The Weatherization Assistance Program (WAP),
- Low Income Home Energy Assistance Program (LIHEAP), and which could use the LIHEAP system with a different formula based in part on type of fuel of local generation (electricity provided by a coal burning plant would have a higher cost than energy provided through hydro power, for example);
- Funding for comprehensive, fuel neutral weatherization programs for households above the eligibility threshold for WAP which do not require a cost-share;
- Funding for weatherization programs for households with incomes above the eligibility threshold for WAP, and
- Funding for a percentage of income payment plan which limits utility costs to the same percentage of income as the state median income.⁷

The Climate Equity Alliance, a coalition comprised of more than two-dozen groups from the research, advocacy, faith-based, labor, and civil rights communities, is focused on ensuring: *“... that the strong policies needed to reduce greenhouse gas emissions also protect low- and moderate-income households and expand economic opportunity.”*

The Climate Equity Alliance picks up on USCAP’s point about broad assistance. Their working group on “Minimizing the Pain” (see principles listed below) continues to fine tune recommendations for protecting vulnerable households. The principles for climate change of the Climate Equity Alliance include:⁸

- Protection of people and the planet;
- Maximizing gain;

⁶ “A Blueprint for Legislative Action,” US Climate Action Partnership, January 2009, p.14 (http://www.us-cap.org/pdf/USCAP_Blueprint.pdf)

⁷ Consumer Protection Provisions – Draft provided by Dave Rhineboldt, Partners for affordable Energy

⁸ <http://www.greenforall.org/what-we-do/working-with-washington/climate-equity>

- Minimizing pain;
- Shoring up low income communities' resistance to climate impacts;
- Easing transition and
- Placing a price on pollution and investing in solutions.

The Center on Budget and Policy Priorities (CBPP) has driven serious consideration of an alternative to the utility-based relief plan proposed by the EEI and embraced by USCAP. A founding member of the Climate Equity Alliance, CBPP has published specific recommendations on protecting households from price shocks. They favor rebates delivered directly to households. They do not support the proposal that relief be funneled through utilities, arguing such an approach would blunt the price signals that are a necessary part of climate change legislation and require establishment of new bureaucracy.⁹

In a recent analysis of the issue, CBPP asserted the three main flaws with the utility approach include:

- 1) Providing relief through utilities can offset only half or less of the added costs that households would face under an emissions cap because the majority of added costs come in areas other than home utility bills.
- 2) The utility approach relies on the state utility regulators, but the quality of state regulation is uneven across the country.
- 3) Incentives to conserve home energy would be weaker (if rates were kept down) which would force emission reductions to be greater (and price increases to be more substantial) in other sectors.¹⁰

CBPP's analysis points out that there are costs other than the home energy bill associated with climate change legislation. In testimony to the Subcommittee on Energy and Commerce, CBPP Director Robert Greenstein stated: "The purpose of giving funds to utility companies is to offset increases in electricity and natural gas bills. However, less than half of the impact of the legislation on low-income consumers will be felt in the form of higher home energy prices. More than half of the impact will come in higher prices for a range of other goods and services, including gasoline and food."¹¹

CBPP has forecasted that the average household in the bottom quintile will face a price increase of \$750, a single individual in the middle quintile would see an impact of \$700, while a household of three in the middle quintile would see an impact of \$1300.

CBPP proposes a "climate tax credit," delivered through paychecks, to cushion price shocks for low- and middle-income households. For those not in the tax system, rebates could be provided monthly through electronic benefits transfers used for social service payments (food stamps), as well as through

⁹ Chad Stone and Robert Greenstein, "Why Utilities are not Well Suited to Deliver Relief to Low and Moderate Income Consumers in a Climate Bill, Center on Budget and Policy Priorities, February 19, 2009 (<http://www.cbpp.org/cms/index.cfm?fa=view&id=2649>)

¹⁰ Chad Stone, *Holding Down Increases in Utility Bills Is a Flawed Way To Protect Consumers While Fighting Global Warming*, Center for Budget and Policy Priorities, April 2009

¹¹ Chad Stone and Robert Greenstein, op. cit. (<http://www.cbpp.org/cms/index.cfm?fa=view&id=2649>); see also Testimony of Robert Greenstein, Director of the Center on Budget and Policy Priorities, before the House Subcommittee on Energy and Commerce, April 23, 2009, p.3-4 (<http://www.cbpp.org/files/4-23-09climate-testimony.pdf>).

social security or VA benefit checks.¹²

CBPP estimated that providing rebates for the lowest quintile would cost 14% of proceeds from the proposed cap and trade auction. They estimated that the legislation introduced by Representative Hilda Solis in the last Congress, which would provide relief to the bottom two quintiles, would require 35% of the allowances, while the legislation introduced by Representative Edward Markey, which would provide relief to the bottom three quintiles, would require 55% of the allowances.¹³

CBPP also proposes reserving an additional amount equal to 1% of the auction proceeds to boost funding for the Low Income Home Energy Assistance Program (LIHEAP) and the Weatherization Assistance Program (WAP), stating: “Additional LIHEAP and WAP funds also could help low-income families that face particularly high home energy costs as a result of climate change legislation — i.e., that face cost increases significantly above the average — since those families are likely to need additional assistance in transitioning to a low-carbon economy beyond what a standardized national rebate would provide.”¹⁴

The principles of the Center for Budget and Policy Priorities on mitigation of the impacts of climate change legislation for low and middle-income households include:¹⁵

- Protect the most vulnerable;
- Use mechanisms that reach virtually every household;
- Minimize red tape;
- Do not focus solely on utility bills,
- Preserve revenues for economic incentives to reduce energy use efficiently.

A coalition of the National Community Action Foundation, National Consumer Law Center, Public Citizen, Friends of the Earth and numerous state and local entities provides broad program outlines for rebates with ongoing oversight and monitoring. A Statement on the Consumer Impacts of a Cap and Trade Climate Change Policy, dated on March 12, 2009 and provided to the House Ways and Means Committee, advocates specific program outlines for consumer relief that, like the CBPP, encompasses national rebates to households and also mechanisms for addressing regional differences in need:

- Provide a base, flat rebate that does not exceed the costs that consumers in the least- affected geographic regions will bear.
- Use state grant mechanisms to direct incremental income support resources through direct income transfers in highly impacted states.
- Design geographically targeted tax credits for rural consumers (this has to do with anticipate increase in the price of gasoline)
- Add funding to the state LIHEAP programs to assist highly-impacted households

¹² “How a Climate Rebate Would Work” Center on Budget and Policy Priorities, April 22, 2009 (<http://www.cbpp.org/files/6-3-08climate-fact.pdf>)

¹³ Chad Stone and Hannah Shaw, “Extending ‘Climate Rebates’ to Include Middle-Income Consumers,” February 19, 2009 (<http://www.cbpp.org/files/2-19-09climate2.pdf>)

¹⁴ *Id.* at 5.

¹⁵ Testimony of Robert Greenstein, *Op. Cit.*

in every state.”¹⁶

Principles of this coalition – which could become broad program outlines - include:

1. The design of any climate change mitigation policy that raises the cost of energy and other Essential consumer goods must be fair to all Americans. Climate change policies must:

- Ensure that all consumers can afford the quantities of residential and transportation energy that meet their basic needs;
- Ensure that no households experience economic insecurity as a consequence of climate change policies;
- Ensure that vulnerable consumers who lack the capital or credit to reduce or eliminate their use of carbon-based energy in their homes and vehicles have access to cost mitigation programs such as weatherization, energy efficiency programs and clean energy technologies;
- Ensure that disadvantaged communities have access to a fair share of any funds designated for investments in infrastructure such as green homes and buildings, renewable energy technologies and easy access to low-emissions transit.
- Any value created by the regulation belongs entirely to the public.

The implementation of programs, policies and investments that achieve these goals must include resources that are sufficient in size, distributed in proportion to the anticipated impact, and are available to affected low-income families and communities in a timely and efficient manner, as follows:

2. Adequate resources: Funding must be adequate to hold low-income consumers harmless against costs resulting directly or indirectly from the climate change policy. Policies should reduce the burden of fuel prices to affordable levels, and support complementary policies, including significant reinvestments that adapt low-income homes, community facilities and equipment to a low-carbon economy.

3. Proportional Distribution: The resources for mitigating costs and adaptation must be distributed in *direct* proportion to the economic burdens of climate change policies on vulnerable consumers and communities and in *inverse* proportion to their ability to afford energy and to make investments in sustainable buildings, equipment and community improvements.

6. Timely Distribution: Investments to prevent harm due to rising energy costs and changing climate conditions such as the low-income weatherization program must begin in advance of the time that added costs will be incurred; and, funds that mitigate harm from loss of purchasing power and unaffordable bills for energy and transportation fuel must be delivered in the period when the damage is sustained.

7. Efficient Distribution: Assistance to vulnerable consumers must be managed through proven,

¹⁶ Statement on the Consumer Impacts of Cap and Trade Climate Change Policies, Subcommittee on Income Security and Family Support, US House Committee on Ways and Means, Hearing on Protecting Lower-Income Families While Fighting Global Warming, March 12, 2009 (http://www.consumerlaw.org/issues/climate_change/content/Cap-and-TradeClimateChangePolicy.pdf)

efficient program mechanisms such as LIHEAP, the Weatherization Assistance program, EITC, and Social Security, provided that such programs are administered so as to distribute these resources proportionately and timely.

8. The governance of climate change regulation and investment policy must be fair and responsive to emerging conditions. Governance mechanisms authorized must have sufficient flexibility to allow for adjustments and policy changes to be considered over the lifetime of any Greenhouse Gas regulatory framework. An entity governed by Directors who represent the interests of rural and urban low-income consumers must be established.... It should:

- Develop standards for the distribution of funds and other resources intended to mitigate cost impacts on low-and moderate-income consumers and for reports on the uses of those resources;
- Develop strategies for integrating resources for sustainable re-development of low- and moderate-income communities, and
- Evaluate and make recommendations regarding the effectiveness of the programs to mitigate adverse impacts of climate change policy on vulnerable consumers.¹⁷

Conclusion

Climate change legislation bears a cost, but the cost of doing nothing is higher in terms of life, loss and suffering, and monetary expense. To date, the burden of climate change has accrued inversely along the income scale, with Hurricane Katrina being the outstanding example in this country. The cost of climate change legislation must be equitable in impact, without blunting the necessary price signals that lead to a reduction of carbon emissions.

Each of the stakeholder groups included in this memo agrees that cushioning the necessary price impact for low and middle income consumers is important and must be part of climate change legislation. The mechanism for distribution of relief remains to be negotiated. There is a clear and sharp split over whether utilities are an appropriate mechanism for distribution of rebates. Members of the advocacy community argue against this approach, highlighting the difference in state regulatory oversight that can allow inconsistent administration of relief from state to state; too narrow of a focus on the household energy bills, and a blunting of the necessary price signal to achieve necessary reduction in energy usage. Advocacy groups argue for programs that can directly aid the household budget, such as a national rebate for low and moderate income households delivered through tax mechanisms of state aid programs, as well as complimentary programs (weatherization, LIHEAP, and others) funded with auction revenues recycled through the states and based on state understanding of real household needs and costs by region.

It should be noted that the proposal of the USCAP recommends distribution of aid through the LDCs, but also mentions the need for rebates. A hybrid approach may develop, and members of the advocacy community have submitted a proposal for utility-based distribution of relief. This proposal recommends that relief be funneled through existing mechanisms such as LIHEAP and weatherization programs, with formulas that capture regional differences in climate legislation impact. States heavily

¹⁷ http://www.consumerlaw.org/issues/climate_change/content/principles_energy_water.pdf

dependent on fossil fuel would face greater impact than states where generation is more diverse especially in non-emitting sources (nuclear, hydro power).

As always, the tough news is that many good causes vie for a share of the revenues. There must be funds to mitigate price shocks to vulnerable and energy intensive industries to prevent job loss. Funds must be provided to retool for the new green economy. Protecting the household budget of vulnerable and middle class households must remain a top priority.