

CLIMATE CHANGE PANEL PRESENTATION

October 14, 2009

About 12 years ago, I participated in a panel very similar to this one. At that time, I was arguing against a proposed carbon tax. If I knew then, what I know now, I would have worked hard to help pass that tax. Not just because we could have been lowering carbon emissions since then but because the current proposed bills to reduce carbon emissions are, in my opinion, insane.

I think they are insane not for the reasons that the anti-tax, anti-government, anti-all the evidence to the contrary in our own back yards—acceptance of the fact of significant climate change, but because I believe the chaos that will inevitably result from the current bills will distract us from the ultimate objective.

Rather than a straightforward carbon tax (and we can't have any taxes but we can certainly have infinite amounts of COSTS), we have a bill to reduce carbon emissions by turning dirty air into a commodity. Despite the fact that we have had the largest market meltdown in nearly a century, we are seemingly incapable of imagining anything **but** a market-based response to a problem created, in fact, by the fact that we see the world as a market.

I wanted to begin here because I want to point out that the question for our panel, “how should the revenue from this new commodity be distributed,” is the one that I am going to talk about even though I believe it's the wrong question. The question ought to be—how do we reduce carbon emissions most effectively, quickly and efficiently. *Maybe* when the wealthy investors that will participate in this crazy system we are about to create bring us another bubble that bursts, we'll get to ask that question again. But, maybe it will be awfully late.

In the meantime, I just ask that you do not think about this issue as simply one of how to distribute resources. The bills *do* distribute the revenue from cap and trade. But, even in that most narrow of ways in which the public interest might be accommodated, the distribution is, big surprise, carved up based on the size of your financial interest in the issue.

I think we should think about the distribution issue beyond the monetary perspective. The distribution of the effects of global warming are concentrated in low income communities and poor nations. Low income people are the hardest hit by climate change. In this country, low-income people and people of color (particularly seniors) are most likely to die in heat waves.

At the same time, these same people are the *least* likely to have contributed to global warming. Energy usage increases with income. Part of the reason why more low income people get sick or die in a heat wave is because they don't have air conditioning or, if they do, they can't afford to turn it on.

Now, they are also the hardest hit by efforts to *prevent* further climate change because they can least afford the increased costs associated with emissions reduction, not just the increased cost of energy but the increases caused by the effect that energy prices have on the cost of producing and transporting other goods and services—like, for example, food.

The relief mechanisms in the proposed bill seem to ignore this fact, focusing almost exclusively on relief from increased energy costs. But, even the energy bill related relief is too limited, too difficult to administer and too narrowly defines low-income.

To put the proposed consumer relief provisions in context, it's important to understand what low-income people currently pay for energy costs. In order to do this, I will use information from Minnesota's energy

assistance program (the state-administered program funded under the federal Low Income Home Energy Assistance Program, or LIHEAP). As I do so, however, please keep a few considerations in mind:

- 1) 15% of all MN households live on annual incomes of \$20,000 or less a year
- 2) One quarter of Minnesota's population is income-eligible for LIHEAP
- 3) LIHEAP assists only 30% of the income-eligible households in Minnesota.

These are the households that will be most significantly affected by this legislation, particularly if they rent and do not participate in conservation programs and if they live in rural areas and heat with fuel oil or propane and drive further distances to work.

LIHEAP in Minnesota pays for a portion of energy bills for households with incomes at or below 50% of the State Median Income (about \$41,000 for a family of four). But, the average income of MN LIHEAP households is far below this level. The average MN LIHEAP household annual income is \$17,000 per year. Given the average cost of natural gas and electricity, these households pay nearly 13% of their annual income for energy costs alone. After an average LIHEAP grant gets applied to their energy bills, they pay about 10% of their income for energy costs. To best understand this enormous burden, a median income household of four would have to spend over \$10,000 a year on gas and electric bills.

To make the situation even worse, one-half of all LIHEAP households live below the federal poverty level and 30% of all MN LIHEAP households live below 75% of the federal poverty level. For those at this level of income, paying for energy, food, housing and transportation is impossible. For those who heat with fuel oil and propane, much more expensive fuels whose industries do not have affordability programs or any consumer protections, the consequences of further cost increases are unimaginably harsh. And, we shouldn't forget that these price increases

come on top of energy bills that have risen significantly since 2005—since that time, for example, fuel oil prices increased 44% and propane increased 34%. While, generally, Minnesota households do not rely much on these fuel for heating, over one-third of MN LIHEAP households heat with delivered fuels.

So, how does the cap and trade bill propose to provide relief from higher energy costs to these households? Unfortunately, the first answer to that question is much of the time, it's unclear and undefined. For example, the bills provide allowances to rural electric cooperatives, municipal utilities and propane and fuel oil companies for low-income assistance. The problem is that these companies do not have low income assistance programs and there are no guidelines in the bills (other than income level) for those programs. Worse, the conservation programs allowed under these relief provisions are not targeted to low-income consumers at all.

When the relief is defined, at least the House version, three primary forms of relief are proposed:

- 1) General relief through the utilities' local distribution companies (or LDCs)
- 2) A low-income energy refund program
- 3) Expansion of the Earned Income Tax Credit for workers without children

The first problem with all of the the forms of relief is that not enough money is directed to them. Depending on what percentage of the allowances is actually auctioned, the percentage of revenue devoted to relief will vary. Under the House bill, 15% of the emission allowances proceeds are available for low income household assistance.

The general relief provisions, funded by allowances to utilities, are supposed to provide proportional rate class relief. That means that, under the single largest form of relief, none of it is targeted to low income customers. And the LDC provisions require decisions about

spending the allowance revenue by the Public Utilities Commission. So, residential ratepayers will be fighting with industrial customers over the proportion each class will receive. But, low income advocates do not have the resources to participate in each separate utility proceeding where those proposals for spending will be reviewed. There is no provision in either of the bills for public interest intervention in these PUC proceedings and Minnesota law only compensates organizations for participation in utility rate cases.

There are numerous additional problems associated with using the LDCs as the mechanism for delivering rate relief. For example, renters may pay for energy costs as a part of their rent and, therefore, do not have utility accounts. There is no way to target this relief to low and moderate income customers because utilities do not have income information.

The second form of relief—the low income energy refund—is targeted to the lowest income quintile but is only *automatically* available to people who already participate in some form of public assistance—food stamps, social security disability, Medicare prescription drug program, etc. The proposed refund would be applied directly to public assistance program participant Electronic Benefit Funds ATM cards. Like any means-tested program, however, large numbers of eligible people do not participate in these programs. Only 57% of the population eligible for food stamps in Minnesota actually participates in the program—MN is ranked 23rd in the nation for food stamp participation.

The expansion of the EITC also requires households who have not benefited very significantly from that credit to apply for that credit on annual tax forms.

Given the limitations of these relief efforts, some low income advocates, including some in Minnesota have called for increases to federal LIHEAP funding. While LIHEAP provides an important benefit to a significant number of households, it is not the solution to the shortcomings of the other forms of relief. LIHEAP funding has

increased steadily over the past few years. However, the level of LIHEAP funding has also varied dramatically over the last ten years so that source of funding can not be counted upon for ongoing relief. And, Minnesota has typically not spent its entire LIHEAP annual appropriation, carrying over significant amounts of funding into the subsequent year. From last heating season to this current one, Minnesota left \$20 million in LIHEAP funds in the bank.

But, one of the most disconcerting facts about LIHEAP's inability to provide relief is this. Minnesota's largest natural gas utility shut off over 5,000 customers last year THAT DID RECEIVE LIHEAP. This company is shutting off about 25,000 customers per year. LIHEAP customers represent 4% of their residential customer base and 20% of all the shut offs. How can we allow LDCs to become the primary means for general consumer rate relief?

In my opinion, a more effective way to provide relief would be to issue tax rebate checks like we've done on both the state and federal levels before. Obviously, like the other forms of proposed relief, all of the measures are on a reimbursement basis—you first have to be able to pay for the increased costs and, if you're fortunate enough to do that and remain connected to your utility service, eventually you will get some money back.

One of the similarities shared by all the forms of relief is that they are dependent upon a program, even if that is a program of the utility company or a green worker training program. It's an interesting contrast—we create a market for the commodity itself and provide relief outside the market because the market is sure to require that relief. Some—those that contributed the most to the problem and have already benefited from not paying for it—will participate in the market and may even get rich. Others who use very little energy and pay dearly for it will have to settle for yet another inadequate public assistance program. Until the bubble bursts.