



April 16, 2008

To: Western Climate Initiative Allocations Subcommittee

From: California Budget Project
Children's Action Alliance of Arizona
New Mexico Voices for Children
Oregon Center for Public Policy
Voices for Utah Children
Washington State Budget & Policy Center

Re: Public comment on the Western Climate Initiative's April 2, 2008
"Draft Allocations Design Recommendations"



It is clear that action must be taken to halt and reverse the damage being done to our environment and economy by climate change, and we applaud the efforts of the Western Climate Initiative in addressing these key issues. However, we are concerned that the WCI does not at present sufficiently address the disproportionately negative impact climate change policies will have on lower-income households.

As organizations dedicated to advancing economic security through in-depth research and analysis on economic and fiscal matters, we respectfully submit the following comments for your consideration.

Energy costs for lower-income households

Effective climate change policies necessarily increase the cost of fossil fuels to businesses and consumers, encouraging energy efficiency and the use of cleaner energy sources. However, lower-income households face two problems: they can ill afford increases in the prices of household necessities and they also have less flexibility to limit their fossil fuel consumption. It is estimated that a national policy reducing carbon emissions by 15 percent would cost the poorest one-fifth of households \$750 to \$950 per year on average. These are households already struggling to make ends meet on average incomes of around \$13,000.

The WCI's cap and trade system should not deepen the hardships faced by low-income families. Maximizing the auctioning of allowances early in the process provides the best assurance that the public's interest will be served by the WCI cap and trade system.

WCI partners should each commit to setting aside enough of the proceeds from allowance auctions to fully shield lower-income households in each jurisdiction from higher energy prices. In a study of national proposals, the Center on Budget and Policy Priorities has estimated that fully offsetting these higher costs for the lowest-income households would cost only about 14 percent of the value of allowances.

Coordinated, efficient, and effective policies

The WCI process should include the development of a coordinated and consistent set of policies for offsetting the impact of rising energy costs on low-income consumers. There are many possible delivery mechanisms for climate change assistance to lower-income households

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and some are markedly more effective and efficient than others. Working through the details of how best to meet the needs of consumers is too important an issue for the WCI to leave to an afterthought of the process. Flexibility to allow for unique state and provincial systems will be necessary, but overarching principles and policies should be fleshed out, including:

- Efficient delivery of climate change assistance for low-income households can be best accomplished through the use of policy mechanisms already in place or easily created.
- Climate change assistance payments should increase as stricter caps on carbon emissions are phased-in.
- Household size should be taken into account.
- Households should be reimbursed for the full range of cost increases, including higher gasoline prices and higher prices for food and other consumer goods. "Lifeline" rates and other programs that subsidize the cost of energy for lower-income households are one tool for achieving this goal.
- Measures aimed at promoting energy efficiency among low-income consumers are an important supplement to the policies outlined above, but are not sufficient.

Using existing policy mechanisms will keep delivery and administrative costs low. For example, climate change assistance could be delivered through Electronic Benefits Transfer (EBT) cards, already used to efficiently deliver benefits to millions of recipients of food stamps and other cash assistance programs in U.S. states. Assistance provided through EBT cards could be combined with a refundable tax credit for low-income working households, such as through state earned income credits, to reach most low-income households in U.S. states at minimal administrative expense.

These sorts of mechanisms will be more effective at delivering assistance to low-income households than would publicly regulated utilities, despite the oversight of regulatory agencies. Utility companies and public utility boards are less able to effectively target assistance properly to low-income households. Moreover, providing assistance to low-income households through utility companies will not help households dealing with rising rents (when utility costs are built into rents), rising gasoline prices, or the increased cost of other consumer items.

Conclusion

The needs of lower-income consumers should be considered as a high-priority item on the WCI agenda. Climate change policy should not push households deeper into poverty.