Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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NEW CLIMATE BILL IN SENATE PROVIDES FUNDING FOR LOW-INCOME CONSUMERS BUT AMOUNT FALLS SHORT OF NEED

Allowance Allocation is One-Sixth Below House Level

By Chad Stone and Hannah Shaw

The Clean Energy Jobs and American Power Act (S.1733) introduced by Senators John Kerry (D-MA) and Barbara Boxer (D-CA) represents a notable achievement, as it continues to move Congress forward toward taking needed action to address global climate change. The Kerry-Boxer bill, like the Waxman-Markey bill that the House approved in June, makes the protection of low-income households a basic goal. Unfortunately, the bill in the Senate currently falls short of providing sufficient resources to fully fund the kind of low-income assistance needed to provide that protection.

Our analysis indicates that the House bill's allocation of 15 percent of the total emissions allowance value to protecting low-income consumers is sufficient to fully protect low-income households as a group, but that this protection would be weakened if less funding were available. At first blush, the percentage of emissions allowances devoted to low-income consumer protection in the Kerry-Boxer bill may appear to be the same 15 percent that the House bill provides for this purpose. Because of the way the Senate bill is structured to comply with Senate budget rules, however, it actually provides about *one-sixth less funding than the House bill* — about 12.6 percent of total allowance value in the 2012-2019 period and only slightly more (about 13 percent of total allowance value) in later decades. That amount falls short of what is needed to fully fund the low-income protections that are in the House bill, much less to provide direct relief farther up the income scale to moderate-income households.

Limiting the low-income relief to less than 15 percent of the total allowance value is not, however, a necessary condition of complying with the Senate budget rules; other policy choices can be made to satisfy the budgetary requirements. While the bill as introduced represents a major advance in climate policy, it would be significantly improved by strengthening the low-income consumer relief as the Senate goes to work on this legislation.

Senate Bill Would Initially Allocate 12.6 Percent of Total Allowances for Low-Income Relief

The House bill allocates15 percent of the *total* value of allowances for relief to protect low-income households from the effects of the higher energy prices that they will encounter as a result of the legislation. Thus, if in a given year there were allowances for 5 billion tons of emissions and the price of an allowance were $20 per ton, the total allowance value would be $100 billion, $15 billion of which would be allocated to low-income consumer relief.

The Senate bill reserves a portion of the total quantity of emissions allowances off the top for deficit reduction and certain other purposes that are accorded priority before any other allocations are made. A share of the allowance value needs to be reserved for deficit reduction to meet Senate rules that legislation not add to deficits either in the first ten years or in any of four subsequent ten-year periods.

The percentages that the Senate bill dedicates for low-income relief and other non-priority purposes are percentages *of the allowances that remain after* the allowances reserved off the top are taken off the table.[1] In the early years, about 16 percent of the allowance value is reserved for deficit reduction and other purposes. Thus, the amount allocated to low-income relief equals 15 percent *of the 84 percent of the allowance value that remains*. Hence, if in a given year the total allowance value were $100 billion with 16 percent reserved, $84 billion would remain to be allocated; 15 percent of that $84 billion for low-income consumer relief would be $12.6 billion, not the $15 billion that would be allocated in the House bill.

In other words, over the 2012 to 2029 period, the Senate bill allocates 12.6 percent of the total allowance value for low-income protection, as compared with 15 percent under the House bill.

Both the percentage of allowances that are reserved for deficit reduction and other purposes and the percentage of *un*reserved allowances that are allocated to low-income relief would be higher in later years. The percentage of the allowances that are reserved climbs to 28 percent in 2030-39 and to 31 percent in 2040-50 (because a larger share of the allowance value is needed to preserve deficit neutrality in these years under Congressional Budget Office cost estimates[2]).

The percentage of unreserved allowances allocated to low-income relief would rise from 15 percent in 2012-2029 to 18.5 percent in 2030-2050, and then fall back to 15 percent thereafter. The percentage of *total* allowance value that would go for this purpose would increase only modestly from 12.6 percent in the initial period to 13.3 percent in 2030-39. It would then fall back to 12.8 percent in 2040-50. (Without the increase in the low-income allocation from 15 percent to 18.5 percent, the true allocation for low-income relief would be heavily eroded by the increase in the percentage of allowances that are reserved.)

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[1] The Environment and Public Works Committee's "Summary of Allowance Allocations" refers to the allowances that remain after the reserved allowances are subtracted as "distributed allowances." Percentage allocations in the Summary are expressed as percentages of distributed allowances.

[2] The Congressional Budget Office's cost estimate of a cap-and-trade bill treats the entire emissions allowance value as revenue and applies a 25 percent "income and payroll tax offset" to the revenue raised through the creation of emissions allowances. The idea is that the value of the emissions allowances squeezes out other taxable income. Thus, creating $100 billion of emissions allowance value simultaneously results in the loss of $25 billion of other revenue and therefore generates only $75 billion of net revenue for the government. However, some uses of emissions allowances give rise to taxable income that offsets the loss that would otherwise take place. A high proportion of the allowance allocations in the early years are in this category. As a result, the amount of allowance value that has to be reserved for deficit reduction is substantially less than 25 percent in those years. These allocations that produce taxable income would be phased out, however, so that in the later years a full 25 percent of allowance value has to be reserved for deficit reduction to keep the allocation of emissions allowances from adding to the deficit.

Low-Income Households Also Would Get Less Utility-Based Relief Than Under House Bill

While direct refunds to households funded by the 15 percent allowance allocation are the main source of relief to low-income households in the House bill, they are not the only source. The low-income refund is meant to cover the portion of the "hit" to the average low-income household's budget that the relief provided through free allocations to utility companies does not cover.[3] This is noteworthy because in the Senate bill, the allocation to utility companies (i.e., to local distribution companies, or LDCs) — like the allocation for direct low-income consumer relief — is set as a percentage of the allowances that remain after a portion of the allowance value is reserved for deficit reduction and other purposes, and thus is below the level in the House bill. As a result, low-income households would get less relief in the Senate bill *both* from the direct consumer relief and through the LDCs.

This makes the reduction in the allocation for direct low-income consumer relief more problematic. With less relief coming to low-income households through their utility bills, these households will need a *larger* energy refund than under the House bill to achieve a comparable overall level of protection. In other words, the allowance value available for low-income energy refunds is *less* than under the House bill when *more* is needed to compensate for the Senate bill's lower amount of utility-based relief. The combination of the smaller allocation for low-income consumer relief and the smaller allocation to LDCs means the Senate bill does not include sufficient resources to provide the full protection for low-income households that the House did.

Amount of Broader Consumer Rebates Going to Low-Income Households Remains Unclear

Under the Senate bill, both the allocation of emissions allowances to utilities and the allocation to ease the transition for energy-intensive industries that are exposed to international trade would phase out over the 2026 to 2034 period. The bill reserves some of the freed-up allowances to meet Senate deficit-neutrality rules, while the rest are used to increase certain other allocations. As noted, the percentage of unreserved allocations going for energy refunds to low-income households would rise from 15 percent to 18.5 percent of the unreserved allowances in 2030; the percentage of the *total* allowance value used for this purpose would rise to 13.3 percent (see Table 1).

TABLE 1:
Non-Reserved Allowances and Allowances Allocated to Direct Low-Income Relief as a Percentage of Total Allowance Value

	2012-2019	2020-2029	2030-2039	2040-2050
Non-Reserved Allowances	84.25%	~83.5%	72%	69%
Allowances Allocated to Low-Income Energy Refunds	12.6%	~12.5%	13.3%	12.8%

Source: CBPP calculations from Environment and Public Works Committee Chairman's Mark

[3] See, Dottie Rosenbaum, Sharon Parrott, and Chad Stone, "How Low-Income Consumers Fare in the House Climate Bill ," Center on Budget and Policy Priorities, October 7, 2009.

Another relevant change also would occur in these years. As the allocations to utilities and energy-intensive industries phase out, allowances for *broader* consumer relief (that is, relief that is not limited to low-income households) would be phased in. The amount available for broader consumer rebates would rise to about 35 percent of the total allowance value (or roughly half of the *non-reserved* allowance value) by the mid-2030s.

The design of both of the low-income relief program and of the broader consumer rebates would be left to the Senate Finance Committee. (The Kerry-Boxer bill is intended to serve as the legislation that the Senate Environment and Public Works Committee will consider, so it does not include the specifics of how the consumer relief would be provided.) Until there is a specific proposal, it is not possible to know what proportion of these *broader* consumer rebates would go to low-income households. There is little doubt, however, that the amount of total allowance value set aside specifically for the *low-income* consumer refunds would, by itself, fall well short of what would be needed to offset the hit to low-income households' budgets. To avoid having more households pushed into poverty, and those who already are poor made poorer, a significant share of the broader consumer relief would need to go to low-income households to supplement the low-income consumer relief.[4]

This reality also highlights another concern. Some senators have expressed interest in extending direct consumer relief farther up the income scale than the House bill does. That should certainly be doable in the years when the allocations for broader consumer rebates kick in. But if the 15 percent of the unreserved allocation — 12.6 percent of the total allowance value — that is provided for low-income relief in the first decade and a half itself is spread farther up the income scale, then the amount available for relief for low-income households in those years will become more inadequate, offsetting a smaller share of the increase in costs that low-income families face. The decisions that the Senate Finance Committee will make in these areas will be very consequential.

Conclusion

One of the key findings enunciated in The Clean Energy Jobs and American Power Act is that "moving to a low-carbon economy must protect the most vulnerable populations in the United States, including low-income families that are particularly affected by volatility in energy prices."

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[4] Estimates of what allowance value and the hit to consumers will be after 2030 are highly speculative. Qualitatively, what is known is that the costs of complying with the emissions cap (which is what ultimately determines the size of the consumer hit) includes *both* the cost to firms of holding allowances in order to continue emitting *and* the costs that businesses and households incur to reduce their consumption of fossil-fuel energy to the level that the emissions cap allows. Over time, the allowance value, which is what is available to compensate consumers, is likely to become a shrinking percentage of the total compliance cost, which is what determines the hit to consumers. For example, the EPA analysis of the Waxman-Markey bill estimated that by 2050, the allowance value would account for well under half of the total compliance cost.

The amount of the increase in costs that low-income households will face will be determined by *total* compliance costs. However, the resources to compensate and low-income households will depend only on the allowance value. Thus, the cost to low-income households could equal a much larger percentage of the allowance value in later years than in the earlier years, depending on how expensive it becomes to comply with the steadily tightening cap and how high the allowance price rises.

Like the House bill, the Senate bill stipulates that a portion of emissions allowances should be used for that purpose. These are commendable steps.

Unfortunately, the Senate bill provides less funding for low-income protection than the House bill does — and less than our analysis indicates is needed. That means that fewer low-income households could be adequately protected from the hit to their budgets that would arise from policies needed to control greenhouse gas emissions, and more such households would end up worse off. As the Senate moves forward with this legislation, one of its priorities should be to ensure that low-income households receive the protection they need.