

**Statement of Daryl Bassett**  
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**Panel on Allocation Policies to Assist and Benefit Consumers**  
**Subcommittee on Energy and the Environment**  
**House Committee on Energy and Commerce**  
**April 23, 2009**

Chairman Markey, Vice Chair Butterfield, Ranking Member Upton and Subcommittee Members, thank you for this opportunity to testify on some of the impacts consumers might face if Congress adopts energy and climate policy without adequate cost containment. My name is Daryl Bassett and I head Empower Consumers, a membership organization established to address consumer interests in the context of energy and environmental legislation. I am a former Commissioner on the Arkansas Public Utility Commission, a former State Budget Director, and a former officer in the national and regional utility commissioner organizations.

[I would like to extend particular thanks to my friend, Congressman Mike Ross, who has worked closely with me over the years to protect consumers in Arkansas.]

Today I am here to offer the perspective of how the combination of policies in the current draft proposal might impact consumers – including the poor, the elderly, consumers on fixed incomes – and institutions like businesses, hospitals and schools. The story of these individuals and groups is often lost in the shuffle as we consider broad, sweeping public policy. The fact is that climate change and energy diversity are important issues of the day and deserve to be addressed, but our consumers deserve no less.

**What are the costs?**

Given the quick pace of the consideration of the bill, there are no hard and fast estimates of the cost associated with its potential adoption. We have to begin with the analysis conducted on past climate change legislation debated before the Congress. And the data is varied. Recent EPA

preliminary analyses of costs seem selective in the assumptions they make and fail to remedy modeling deficiencies or to account for the bill's overlapping mandates.

A. Cap and trade is expensive

When the Senate considered its legislation in 2008, EPA estimated that in 2030, the law would cost between \$238 billion and \$983 billion (1 percent to 4 percent) in gross domestic product (GDP) losses for that year. Another study from the American Council for Capital Formation (ACCF) and the National Association of Manufacturers (NAM), put GDP losses in 2030 at more than \$600 billion.<sup>1</sup> Still others had longer term results topping out at or near \$1 trillion.<sup>2</sup>

The question of direct impacts on energy prices also yield varied results. The previous EPA findings demonstrate that energy prices could rise as much as 44 percent by 2030 and gas prices about fifty cents a gallon in the same period. The ACCF/NAM found that gasoline could cost as much as two to three dollars more and household energy costs could rise as much as 129 percent by 2030. No matter what the number, and even using more conservative low-end projections, the proposal is likely to be one of the biggest regulatory programs in American history.<sup>3</sup>

B. So are renewable energy standards.

In particular, renewable mandates also come with substantial cost implications for consumers, if state experience is any guide. As last week's *USA Today* reported, a single new solar investment designed to meet state mandates forced one utility's ratepayers to sustain a 6% increase. What

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<sup>1</sup> The studies are summarized in T. Johnson, Economic Challenges for Climate Change Policy, Council on Foreign Relations Backgrounder, Feb. 13, 2009, at [http://www.cfr.org/publication/16009/economic\\_challenges\\_for\\_climate\\_change\\_policy.html](http://www.cfr.org/publication/16009/economic_challenges_for_climate_change_policy.html).

<sup>2</sup> The Impact of America's Climate Security Act of 2007 (S. 2191) on the U.S. Economy and on Global Greenhouse Gas Emissions: Hearing Before the S. Comm. on the Environment and Public Works, 110th Cong. 6 (2008) (statement of Dr. Anne Smith) at 6.

<sup>3</sup> Johnson at 2.

one Texas utility pays for wind power recently more than doubled. And California has among the highest electric rates in the nation coupled with one of the highest renewable mandates.<sup>4</sup>

Consumer advocates have long noted that renewable energy standards (RES) can have profound impacts on consumers. Kansas Consumer Counsel David Springe, testified in January 2009 that his State organization "does not support a prescriptive mandate as to (1) the level of renewable resources required, or (2) the timing of adding renewable resources to a utility's system. Each utility system is different from a resource perspective and from a finance perspective. Arbitrarily dictating the level and timing of adding resources, regardless of cost or other considerations, is not in the interest of consumers."<sup>5</sup>

The District of Columbia's Peoples Counsel, Betty Noel, also advised her City Council against renewable mandates. Stating that it's "very easy to be cavalier with somebody else's money," Noel said the District's 20 percent standard would cost consumers approximately \$26 million annually. She said asked the Council to "consider the immediate effect on residents who are struggling to pay rising bills."<sup>6</sup>

### C. Putting them both together is even more expensive

We'd expect the potential costs to consumers to be even higher for this legislation than for previous proposals. Unlike previous climate change or renewable energy proposals, the bill combines traditional regulation with trading programs. The bill contains mandates for renewable energy and for energy efficiency. It has regulatory standards for new power plants. It has a new federal gasoline standard. And it has a cap and trade program to address greenhouse gases. I

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<sup>4</sup> Paul Davidson, Consumers start feeling higher costs of clean fuel, USA Today, April 19, 2009, at [http://www.usatoday.com/money/industries/energy/environment/2009-04-19-higher-cost-clean-energy\\_N.htm](http://www.usatoday.com/money/industries/energy/environment/2009-04-19-higher-cost-clean-energy_N.htm).

<sup>5</sup> David Springe – Consumer Counsel, Testimony on Behalf of the Citizens' Utility Ratepayer Board, House Utilities Committee, State of Kansas, Jan. 21, 2009, at [http://curb.kansas.gov/legislative/2009/HB\\_2013.pdf](http://curb.kansas.gov/legislative/2009/HB_2013.pdf).

<sup>6</sup> Nikita Stewart, "Energy Act Backers, Foes Square Off," The Washington Post, Jan. 31, 2008.

think it is fair to say that no one knows precisely how all these overlapping measures will compound the costs to consumers, but the economic impact could be daunting.

As a general point, the cost-assumptions data behind the Waxman-Markey proposal must be updated. Four of the most respected national consumer organizations testified recently before the House Ways and Means Committee that the assumptions regarding impacts on household incomes and budgets were based on 30-year-old modeling that must be updated before climate policy can be adopted.<sup>7</sup> In addition, the former head of the Energy Information Administration, Guy Caruso, has recently stated that EIA data and models are in serious need of updating as well. Despite large increases in anticipated DOE budget outlays, no additional funding has been allocated to update EIA data.<sup>8</sup>

We understand that Committee members will not have any specific economic assessment of the bill before they are asked to report the proposal to the floor of the House of Representatives. Not only must models be updated, but they must analyze the effects of simultaneous adoption of all of the policies in the bill. Because the potential impacts on consumers are so severe, we respectfully request that the Committee have updated analysis at its disposal before it proceeds with passing any climate change and renewable energy legislation.

### **Who pays?**

One thing we know for sure is that residential consumers – along with small businesses, hospitals, schools, farms, and industrial operations – all depend on reliable and affordable electric power. We also know that certain regions will be impacted worse than others. And ultimately – consumers who can least afford it, such as communities of color, the elderly, and

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<sup>7</sup> National Community Action Foundation, National Consumer Law Center, Public Citizen and Friends of the Earth (collectively, National Consumer Groups), Statement on Consumer Impacts of a Cap-and-Trade Climate Change Policy (Mar. 12, 2009), at [http://www.consumerlaw.org/issues/climate\\_change/content/Cap-and-TradeClimateChangePolicy.pdf](http://www.consumerlaw.org/issues/climate_change/content/Cap-and-TradeClimateChangePolicy.pdf).

those living on fixed incomes or in poverty will pay the highest percentage of their monthly budgets.

A. Regressive features

Groups on the frontline of addressing the impacts of energy assistance have commented on the relationship between inflexible carbon policy and unacceptable results for those living in poverty. A March 2009 report presented by the National Community Action Foundation, the National Consumer Law Center, Public Citizen and Friends of the Earth found that, "there will be a proportional shift among the consumer groups based on fuel and location." Bills paid by the consumers with significant coal resources "will rapidly become the most expensive. Electric bills make up the majority of low-income household expenditures today."<sup>9</sup>

Another word from the front lines comes from Catholic Charities of Cleveland. They testified that, "conversion to natural gas from coal would have a devastating effect on the people of Ohio and our country, particularly the poor and the elderly."<sup>10</sup>

The group attempted to quantify the impact of such fuel conversion as follows:

"The overall impact on the economy in Northeast Ohio would be overwhelming, and the needs that we address at Catholic Charities in Ohio with the elderly and poor would be well beyond our capacity and that of our current partners in government and the private sector. In a recent study on Public Opinion on Poverty, it was reported that one-quarter of Americans report having problems paying for several basic necessities. In this study, currently 23% have difficulty in paying their utilities - that is, one out of four Americans."<sup>11</sup>

The non-partisan Congressional Budget Office called the price effects for consumers what they are; regressive:

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<sup>8</sup> Kent Garber, "The Trouble with the Numbers," U.S. News & World Report, April 2009, at 40.

<sup>9</sup> National Consumers Groups at 3.

<sup>10</sup> Clean Power Act: Hearings on S. 556 Before S. Comm. on Env't & Pub. Works, 107th Cong. 757 (2002) (statement of J. Thomas Mullen, President & CEO, Catholic Charities Health and Human Services).

"The price increases resulting from a carbon cap would be regressive--that is, they would place a relatively greater burden on lower-income households than on higher-income ones. Higher-income households would face larger costs in dollar amounts, but those costs would make up a smaller share of their average annual income. For example, one study estimated that the price increases resulting from a 15 percent cut in carbon emissions would cost the average household in the lowest one-fifth of the income distribution about \$560 a year, or 3.3 percent of its average income. Households in the top one-fifth of the income distribution would pay an additional \$1,800 a year, or 1.7 percent of their average income."<sup>12</sup>

#### B. Communities of Color and the Elderly

The cost impacts are regressive but, as is often the case, they fall with disproportionate impact on certain subgroups in our society.

A 2008 study based on historical energy consumption survey data and current energy price forecasts from the U.S. Department of Energy's Energy Information Administration (EIA), made the following findings that demonstrate the disparate impact of energy price increases on minority communities:

\* In 2008, the average American family with an after-tax income of \$52,586 will spend more than \$6,200 on energy, or 12 percent of the total family budget.

\* The 60 million households earning less than \$50,000, representing 51 percent of all U.S. households, will devote 24 percent of their after-tax income to energy. For the 27 million families with incomes between \$10,000 and \$30,000, energy expenditures will consume 26 percent of average after-tax incomes.

\* In 2008, African-American and Hispanic households with annual pre-tax incomes below \$50,000 will spend roughly one-quarter of their after-tax income on energy.

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<sup>11</sup> Id.

<sup>12</sup> Congressional Budget Office, *Shifting the Cost Burden of a Carbon Cap-and-Trade Program*, at ix (July 2003).

\* After paying federal and state taxes, the average African-American family had an estimated income of \$35,949 compared to \$38,252 for all Hispanic families and \$54,125 for white households.<sup>13</sup>

Similarly, older Americans are disproportionately affected by higher energy costs. As a share of income, households headed by a person age 65 or older spend more on energy bills than younger households. As CRS recently reported, "Older households account for approximately 20% of our nation's total consumption on energy-related products. Although in *actual dollar terms* older households spend slightly less on energy-related consumption than households headed by a person under age 65, they spend a *higher share of their income* on energy-related expenditures."<sup>14</sup>

Therefore, to the extent a restrictive federal RES is adopted, its cost will be borne disproportionately on the backs of minority households. In this sense, a federal RES behaves like a regressive income tax.

### C. Regional differences

Consumers in the Midwest and Southeast will literally face double the impacts of carbon caps than consumers elsewhere in the country. The Oak Ridge National Laboratory has reported that, "The carbon intensity of heating fuel and electricity generation will lead to very different cost increases in residential fuels. [The Oak Ridge] findings reveal dramatic variation in impacts across the regions by 2030, with vulnerable consumers in the South and Midwest incurring price increases more than double those of lower-income consumers in the Northeast and West."<sup>15</sup>

This difference in carbon intensity creates stark regional differences in carbon policy. Similarly, the differences in availability of renewable energy converts the RES into an income transfer from

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<sup>13</sup> Rising energy costs disproportionately impacting minority households, Louisiana Weekly, Aug. 29, 2008, available at <http://www.louisianaweekly.com/news.php?viewStory=271>.

<sup>14</sup> Janemarie Mulvey, Impact of rising energy costs on older Americans, CRS Report for Congress No. RS22826 (Mar. 4, 2008), at [http://assets.opencrs.com/rpts/RS22826\\_20080304.pdf](http://assets.opencrs.com/rpts/RS22826_20080304.pdf).

<sup>15</sup> National Consumer Groups at 3.

the Southeast and the Midwest to states that have greater access renewable. As Consumer Counsel David Springe of Kansas noted, "there may be a legitimate reason why a utility cannot, or perhaps should not, be constrained by these [RES] deadlines. For example, if a wind developer knows that a utility must meet a statutorily imposed deadline for acquiring wind power, the utility loses bargaining power. It could also be the case that a utility does not have the necessary natural gas fired generation available to back additional wind at the deadline."

He concluded that responsible energy policy should not be based on a premise "that consumer interests or consumer utility rates are secondary to political expediency."<sup>16</sup>

#### D. Hospitals and schools

It is often tempting to think of energy price shocks as limited to business and consumers. But important social service organizations like hospitals and schools are also in the crosshairs when costs are not properly contained.

EPA has found that hospitals "use twice as much energy per square foot as do office buildings." Compounding the effects of direct energy costs, "Virtually every item consumed in a hospital is to some extent connected to fossil fuels." Recent health policy initiatives like electronic record keeping only exacerbate the trends. One recent study found that "electricity used exclusively for medical records is rapidly increasing, by 400-800% in the past four years." So in short, energy costs – and specifically electricity – are a major cost burden on hospitals and health care.<sup>17</sup>

Schools are likewise adversely impacted when energy costs go up. The American Association of School Administrators recently found that 99 percent of school superintendents reported direct budget impacts as a result of increased energy costs associated with transportation, heating and air conditioning. Worse yet, Superintendents have found that higher energy costs directly

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<sup>16</sup> Springe at 1.

<sup>17</sup> Dan Bednarz, Rising energy costs and the future of hospital work, Energy Bulletin, Apr. 29, 2008, available at <http://www.energybulletin.net/node/43514>.

teaching positions and the ability of schools to take students off campus for events and competitions.<sup>18</sup>

### **What can be done?**

The current proposed bill does not sufficiently costs associated with the bill. While many of the answers to cost issues depend on ultimate changes to the legislation and on matters not yet defined, Empower Consumers has several suggestions:

First, the legislation must be subject to rigorous cost analysis that includes up-to-date economic and energy models. The analysis must consider the simultaneous adoption of the renewable energy standard, the energy efficiency standards, the low-carbon gasoline standards, and the carbon cap and trade program. Past analyses have viewed these in isolation;

Second, the legislation should consider mechanisms that establish floor and ceiling prices for carbon allowances. Should allowances exceed the price established as the ceiling, then more credits should be made available at the ceiling price. Only in this way can certainty be restored for purposes of investment and consumer protection;

Third, allocation of credits is preferred over near-term auctions. Some have rejected the notion of free allowances as a windfall to the regulated community. This is not the case. With 100% auction, electricity providers would have to make substantial investments to comply with both the RES and to install technology made necessary under the cap. In essence, the energy consumer would pay twice: once for technological changes and again for auction prices. By contrast, with sufficient allocations, energy providers can use the value of the allocated credits to defray the costs of capital improvements or process changes, in whole or in part. As noted

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<sup>18</sup> UPI, Energy costs spurring school spending cuts, July 29, 2008, available at [http://www.upi.com/Top\\_News/2008/07/29/Energy-costs-spurring-school-spending-cuts/UPI-96071217347633/](http://www.upi.com/Top_News/2008/07/29/Energy-costs-spurring-school-spending-cuts/UPI-96071217347633/).

above, there is already a significant chance that consumers will suffer at the hands of the cap and trade program. An auction approach doubles the burden;

Fourth, get rid of expensive mandates and let trading programs work. The record of government energy mandates providing relief to consumers is not a good one. The use of incentives and mandates for ethanol has neither helped consumers with fuel prices or with food prices. Similarly, the adoption of a low-carbon fuel standard and an RES makes little sense if both refiners and utilities are already to be placed under a carbon cap;

Fifth, do not believe rebates will fix the problem. Recently, there has been much discussion of direct rebates to consumers. While the devil is in the details for such a program, it is clearly better to control costs at the front end – with reasonable timetables, targets and allocations – than it is to run up a bill and try to cover its impact at the end of the day. If the initial costs to small businesses on Main Street – who would not necessarily benefit from rebates – is sufficient that jobs are lost, it is not clear that any amount of consumer assistance will succeed. Further, if consumer assistance rebates are provided in equal measure in all parts of the country, data shows that Southeastern and Midwestern consumers will still be shortchanged because their price impacts are twice as large; and

Last, make the cost impacts of the bill transparent to consumers. Consumers deserve to have a good sense as to how much this will cost them. It should appear on in their statements and made available to consumer groups and the media. Educated consumers are essential for effective climate policy.

Thank you for this opportunity to testify. Empower Consumers looks forward to working closely with the Committee as it seeks to address these issues.