



Arkansas Advocates for Children and Families believes that fighting global warming requires policies that restrict greenhouse gas emissions while protecting low-income households. A cap-and-trade system can serve this purpose, but it will cause the price of fossil fuel products to rise. As a result, the price of energy and energy-related products will squeeze the household budgets of low- and moderate-income Arkansans. Middle-income households will feel the squeeze as well. A portion of the revenue raised from the auction of permits or allowances should be used to fully protect low- and moderate-income Arkansans.

What is Cap-and-Trade?

A cap-and-trade system, according to the Congressional Budget Office, sets a cap or legal limit on total greenhouse gas emissions in the U.S. each year. Electricity generators and other entities would be required to have permits or allowances to emit gases, and those entities would be free to buy and sell (“trade”) their permits.

How Are Low- and Moderate-Income Households Affected by Cap-and-Trade?

The requirement that generators and other entities hold allowances increases the cost of doing business, and those costs are passed on to consumers, increasing the prices of goods and services that rely on fossil fuels. This increase will disproportionately squeeze the household budgets of low- and moderate-income families who spend a larger proportion of their incomes on energy. Middle income families will also feel the squeeze. Utility bills will account for less than half of the total increase in energy-related costs for lower-income households. More than 50 percent of the cost impact will be due to increases in the price of gasoline, home energy bills other than utility bills, and energy-intensive products such as food.¹

How Can We Protect Low- And Moderate-Income Households?

The House bill provides consumer relief in two ways: First, the bill gives more than one third of the total allowances to retail gas and electric utility companies to provide their customers with relief on their utility bills. Second, the bill uses proceeds from the sale of 15 percent of the emissions allowances to provide targeted assistance to low-income households for the higher costs they will face for energy and energy-intensive goods and services under the bill.

Relief delivered through utility companies has a number of serious weaknesses. First, utility bills account for less than half the increased costs consumers will face due to climate legislation. Moreover, much of this allowance value will **not** be passed on to retail customers in the form of lower prices, but will instead be absorbed by commercial and industrial utility customers as windfall profits.

Instead, the Senate should reduce the allocation of allowances to utilities and use the savings to add to the direct consumer relief in the House bill so that low- and moderate-income (and even for middle-income, if resources allow) Arkansans are better protected from increases in utility costs, food, gas and other household needs.

Arkansas Advocates for Children and Families is a statewide, non-profit child advocacy organization established in 1977. Our mission is to ensure that all children and their families have the resources and opportunities to lead healthy and productive lives and to realize their full potential. Reach us at (501) 371-9678 or online at www.aradvocates.org.

For more information on climate change, contact Candice Smith, Federal Budget and Tax Policy Director, 501-371-9678, ext 112 or csmith@aradvocates.org.

¹ See “Climate Series #4: Utilities are a Limited Option for Offsetting Increase Energy Costs” by Washington State Budget & Policy Center. April 30, 2009. Available at <http://schmudget.blogspot.com/search/label/Climate%20Series#null>