<u>Oral Testimony</u>

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Thank you, Chairman Markey and distinguished members of the Subcommittee, for holding this hearing. I am honored to be here today.

Congress has an unprecedented opportunity to put the American economy on a stronger footing for the twenty-first century. A cap on carbon will harness the efforts of entrepreneurs and innovators throughout our economy — ensuring that America will lead the world in making the next generation of clean-energy technologies. And the investment unleashed by a carbon cap will help jump-start our economy today, while paying rich dividends later — in the form of cleaner air, enhanced energy security, and most of all a livable planet to pass on to our children and grandchildren.

In the process, a carbon cap will transform the public commons into a valuable asset. That asset is a public trust, and allocating its value wisely and equitably is a crucial test of any climate bill.

What are the principles any set of allocations should reflect?

First, a substantial portion of the allowance value should go to energy consumers — particularly low-income households.

Second, the allocation should preserve and strengthen the international competitiveness of American businesses and workers during the transition to a clean energy economy.

Third, the allocation must be fair and equitable, respecting differences across states and regions.

Fourth, the integrity and credibility of the program must be preserved. Allowances that are intended for the benefit of consumers must be accompanied by strong safeguards to ensure that consumers receive the value. And while some allowances may fairly be allocated to industries in order to smooth the transition to a clean-energy economy, Congress must avoid giving windfall profits to industry.

And finally, the allocation should use some value to help advance the objectives of the legislation.

These principles are consistent with the Blueprint for Legislative Action that the business and industry coalition, USCAP, has put forward. And the bill performs well on each of them.

First, energy consumers will receive ample protection against increases in cost. For the years 2012-2025, 40% of the allowance value will benefit energy consumers — households, small businesses, and industrial users.

In addition, a full 15% of allowance value will be given to low- and moderate-income households. The Center for Budget and Policy Priorities has estimated that this amount is sufficient to fully compensate those households for higher energy costs.

Finally, nearly 20% of the value of allowances over the whole period will be returned to all households in the form of tax rebates.

When you add it all up, about 44% of the total allowance value would go directly to households in the form of tax rebates or lower utility bills. That amounts to an estimated $700 billion in present value, using EPA's projected allowance prices.

Second, the Inslee-Doyle provision directs about 12% of total allowance value in the years 2012-2026 to energy-intensive trade-exposed industries. EPA estimates that this provision will fully compensate those industries for their increased costs in the initial years of the program.

Third, the bill strikes an equitable balance among regions. This is done by allocating half of the allowances for electricity consumers on the basis of carbon dioxide emissions and half on the basis of electricity generation. More broadly, regional equity is ensured by the use of multiple channels — for example, combining direct tax rebates for households with reductions in utility bills.

Fourth, the legislation ensures that allowance value intended for consumers will reach them. Allowances will be allocated to local distribution companies, with clear and stringent provisions requiring the LDCs to demonstrate how they will pass the value on to consumers before they can receive a single allowance.

Finally, 26% of the allowance value over the life of the bill will fund public purposes to help achieve the broader environmental objectives. These include funding for clean energy innovation, carbon capture and sequestration, investments in renewable energy and energy efficiency, and adaptation.

It's easy to get lost in all the percentages. But in a sense the true test of the allocation scheme boils down to just one number: the estimated cost to American households.

EPA recently analyzed the Waxman-Markey bill using two of the most highly respected, peer-reviewed economic models available. They looked only at the costs of reducing emissions, and ignored the benefits from averting the catastrophic consequences of unchecked climate change, not to mention cleaner air and greater energy security.

Even just looking at the cost side of the ledger, that analysis projected that over the entire life of the bill, the annual cost to the average household will be just $98 to $140 (in present value). That is just 27 to 38 cents a day for the average American family — less than the cost of a postage stamp. To put it another way, it's around 11 to 15 cents per person — a little more than a dime a day.

A big part of the reason these estimated costs are so low is because they take into account that the value of allowances will go back to households. And while the EPA specifically analyzed the discussion draft, it has reported that the estimated household costs are likely to be even lower once all the provisions of the current legislation are taken into account.

Environmental organizations like mine are quick to criticize Congress when public policy diverges from the public interest. In this case, however, Congress got it right. The proposed allocations will keep costs low for consumers, ensure a level playing field for American industry, and promote investment in a clean energy future — all while preserving the environmental and economic effectiveness of this legislation.

Thank you for inviting me to testify. I look forward to your questions.