

Thomas Hughes, Energy Independent Vermont
Testimony to the Vermont House Natural Resources & Energy Committee
March 23, 2016

Thank you Mr. Chairman for the invitation to be here today, and good morning Committee. My name is Thomas Hughes, and I am the campaign manager for Energy Independent Vermont, a broad-based coalition of businesses and non-profits working together to put a price on carbon pollution in Vermont.

My private-sector background is in renewable energy and energy efficiency. Most recently, I ran my own solar business in Shelburne. Prior to that I served as president of the battery-electric division of Country Home Products in Vergennes. I have also chaired the Renewable Energy Vermont board of directors, and I currently serve as treasurer of the Energy Cooperative of Vermont, a fuel dealership in Colchester.

I am delighted to be here and am encouraged that this Committee is interested in the concept of carbon pollution pricing as means to advance and diversify Vermont's economy.

Today I would like to introduce the basics of carbon pricing, outline the four broad principles that serve as the foundation of the Energy Independent Vermont campaign, and review why action is so urgent.

From a policy perspective, our proposal is a tax shift. We recommend reducing taxes on the economic activities we want more of -- like income, employment and sales -- and shift that tax burden to a waste byproduct we don't want -- carbon pollution.

This is a video put together by Bloomberg Business last fall during the Paris climate talks.

We recognize that carbon dioxide emissions from the burning of fossil fuels are a greenhouse gas and create costs to society. Oil and gas companies don't pay those costs; taxpayers do.

In Vermont, some of those recent costs include clean up from severe weather events like Tropical Storm Irene and unemployment insurance for those out of work because there was little snow this winter.

The World Bank supports carbon pollution pricing because it can "help shift the burden for the damage back to those who are responsible for it, and who can reduce it. Instead of dictating who should reduce emissions where and how, a carbon price gives an economic signal and polluters decide for themselves whether to discontinue their polluting activity, reduce emissions, or continue polluting and pay for it. In this way, the overall environmental goal is achieved in the most flexible and least-cost way to society. The carbon price also stimulates

clean technology and market innovation, fueling new, low-carbon drivers of economic growth.”¹

Carbon pricing is a market-based strategy that has been endorsed by financial leaders and economists left, right and center. George Schultz, who served as President Nixon’s Treasury Secretary and Ronald Reagan’s Secretary of State, supports this approach.² As do Robert Reich³, who was President Clinton’s Secretary of Labor, and Senator Bernie Sanders.⁴

As a UVM economist said last month, economists who don’t support carbon pollution pricing tend to be ideologically right of Reagan or the left of Bernie.

The White House’s Fiscal Year 2017 budget includes a \$10 per barrel fee on crude oil extraction and imports.⁵ Unfortunately, Congress refuses to be briefed on any part of the President’s budget, let alone this one small component of it.

So, as is often the case, individual states must become the laboratories of democracy.

And Vermont has taken some important steps toward pricing carbon pollution.

- As a participant in RGGI, the Regional Greenhouse Gas Initiative, Vermont already puts a price on carbon emissions in our electricity sector.⁶ The work ahead lies largely in the heating and transportation sectors.
- Last summer, Governor Shumlin signed the Pan American Climate Action Statement⁷ endorsing “carbon pricing as an effective way of encouraging emission reductions.”⁸
- The Total Energy Study conducted by the Department of Public Service in 2014 examined the impact on the Vermont economy of several carbon abatement strategies, including a carbon tax shift, and found that the net economic impacts are likely to be positive – while making a significant contribution toward Vermont achieving its greenhouse gas emission reduction targets.⁹

¹ <http://www.carbonpricingleadership.org/what/>

² <http://www.wsj.com/articles/SB10001424127887323611604578396401965799658>

³ <https://www.youtube.com/watch?v=Z9OCPqzbzBk>

⁴ <http://www.sanders.senate.gov/newsroom/press-releases/sanders-introduces-bill-to-cut-carbon-emissions-80-percent>

⁵ <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/budget.pdf>

⁶ <http://www.rggi.org/>

⁷ <http://governor.vermont.gov/node/2415>

⁸ <https://news.ontario.ca/ene/en/2015/07/climate-action-statement---climate-summit-of-the-americas.html>

⁹

http://publicservice.vermont.gov/sites/dps/files/documents/Pubs_Plans_Reports/TES/TES%20FINAL%20Report%2020141208.pdf

- Last month the Vermont Council on Rural Development released its Climate Change Economy report and called for “the Vermont legislature to consider a carbon pricing system that would reduce our carbon emissions and invest in the progress of Vermont’s economy.”¹⁰
- More recently, the 2016 Vermont Comprehensive Energy Plan calls for Vermont to “work with other states and provinces in our region, building upon existing regional initiatives, to investigate and pursue options for market-based GHG emission policies....”¹¹
- That same Comprehensive Energy Plan established two goals for reductions in Vermont’s greenhouse gas (GHG):
 - 40% reduction below 1990 levels by 2030, and
 - 80% to 95% reduction below 1990 levels by 2050.

But, despite these important steps and studies, Vermont missed its 2012 target of reducing greenhouse gas emissions to 25% below 1990 levels. In fact, emissions that year were no lower than they were in 1990.¹²

As a state, we can and should be taking more steps. Pricing carbon pollution is a good next step because it can 1) create jobs, 2) cut taxes on activities we’d like to see more of, 3) address concerns of fuel poverty and 4) significantly reduce carbon pollution.

And those are the four broad goals of the Energy Independent Vermont proposal. Let me go through them each in more detail.

First, our plan will grow Vermont's economy and create jobs by keeping more of our energy dollars local.

A gradually rising price on carbon pollution will encourage Vermonters to seek alternatives and spur business activity meeting that demand. By establishing an Energy Independence Fund with 10% of the revenues that offers incentives for energy-saving investments, Vermonters will get to work weatherizing homes, installing heat pumps, and switching homes off of fossil fuels.

Over the first ten years of the program, the Energy Independence Fund could invest \$225 million into energy-savings and job creation inside Vermont.

¹⁰ <http://vtrural.org/sites/default/files/content/ClimateEconomy/ProgressForVermont.pdf>

¹¹

http://publicservice.vermont.gov/sites/dps/files/documents/Pubs_Plans_Reports/State_Plans/Comp_Energy_Plan/2015/2016CEP_ES_Final.pdf

¹² <http://digital.vpr.net/post/vermont-falls-far-short-2012-emissions-goals#stream/0>

Instead of spending a billion dollars a year importing gas and oil, we'll keep more of our energy dollars inside Vermont and use it to buy cleaner, local energy.

Our campaign commissioned Regional Economic Models, Inc. (REMI) to conduct a detailed analysis of this proposal and they estimated that a carbon pollution price of \$100/ton would create 2400 new jobs, grow the gross state product by \$100 million annually, and increase real disposable personal income by over \$150 million annually.

Second, our plan calls for lower taxes on personal income, employment and sales.

Ninety percent of the revenue raised through a price on carbon pollution is returned to Vermonters in the form of tax cuts.

- Every adult tax filer will be eligible for a personal income tax credit each year – and that credit will grow as the price on pollution slowly rises.
- Every business, non-profit and municipality will receive a per-employee tax rebate, which will also rise each year.
- And our plan cuts the state sales tax from 6% to 5%, making border businesses and every Vermont retailer more competitive with our neighboring states and with on-line retailers.

Third, this proposal addresses the issue of fuel poverty by prioritizing low-income Vermonters, ensuring that they are part of the transition away from fossil fuels and toward a clean energy future. We accomplish this by:

- Offering supplemental benefits, in addition to the other tax cuts, to those earning less than 200% of the federal poverty level, and delivering those benefits monthly
- By providing funding to the state's low-income weatherization agencies, allowing them to hire more personnel and reduce wait times
- And by reducing the sales tax, which is regressive in nature

Fourth, the Energy Independent Vermont proposal substantially reduces pollution. When adopted, our plan will reduce carbon pollution in Vermont by one third by 2040. It is not a stand-alone solution to the problem of greenhouse gas emissions, but it does make a step in the right direction.

This slide gives an overview of the revenue recycling we recommend.

- 31% for personal income tax credits to every Vermont tax filer
- 11% for supplemental low-income tax rebates

- 28% for per-employee rebates to every Vermont for-profit, non-profit and municipality
- 20% to buy down the sales tax
- 3% for low-income weatherization
- 7% for the Energy Independence Fund, and
- 0.1% for administration

99.9% of the revenue from this proposal is returned to Vermonters as tax cuts or invested in energy-saving and job-creating initiatives.

I have spent some time reviewing the macro-economic and –environmental benefits of carbon pricing, but I think it would be helpful to consider some of the household-level benefits as well, particularly for small businesses and those at the lower rungs of the economic ladder.

I have mentioned that this proposal prioritizes low-income Vermonters.

Let's look at what it means for a hypothetical family of four living in Middlesex. One parent works in Williston, the other in Montpelier. Together they earn about \$44,000 a year – below 200% of the federal poverty line. They heat their home with fuel oil and they have two cars, which they put a combined 23,000 miles on each year, and those two cars get a combined 25 miles per gallon.

Under this proposal, their tax benefits in Year One include a \$44 tax credit, a \$53 low-income tax rebate, and \$70 in avoided sales tax for a total of \$167. If they use the state average of 761 gallons of fuel oil and drive the average number of miles on each car, then they should expect to pay about \$159 in carbon pollution fees in Year One. They come out ahead by \$8 – essentially even. And that pattern holds true throughout the first decade of the program.

This proposal is not regressive. In fact, should this family raise their hand and have their home weatherized, they could cut their energy bills and their carbon pollution costs by 20% or more, and come out several thousand dollars ahead after ten years.

Every Vermont employer will receive a per-employee rebate, which will rise each year. Organizations with 20 full time employees are projected to receive over \$50,000 in rebates over the first decade – enough to weatherize several buildings and install a solar array. Larger employers with 200 FTEs would receive over half a million – which could cover a complete heating fuel switch from fossil fuels to biomass. And Vermont's largest employers with 2000 or so employees would see over \$5 million to either offset existing expenses or make upgrades to heating and transportation systems.

In addition to the per-employee rebates, Vermont employers will also enjoy the avoided cost savings from a reduction in the sales tax.

And many businesses will undoubtedly benefit from either directly from the Energy Independence Fund investments or indirectly through the economic activity the Fund generates.

After the “winter” we have had, which has meant ski areas opening late and closing early; floods in February; Burton, Mad River Glen and QBurke all laying off employees at least in part due to weather; I hope you’ll agree that the time for action is now.

But, even if you don’t share my concern about rising temperatures, I hope you will still consider this proposal because it can create jobs, cuts taxes on the things we want – income, employment and sales – and help lift many Vermonters out of poverty.

Over the next few weeks I understand you have invited several representatives of the business community and low-income advocates to share their perspective on carbon pollution pricing. Thank you for that opportunity.

In the meantime, should you have any questions, these are the members of the Energy Independent Vermont coalition: the state’s leading environmental organizations are at the table; key businesses in the energy efficiency and renewable energy fields; iconic Vermont brands such as Ben & Jerry’s and Seventh Generation; low-income advocates, like Capstone Community Action; Vermont Interfaith Power & Light; and the economists at the Gund Center at UVM.

It’s not just these organizations, however, that support carbon pricing. In the last year:

- This coalition has gathered 25,000+ postcards and petitions from Vermonters in support of the proposal
- Other large employers and iconic Vermont businesses have called for a price on carbon. This is a full page ad that ran in the Burlington Free Press in December, and it includes Burton, Sugarbush, Dynapower and King Arthur Flour among others.
- Plus, hundreds of small- and medium-sized companies have endorsed this effort. The complete list and more information about the campaign is available at www.energyindependentvt.org.

I can be reached at either thughes@energyindependentvt.org or at (802) 223-5221 x 22.

Thank you very much. I’d be happy to answer any questions.