



AB 32 Implementation Group

Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

To: California Air Resources Board Members

Fr: Dorothy Rothrock, Co-Chair
Amisha Patel, Co-Chair

AB 32 Implementation Group

Date: December 1, 2008

Re: Legislative Analyst's Office Report Regarding the AB 32's Proposed Scoping Plan

Recently California's non-partisan Legislative Analyst's Office (LAO) provided a report regarding the California Air Resources Board Proposed Scoping Plan for the implementation of AB 32. The LAO report summary concludes that a number of issues will need further assessment and study to ensure that AB 32 is implemented cost-effectively and efficiently.

In order to achieve the real greenhouse gas emission reduction goals of AB 32 and keep California's economy strong and competitive we must acknowledge and understand what the real costs will mean to California consumers and businesses, as well as, the best, most economical way to mitigate those costs.

We realize the Board intends to adopt the Proposed Scoping Plan at its December meeting; however, we strongly ask the Board to take the following issues ***[taken from the LAO report]*** under consideration as you direct CARB Staff to move into the next phase of AB 32 implementation.

As a result of our review and analysis of ARB's scoping plan and accompanying documents, we find the following:

- *The scoping plan's overall emissions reductions and purported net economic benefit are highly reliant on one measure--the Pavley regulations. Implementation of the so-called Pavley regulations on light-duty vehicle emission of GHGs (developed in accordance with Chapter 200, Statutes of 2002 [AB 1493, Pavley]) accounts for about 18 percent of the plan's emissions reductions. It also accounts for roughly 70 percent (\$11 billion) of the plan's net direct economic savings to businesses and consumers, according to ARB's documentation.*

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- *The plan's evaluation of the costs and savings of some recommended measures is inconsistent and incomplete. The plan does not reflect the costs and savings of all of the emissions reduction measures that it recommends. This is because, in some cases, ARB has intentionally excluded the costs and savings associated with certain measures, such as the "million solar roofs" program. In other cases, including the proposed cap-and-trade program, ARB has yet to develop the costs and savings associated with its measures. For one measure-- the low-carbon fuel standard--ARB acknowledges that the assumptions behind its estimates of costs and savings are weak at present, even though this measure represents a significant portion of the plan's direct costs and savings.*
- *Macroeconomic modeling results show a slight net economic benefit to the plan, but ARB failed to demonstrate the analytical rigor of its findings. Despite its findings--slight, eventual overall benefit to the economy--the macroeconomic analysis conducted by ARB provides little insight. The findings are highly dependent upon key assumptions, and ARB has not performed an analysis to determine how sensitive the macroeconomic findings are to changes in the key assumptions.*
- *Economic analysis played a limited role in development of scoping plan. It appears that ARB selected measures for inclusion in the scoping plan and then conducted its economic analysis of the plan as a whole after the fact. Selection of particular measures and the mix of measures appear not to have been directly influenced by cost-effectiveness considerations or macroeconomic analysis. In fact, ARB deemed all measures included in the plan "cost effective" simply because they reduce GHG emissions, whatever the cost.*
- *The plan fails to lay out an "investment pathway." Despite its prediction of eventual net economic benefit, the scoping plan fails to lay out an investment pathway to reach its goals for GHG emissions levels in 2020. Such a pathway would describe, year-by-year, the investments required by implementation of the plan and the timing of the economic return on those investments. This information is very important to businesses and households that would be responsible for these investments, especially in the current climate of pronounced economic uncertainty and scarce credit. In addition, because the modeling approach used provides information about how broad economic sectors would be affected, but not individual businesses and households, it cannot identify the types of disruptions certain parties could face under the proposal. For example, it is possible some businesses could lose money or go out of business. An investment pathway analysis could potentially help to identify such problems.*

The LAO report should be used as a constructive tool for CARB to identify areas that require further scrutiny and study prior to the implementation of strict command and control regulations. This will allow CARB to gain public trust as it moves to create sound public policy and allow California to reach its AB 32 goals while assuring our economy will remain strong.