AB 32 Implementation Group

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

November 4, 2008

Ms. Mary Nichols
Chair, California Air Resources Board
Via Email

Dear Ms. Nichols:

Our coalition of more than 170 organizations supports a plan to meet AB 32 greenhouse gas (GHG) emission reduction goals that will protect jobs, keep costs low for consumers, and grow the California economy. We have submitted comments on the draft Scoping Plan and appreciate improvements made in the final proposal that reflect some of those comments. However, we remain concerned that the plan is heavily weighted toward direct regulations and other recommendations that would impose significant new costs on California's households and businesses.

We are concerned that the California Air Resources Board (CARB) is likely to adopt the Scoping Plan – perhaps the most ambitious regulatory plan ever proposed – believing that it will be painless and cost free. Contrary to the findings of the Scoping Plan Economic Analysis, the Scoping Plan will, in fact, impose significant new costs on consumers and businesses. Our coalition, along with others such as the Los Angeles Economic Development Corporation (LAEDC), has submitted a critique of CARB's Scoping Plan Economic Analysis.[1] Both critiques show how the economic analysis hides the actual costs of regulations and fails to assess the impacts of the AB 32 Scoping Plan on the competitiveness of California businesses.

Moreover, the Scoping Plan asserts that venture capital is flooding into California to fund development of new green technologies and will create thousands of jobs in the state. While we would like to believe this rosy scenario, there is no assurance that any such investments will lead to new jobs in the state. In fact, it is more likely that new jobs will be located outside of the state where costs of doing business are less, tax policies favor manufacturing investment and industrial development is welcomed by public officials.

We believe it is vitally important that the Board understand and acknowledge the true costs of the Scoping Plan. The purpose of the Plan is to provide a roadmap for the regulatory process in the next two years. Adopting the Plan by year end is not the end of the job – it's just the beginning of a much more challenging phase. The Board should fully understand the potential costs, barriers and challenges ahead to better navigate around them.

For this reason, we are requesting a more accurate assessment of the potential costs of the Scoping Plan to support the Board's decision-making now and into the future. In addition, the Board should use a new economic analysis to alert other state and local policymakers about the likely costs of AB 32 compliance in order to promote other cost-reducing policies and

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[1] Comments on the Economics Analysis Supplement to the Draft Scoping Plan, Judson Jaffe and Jonathon Borck, October 21, 2008

programs. If costs become too high, and time runs out to adopt mitigating policies, public opinion will shift away from meeting AB 32 reduction goals and move toward protecting the California economy, consumers and jobs.

The following describes the specific new costs that will be imposed by the Scoping Plan, and our recommendations for CARB prior to adoption of the Scoping Plan:

Higher Taxes and Fees:

The Scoping Plan's recommendation to ultimately require a 100 percent auction system could impose hidden taxes amounting to several billion dollars a year on California companies simply to continue doing business in the state. In addition, the Scoping Plan recommends imposing an up to $500 million a year water tax. These fees would be over and above the tens of millions of dollars a year in fees that CARB will impose to pay for its AB 32 administrative costs.

Higher Electricity and Natural Gas Costs:

CARB's own Economic Analysis found that the Scoping Plan's 33 percent Renewable Portfolio Standard (RPS) will increase electricity costs by 11 percent and natural gas by 8 percent[2]. An auction system as contemplated by the Scoping Plan would increase electricity costs even more. For example, the Los Angeles Department of Water and Power (LADWP) estimates auctioning carbon permits will increase electricity costs by $700 million a year. According to the Southern California Public Power Authority (SCPPA) representing the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Glendale, Pasadena and Riverside, the cost of emission allowances would increase utility rates by 25 percent to 30 percent for some SCCPA members. These rate increases would be over and above the rate increases that will be necessary to pay for new and expanded energy efficiency programs, new low carbon resources and associated transmission capacity that will be needed for the Southern California municipal utilities to meet AB 32 GHG reduction goals.[3] And let's not forget that California's current energy costs are already some of the highest in the nation. These higher prices will make California companies less competitive and will hurt families.

Higher Transportation Fuel Costs:

The CARB analysis found that it would cost $11 billion a year to make the fuels necessary to meet the low carbon fuel standard (LCFS),[4] which would likely result in higher gasoline and diesel prices. In fact, based on past experience with California fuel formulation changes, consumers should expect far higher fuel costs resulting from the Scoping Plan.

Higher Vehicle Costs:

While there is a debate on the specific cost, there is no question that the new vehicle fuel efficiency requirements will add hundreds of dollars or more to the cost of a passenger vehicle.

Higher Housing Costs

The Scoping Plan fails to recognize that the California Energy Commission (CEC) has increased the stringency of the state's energy efficiency requirements for new homes by 50

[2] Economic Analysis Table IV-2, page IV-3

[3] Southern California Public Power Authority, Comments on the Market Advisory Committee Draft Recommendations, June 11, 2007. Page 10.

[4] Economic Analysis page I-6

percent in the past seven years alone. This is over and above California's already strict energy efficiency standards. These existing requirements will add thousands of dollars to the cost of a new home. The Scoping Plan's goals for requiring even stricter energy efficiency standards for new home construction are unrealistic and will not be cost effective. For example, the Scoping Plan's zero net energy requirements would be difficult if not impossible to achieve. In a study by the National Renewable Energy Laboratory (NREL) for the Sacramento Municipal Utility District, the cost of complying with zero net energy requirements was estimated to be $50,000 or more to the cost of a new home (2500 square feet) in California.[5] Such a cost increase would have a staggering effect on the ability of California families to afford a new home.

Higher Commercial/Industrial Building Costs

Zero Net Energy (ZNE) requirements for new commercial and industrial buildings are unrealistic and technologically impossible for many commercial and industrial structures. If mandated, it would essentially require these facilities to produce on-site power generators which would be unjustifiably expensive. Time of sale retrofit requirements for existing commercial buildings would worsen the state's already difficult real estate market. Retrofits are doubly capital intensive because they not only require investment for the cost of retrofitting, but usually halt or severely curtail a building owner's revenue stream by rendering the building unusable during retrofit work.

Proceed with Prudence and Caution

Now more than ever, it's important for CARB to avoid policies that will increase costs and adopt those that reduce GHG emissions at the lowest possible cost. Many California companies are hurting badly from the sluggish economy and the increasing cost for fuel, food and energy. The potential cost increases resulting from the Scoping Plan could dramatically worsen these difficult times.

CARB's analysis relies heavily on long-term increased energy efficiencies. However, without a near-term analysis of the initial investment in new appliances, electronics, equipment, and vehicles necessary to capture those long-term energy efficiencies are unknown, and any benefits are speculative. If businesses and households are unable to make these investments in the current economy and the tight credit market, they may face only the increased energy costs without realizing the promised efficiency benefits.

CARB should note that even the European Union (EU) is taking a more cautious approach to climate change policy because several of their member states are concerned that meeting the EU's goal of reducing GHG emissions 20 percent by 2020 would be too expensive, cause economic turmoil and would increase unemployment. A recent EU Summit amended its climate change policy to require a comprehensive cost-effectiveness analysis before any binding climate laws are enacted. The EU amendment also requires that climate change policies must be cost-effective to all sectors of the economy.

We offer the following specific recommendations for how CARB should proceed:

- The Scoping Plan continues to minimize the use of the lowest cost strategies to reduce GHG emissions including cap-and-trade and more broad-based use of offsets. Given the difficult financial climate, it's vitally important that CARB use these lower cost options instead of moving forward on traditional command and control regulations. Specifically,

[5] National Renewable Energy Laboratory presentation September 10, 2007.

CARB should place higher priority on evaluating the relative cost of alternative approaches to achieving AB 32 emission reduction targets. In particular, research should focus on quantifying how more reliance on cap-and-trade and offset programs could reduce the costs of implementing AB 32.

- Before proceeding with specific climate change regulations, CARB should acknowledge that AB 32 will impose new costs on California consumers and conduct a more balanced economic analysis that realistically estimates the increased energy costs for companies and consumers. In the real world, energy price hikes resulting from AB 32 will adversely impact the competitiveness of California businesses relative to out-of-state competitors. The most energy intensive businesses in this state, most of whom are already very energy efficient, will be put at a further competitive disadvantage by increasing already higher than average energy costs. The consequences of higher energy costs deserve a much more rigorous analysis to fully inform the Board about the consequences of going forward with regulations implementing AB 32.

- Before proceeding with implementation of the Scoping Plan, CARB should undertake an analysis of the cumulative impact on California companies of the environmental regulations they must comply with. Particularly in the transportation sector, companies are attempting to comply with a host of new very costly regulations including on-and-off-road heavy-duty vehicle regulations. Decision-makers should understand the overall impact of these regulations on the competitiveness of California companies before adding a whole new set of costly regulations.

- Before moving forward with individual measures, CARB should not only analyze the cost-effectiveness, but should report on how these measures will impact the competitiveness of California businesses. In addition, Board Members should also be provided information about the cumulative costs of these measures on California companies, including both near-and-long-term costs.

If you have any questions or need further information, please feel free to contact us.

Sincerely,

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