Proposed AB 32 Cost of Implementation Fee Regulation and Proposed Amendment to the Mandatory Reporting of Greenhouse Gas Emissions Regulation

California Air Resources Board
September 25, 2009
Diamond Bar

Why Is This Fee Needed?

- Climate change is a major new program
- Continuous funding source needed to implement AB 32
- No dedicated funding source exists for AB 32
- Program start-up funded through loans, redirected positions/resources, and unsustainable revenue shifts

Regulation Development

- Three workshops held during initial regulation development
- Board considered Fee regulation in June, 2009
  - Item continued
- Extended public comment period
- Staff continued to work with stakeholders
  - Held additional workshop in August

AB32 Cost of Implementation Fee Regulation

Staff Proposal

Overview

- Establish regulatory fee to fund cost of implementing AB 32
  - Assess annual fee on greenhouse gas emissions
  - Use revenue for State implementation costs
- Amend the Mandatory Reporting Regulation
  - Require use of electronic reporting tool

Fee Approach

- Fee assessed on greenhouse gas emissions
- 85% coverage of California's greenhouse gas emissions
- Upstream point of regulation
- Limited number of fee payers
- Administratively feasible

Affected Entities Staff Proposal

- Approximately 350 fee payers:
  - Large natural gas distributors and large users of natural gas
  - Producers/importers of gasoline/diesel fuel
  - Facilities that combust coal and petroleum coke
  - Refineries
  - Cement manufacturers
  - Electricity importers and instate generating facilities

Proposed AB 32 Cost of Implementation Fee Regulation

Proposed Modifications

Proposed Changes Since June

- Shift electricity to “first deliverer”
- Change from spring to fall billing
- Begin fee collection in fiscal year 2010/2011

Electricity

Shift to a "First Deliverer" approach

- Equal treatment of all electricity deliverers
  - Covers electricity when it is delivered to the California grid
- Based on mega-watt hours of electricity delivered
- Fees remain on fuels for cogeneration
- Accounts for natural gas used in electricity generation
- Small facilities exempt from Mandatory Reporting would not pay the fee

Annual Billing Cycle

- Change annual collection period from spring to fall
- Provides better alignment with State fiscal year
- Fees would be determined after the Budget sets Revenue Requirement

Initial Collection

- ARB to collect initial Fee in fiscal year 2010/2011
- 2009/2010 fiscal year funding to come from $35M BCRF loan
- Loans from fiscal years 2007/2008 and 2008/2009 will continue to accrue interest
- Additional principal and interest will increase the Required Revenue amount the first years of the program

Other Requested Changes

- Point of regulation for transportation
- Fee determination methodology
- Net electricity imports

Revised Fee Estimates

Start-up Costs

2007/2008 Fiscal Year

$ 8.5M Air Pollution Control Fund (no repayment required)
$15.2M Loan from Motor Vehicle Account (ARB)
$ 0.3M Loan from Motor Vehicle Account (Cal/EPA)

2008/2009 Fiscal Year

$ 32.0M Loan from Beverage Container Recycling Fund
(ARB and Cal/EPA)

2009/2010 Fiscal Year

$ 35.0M Loan from Beverage Container Recycling Fund
(ARB and Cal/EPA)

Revised Total Revenue Required

Total Revenue Required (TRR) =
Annual Program Costs + Debt + Annual Adjustment

Preliminary TRR for 2010/2011 = $63.1 Million

- Program cost = $36.2 Million*
- Debt repayment = $26.9 Million

Actual program costs for FY 2010/2011 depend on approved State Budget

*Current estimates are based on FY 2009/2010 Budget

Revised Sector-Specific Fee Estimates

Emissions Source	Emissions (Million $MTCO_2E$)	Estimated Fee (Million)	Share of Costs by Emissions Source (%)
Petroleum Coke	5.1	*$0.8*	1.3
Catalyst Coke	6.1	*$1.0*	1.6
Refinery Gas	17.1	*$2.7*	4.3
Gasoline	136.6	*$21.6*	34.2
Diesel	41.7	*$6.6*	10.5
Natural Gas (Excluding Electrical Generation)	92.6	*$14.6*	23.1
Associated Gas	3.2	*$0.5*	0.8
Cement Process	5.8	*$0.9*	1.4
Coal	7.5	*$1.2*	1.9
Electricity (in-state and imported)	83.8	*$13.2*	20.9
Total	**399.5**	***$63.1***	**100.0**

Note: Fee Based on TRR of $63.1 M
Emissions data from 2006 ARB Emissions Inventory, using , all other entries based on ARB calculations.

Costs per Unit Product

Preliminary (FY 10-11)

Product	Program Cost ($)	Units
Natural Gas	0.00084	Therm
Gasoline/ Diesel	0.0014/0.0016	Gallon
Cement Manufacturers (Not including fuel cost)	0.082	Ton
Electricity	0.085	MWh
Coal	0.33	Short ton
Common Carbon Cost	0.155	$MTCO_2E$

Economic Impacts

Businesses:

• Family restaurant	$17/year
• 100 person office	$9/year
• Full-service grocery store	$120/year

Households:

• Natural gas and electricity	$0.77/year
• Vehicle use	$0.80/year

- Per vehicle at 15,000mile/year and 30 mpg

Updated Timeline

September 2009	Board Hearing to consider revised regulation
Fall 2009	Notice 15-Day changes to regulation
Winter 2009	Final regulatory package submitted to Office of Administrative Law
Spring 2010	Regulation becomes effective
Fall 2010	ARB sends invoices

Recommendation

- Approve staff proposal with recommended regulatory changes