

AB 32
Economic Impact Assessment

Duties:

- Offer ongoing input to ARB staff
- Provide commentary on updated report (appears as appendix)

Bottom line assessment:

- Solid study
- Imperfect, but no obvious overall bias
- Therefore provides useful information and should help refine expectations

ARB's Bottom line result:

- AB 32 will reduce CA income by roughly 0 to 1½ percent in 2020 (smaller impact in earlier years)
- Not strikingly different from results from other well-constructed models

Strengths and Weaknesses

Strengths:

- Close attention to details of energy supply and demand
- Careful work to produce useful reference (business-as-usual) case
- Useful sensitivity analysis to isolate contributions of various components of AB 32
- Detailed attention to nature of “complementary policies” and their relationship to cap and trade

Weaknesses:

- Absence of technological change
- Lack of attention to emissions leakage
- Optimism re costs of some complementary policies (vehicle-miles-traveled reductions)
- No attention to allowance allocation design and associated cost-impacts
- Little attention to macro effects in years other than 2020

Should We Trust These Results over Those in
Other Models?

Comparison of 2020 Impacts

	allowance price (central case)	emissions reduction	gross state product (% change)	cost per household
ARB (Energy 2020 / E-DRAM)	\$25	25%	-.2 to -1.4	\$105 to \$738
CRA International	\$53	25%	-1.4 to -2.2	\$731 to \$1,159
IGEM / ADAGE (Waxman-Markey HR 2454)	\$18	17%	-.3 to -.7	\$80-\$146
Tanton	\$60	25%	-2.0	\$1,054

Reasons for Differences

CRA Study: More pessimistic regarding potential of “complementary policies”

Tanton Study:

- No fuel-substitutions, no technological change
- Focuses on \$60/ton allowance price for entire 2012-2020 interval (certainly too high for early years; potentially too high for 2020)
- Much discussion erroneously equates allowance value with cost
- Misleadingly suggests costs are due to auctioning
 - In general, price impacts are same under auctioning as under free provision
 - Consumers likely to face lower costs under auctioning
 - Economy wide costs potentially lower under auctioning (perhaps \$1-\$4 billion less in 2020)

Final Comments

Economic impacts assessment provides useful insights

- ARB employed good data, reasonable parameters, and the modeling framework is useful

Additional investments in model improvements and sensitivity analysis seem warranted

ARB needs more staff for modeling work – particularly for economic analysis