California Independent Oil Marketers Association

3835 North Freeway Blvd., Suite 240

Sacramento, CA 95834-1955

916.646.5999

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The Honorable Mary Nichols

California Air Resource Board

Re: CIOMA Comments Regarding the California Air Resource Board’s Proposed Amendments to Cap-and-Trade Program – Price Ceiling

The California Independent Oil Marketers Association (CIOMA) represents about 300 members, including nearly 90% of all the independent petroleum marketers in the state and about one quarter of the state’s 10,000 service stations. Our members are small, family- and minority-owned businesses that provide services to nearly every family in California. Additionally, CIOMA members fuel local governments, law enforcement, city and county fire departments, ambulances/emergency vehicles, school district bus fleets, construction firms, marinas, public and private transit companies, hospital emergency generators, trucking fleets, independent fuel retailers (small chains and mom-and-pop gas stations) and California agriculture, among many others.  CIOMA appreciates ARB’s consideration of our comments on the proposed price ceiling for the Cap-and-Trade Program.

**AB398 Intends to Reduce Potential for Market Volatility**

California’s cap-and-trade program is designed to result in increased compliance costs as the cap declines over the next several years. Higher compliance costs have the potential to negatively impact consumers, especially if no limit exists on how high those costs can escalate. In order to help guard against negative impacts, the Legislature wisely determined that AB398 should include language which directs CARB to create a cost containment mechanism. Such a cost containment mechanism helps safeguard constituents and the economy.

AB398 directs that the cost containment mechanism should include two price containment points – speed bumps – which, if reached, would trigger additional allowances to be sold at a set price. These speed bumps are intended to help ease any panic in the market in the event of a run-up in prices. In order to protect consumers and the economy, AB398 also intended to set a price ceiling in the program in order to keep the price of allowances in check, helping to ensure they would not escalate beyond a certain point. Having such a mechanism to guard against market volatility is vital for the health and sustainability of California’s cap-and-trade program.

***CARB Proposed Price Ceiling Does Not Meet Spirit of AB398***

On February 23, 2018, CARB staff released a draft concept paper describing its initial thinking on the price ceiling mechanism, including placement of speed bumps. According to the concept paper, CARB staff have proposed that the price level of the first speed bump should be placed at $82 (2021), and the ultimate price ceiling is proposed to be set somewhere in the range of $91-$165 starting in 2021. By 2030, the price ceiling would increase to a range of $109-$198 (assuming an annual two percent inflation rate.)

The proposed price ceiling mechanism is problematic for several reasons. First, setting the initial price containment point (the first speed bump) at $70 means that, barring emergency action by the Governor, the program would have no built-in safety mechanism that would be triggered prior to that point. This leaves the program – and ultimately consumers – unnecessarily vulnerable to potential market volatility.

Second, a price ceiling in the range of $91-$165 (2021) translates to roughly $0.91-$1.65 per gallon in additional cost for consumers at the pump. By 2030, a range of $109-$198 would translate to roughly $1.09-$1.98 per gallon in additional cost for consumers at the pump. This would have a devastating impact on California families and businesses.

Finally, by proposing such high price containment points (speed bumps) and price ceiling, CARB misses the opportunity to put real safeguards in place that could reduce the potential for market volatility and ultimately help protect consumers. CARB’s proposal does not meet the spirit of AB398.

**Effects on CIOMA Members**

The proposed amendments to the Cap-and-Trade program present large potential challenges for CIOMA members that distribute fuel to communities around California. Gasoline and diesel are one of the few commodities that include taxes in the price presented to consumers, leading the general public to believe fuel marketers and retail gas stations are making a quick buck at their expense. This could not be further from the truth. As regulatory costs such as LCFS and Cap-and-Trade increase, prices at the pump can skyrocket, with the costs carried by marketers and retail station owners. These costs are passed through to the consumer with the hope that they will continue to purchase fuel at these higher prices. The thin margins these family and minority owned small businesses remain the same or decrease as Californians purchase less fuel at an artificially inflated price. It is paramount that California protect the end consumer, as well as these businesses that drive our economy, by limiting market volatility, which is the intended purpose of AB 398. **CARB should determine “speed bumps” and price ceilings low enough ensure these small businesses are not driven out of business as they are the only providers of fuel to California’s families.** If the ceilings are set too high, CARB cannot achieve the directed effects of the Legislature.

**Effects on the Consumer and California’s Economy**

**Most importantly, this price ceiling could have negative effects on the residents of California and the 6th largest economy in the world. Adding more than a dollar and a half to each gallon of fuel decreases the amount California’s families can spend on groceries, essential household goods, and severely limit their spending on entertainment and consumer goods that drives our economy.** Even a $0.70 increase that could happen before hitting the “speed bump” would change the spending habits of the average Californian. Families would cut out non-essential driving, such as vacations or day trips which has further effects on California’s tourist economy.

**Increased Burden to State and Local Agencies**

Crumbling roads are a serious problem for drivers and businesses in this state, higher fuel prices mean less fuel sold and fewer taxes collected. The SB1 transportation projects will not be supported if fuel prices spike, further stretching California’s budget.

Police and fire departments, the postal service, local governments, and school districts would all see increased operating costs due to rising fuel prices. Many of these entities already have budget problems due to large overhead and the increased market risk would amplify these issues.

CIOMA is grateful for the opportunity to provide comments on these proposed amendments to the Cap-and-Trade program. Please contact Sam Bayless with any questions at bayless@cioma.com.