Testimony
of
Lee Harrington
Executive Director
Southern California Leadership Council
before the
California Air Resources Board
Sacramento Hearing
November 20, 2008
AB 32 Proposed Scoping Plan

The Center of Economic Development

444 South Flower Street • 34th Floor • Los Angeles • CA 90071 • Tel: (213) 622-4300 • Fax: (213) 622-7100

Southern California Leadership Council

The Southern California Leadership Council (SCLC) is a business-led and sponsored public private partnership for the Southern California region. The Council is comprised of top business leaders from throughout our seven counties, joined by our former Governors to help enable public sector officials, policy makers and other civic leaders address and solve public policy issues critical to the mega region's economic vitality and quality of life.

SCLC is committed to supporting a sustainable, economically efficient achievement of AB 32's global warming goals.

The California Air Resources Board (ARB) is well known for its expertise in the science and regulation of air quality. However, the ARB's mandate under AB 32 is even more diverse and challenging to"...design emissions reduction measures to meet the statewide emissions limits for greenhouse gasses...in a manner that **minimizes costs and maximizes benefits for California's economy**, improves and modernizes California's energy infrastructure and maintains electric system reliability, **maximizes additional** environmental and **economic co-benefits** for California, and complements the state's efforts to improve air quality" (emphasis added). This is no easy undertaking and failure is not an option.

Why are minimizing costs and maximizing economic co-benefits so critical to the success of California's global warming efforts? Because without harnessing the necessary economic forces we will not be able to fund these modernization efforts, and without preserving our economic competitiveness, other nations so critical to **global** success like China and India will not follow our lead. California is small piece of the effort, but successful (or unsuccessful) leadership can have profound local and world wide consequences.

California's current fiscal crisis is a telling example of what happens when an economy contracts rather than grows. Our AB 32 efforts must not destroy our economic competitiveness in national and global markets. For example, business flight by energy intensive industries to other states or countries to avoid California's emission regulations would result both in a loss of jobs and tax revenues to the state, and a failure to achieve the targeted greenhouse gas reductions globally.

This is why the SCLC, as a regional public policy organization has so painstakingly attempted to assist ARB in the development of its economic modeling efforts. We have provided ARB two separate studies by the Los Angeles County Economic Development Corporation (LAEDC), recognized as "the Good Housekeeping Seal of Approval" by California policymakers concerned about economic impacts and implications.

In the LAEDC's January 2008 report, *The AB 32 Challenge: Reducing California's Greenhouse Gas Emissions*, the LAEDC reviewed a diverse range of economic studies focused on the potential costs of greenhouse gas initiatives and concluded the following:

- "Reductions will not be easy, since the state's economy is already comparatively energy efficient. Californians used an average of 7,400 kilowatts per person in 2005, compared to national average per capita electricity consumption of almost 13,000 kilowatts."
- "Globally, California would rank 18th in total emissions if it were a separate country. The state ranks near the top among the most efficient developed economies, alongside France and Italy, for the fewest GHG emissions per $1,000 GDP."
- "Statewide, firms in sectors that are among the largest sources of GHG emissions employ 2.6 million workers and contribute $272.5 billion to the state's total economic output (valued at $1.46 trillion)", and "Statewide the direct and indirect firms in all GHG-related industries collectively employ almost 8.0 million workers, or 49% of California's total of 16.4 million employees."
- "The LAEDC believes that reaching the state's GHG reduction targets will impose costs on the state in terms of lost jobs and reduced economic output. This will be particularly true for the more stringent 2050 target that requires a drop of 80 percent below 1990 emission levels, despite the addition of millions of new residents."

The LAEDC concluded: "Some policies will surely generate more in savings than they will cost in implementation, but overall greenhouse gas reduction is **likely to be a burden on the California economy**. The price may be worth paying, but designing good policy must start with the pragmatic acknowledgement that meeting the AB 32 targets will create winners and losers." For example, the City of Los Angeles derives 50% of its power from coal-fired generation. Replacing this cheap yet dirty power with cleaner and renewable sources, as now mandated by state law, will cause the power bills of the City's residents and businesses to rise. Accordingly, based on these findings, the LAEDC concluded: **"Policy makers should be wary of promises that greenhouse gas reduction programs can be implemented without substantial cost to the economy"** (emphasis added).

Unfortunately, ARB's Proposed Scoping Plan ignores the LAEDC study, uses the "business as usual" base case rejected by the LAEDC, and concludes in its Economic Analysis Supplement that AB 32 will result in "overall positive economic impacts, including personal income, per capita income and job growth in California in 2020."

ARB's economic analysis not only contradicts the work of the LAEDC, it also embodies the fatal flaws in assumptions which the highly respected California Energy Commission warns against in its Draft 2008 Integrated Energy Policy Report update:

> "It is imperative that energy forecasters and program analysts refine and improve methods to quantity energy efficiency and conservation inputs to yield reliable results, **while also accounting for processes already at work in the market**" (emphasis added) (pp 39-40).

These overlapping effects or "double counting" concerns caused the California Public Utilities Commission to apply an overlap factor as much as 80-100% in recent PG&E, SCE and SDG&E energy demand forecast proceedings (p. 45).

A review by the LAEDC of ARB's Economic Impact Analysis concluded: "The LAEDC is satisfied that the model adopted by CARB is a reasonable one for estimating the economic impact of greenhouse gas legislation. **We are concerned, however, that some of the key assumptions are unrealistic, which may be contributing to an overstatement of the potential benefits of implementing AB 32**" (emphasis added). The review goes on to recommend a modified approach which considers a range of possible outcomes.

Why is this so important? Because the current ARB Economic Analysis is like a set of "**economic blinders**" on ARB's critical mandate to **balance** costs and economic impacts with regulatory alternatives to achieve the most cost effective reductions in greenhouse gasses. If ARB is mistakenly convinced the economic consequences are decidedly positive overall in making their choices, unexpected and unintended economic outcomes may undermine California's global leadership efforts, sending other emerging economies packing to avoid similar uncompetitive consequences.

California's AB 32 success also depends upon the continuing support of its people. Properly educated about AB 32's challenges and solutions, California can achieve its global warming goals. Public surprises along the way need to be avoided to avoid public outcry and stay the course and public measurements of success will depend upon what promises were made by public policy makers at the outset.

As a policy matter it is advisable to prepare Californians for likely cost impacts while developing and implementing our AB 32 program in as smart and cost effective manner as possible. The people of California are better served and more likely to provide ongoing support for the AB 32 program with such an understanding of the possible cost consequences. If we do our job well and achieve lower cost impacts, the public will be pleasantly gratified.

In conclusion SCLC believes it is advisable to reissue a revised Economic Impact Analysis in keeping with LAEDC's recommendations. Whether or not ARB heeds this advice, SCLC recommends that ARB create an ongoing "economic monitoring" program which can provide early warning and an ability to modify regulations to better achieve cost effectiveness and improved economic outcomes. The economic risks of AB 32 regulation are very real and ARB must be ever vigilant in its efforts to minimize potentially damaging economic impacts.

SCLC also believes that ARB should work with other state agencies like Business, Transportation and Housing to create a targeted economic development strategy to both incent R&D efforts in the state as well as attract green technology enterprise to California. In light of California's unfortunate business climate reputation, there is no guarantee that green business and jobs will flock here just because we are a leader in global warming efforts. Without a focused business attraction and retention effort, the green workforce training strategies embodied in the Proposed Scoping Plan will fall short due to the lack of a necessary job creation nexus. SCLC stands ready to support such economic development efforts and remains committed to a sustainable, economically efficient achievement of California's AB 32 goals.