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[Draft Report Assesses Financial and Economic Costs of AB 32](#)

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California entities that emit greenhouse gases could pay between \$48 billion and \$143 billion between 2012 and 2020 as part of the implementation of AB 32, according to [a draft report by the California Economic and Allocation Advisory Committee](#).

The report, *Allocating Emissions Allowances under California's Cap-and-Trade Program*, takes a somewhat dimmer view of the impact of the landmark legislation, which seeks to reduce greenhouse gas emissions to 1990 levels by 2020, than its champions like Gov. Arnold Schwarzenegger who signed the measure in 2006.

"Climate policy can ... place burdens on consumers: such policy can be expected to raise the price of fuels and these price increases will be reflected in higher prices of consumer goods," the report says.

Among the committee's ideas for using some of the money polluters will pay to reduce emissions are: helping businesses whose profits suffer from AB 32 implementation, aiding displaced workers and offering subsidies to low-income households whose "purchases of energy-intensive goods and services represent an especially large share of the household budget."

Another possible use for the money, which the committee calls "allowance value," is to cut sales or income.

Created in May, the advisory committee to the California Air Resources Board was charged with examining the economic impact of implementing AB 32 and suggesting possible uses for the revenue collected under the legislation.

"Among other tasks, you must carefully consider various options for freely distributing or auctioning allowances potentially worth billions of dollars and, if auctioned, for distributing or deploying auction revenues," the GOP governor said in a May 25 welcoming letter to the committee members.

"There is one idea in particular I would like you to explore among other options: the concept of returning the value of allowances back to the people, including through an auction of allowances and distribution of auction proceeds in the form of a rebate or dividend in order to minimize the cost to California consumers and maximize the benefits to the state's economy."

The centerpiece of AB 32 is its so-called cap-and-trade system in which polluters buy and sell allowances, which grant them the right to emit a certain amount of greenhouse gases, usually measured by the metric ton.

Under the system, a finite number of allowances will be given to polluters by the state either for at no charge, through an auction or a combination of both.

After that, the marketplace takes over. One greenhouse gas emitter might determine that the cost of lowering its emissions to AB 32 levels is prohibitive and a cheaper alternative would be to buy additional allowances to continue polluting at the same level.

For other polluters the costs of hitting AB 32's targets might be cheaper than the market price for an allowance causing that entity to sell some of its allowances. Reducing the number of its allowances, by necessity, causes that entity to lower its emissions accordingly.

As part of its deliberations, the advisory committee tried to determine how much revenue would be generated by the selling or trading of these allowances.

Estimates of what an allowance would cost in 2020, when AB 32 is fully implemented, vary widely.

The lowest was \$10, the air board's estimate in its [Scoping Plan for AB 32](#), approved in December 2008. The advisory committee notes, however, that the air board did not include in its price estimate other policy changes on which meeting AB 32's targets is premised. Among them is one-third of the state's power coming from renewable sources by 2020. That has a cost of \$133 per metric ton, the report notes.

[*\(More on the Scoping Plan.\)*](#)

Other studies using different methodologies and fact sets cited by the advisory committee estimated the cost of an allowance to range from \$60 to \$100, from \$8 to \$213 and from \$21 to \$127.

In the end, the advisory committee used the estimate given to it by the California Environmental Protection Agency and the air board.

"Despite the differences in approaches and assumptions used in the studies, the review of allowance price estimates shows that allowance prices are most often estimated to be in the range of roughly \$20 to \$60 per metric ton of emissions in 2020," the two agencies said in a memorandum to the advisory committee.

So, for example, Alstyle Apparel, an Anaheim clothing maker, reported to the state emitting 27,000 metric tons of carbon dioxide in 2008.

In the cap-and-trade marketplace, Alstyle would need to buy 27,000 allowances to maintain the same level of emissions. With a range of \$20 to \$60 per allowance, the company would pay a minimum of \$540,000 and a maximum of \$1.6 million.

ConocoPhillip's plant in Wilmington reported releasing 2 million metric tons of carbon dioxide in 2008. It would need to spend between \$40 million and \$120 million to continue its present emissions.

Using the allowance price range given to it, the advisory committee predicted the total "allowance value" – number of allowances multiplied by price – for 2012 through 2020. The low total was \$48 billion, the high \$143 billion.

After establishing the universe of money generated by AB 32, the advisory committee spends the final 20 pages of its draft report suggesting ways to spend it.

One possibility the advisory committee offers is the governor's "dividend."

"(A) potential use of allowance value is to provide the general public a 'dividend' related to the public's having granted firms the right to make use of the waste disposal services of the atmosphere through their emissions," the committee writes.

"If the general public is viewed as having ownership of these climate regulating services, then it might seem appropriate to devote allowance value to the general public."

Or sales and income taxes, which the committee says retard business growth, could be reduced. An investment tax credit created. Government financial support of cleaner production processes or subsidies to encourage lower emission technologies could also be financed through the allowance value, the draft report says. So could job training and education.

A key use of allowance revenue would be to help businesses that suffer from the state's climate change policy.

"Some firms are likely to experience a reduction in profits as a result of AB 32," the draft report says. "This burden depends on the extent to which costs rise and the extent to which firms can pass these cost increases forward to consumers."

Adverse effects from AB 32 will not just be felt by business owners but workers as well, the committee says.

"Employees also worry that their firms will shrink or close down their California operations to reduce or avoid these impacts."

The committee says "fairness considerations suggest" a part of the allowance value be used to help "the workers most severely impacted by AB 32."

Another possible recipient of largesse is consumers because reducing greenhouse gas emissions will increase their energy costs.

“California households will face higher prices directly for electricity, natural gas, and gasoline, and indirectly as businesses pass costs for (greenhouse gas) reduction on to consumers.”

And, the draft report notes, those energy cost increases will hit low-income households harder.

“A larger fraction of the budget of low-income households is spent on relatively carbon-intensive goods (such as household fuels), whereas upper-income households generally spend a larger fraction on other goods and services,” the report says.

On the last page of the report, the committee weighs the spending possibilities against the language contained in AB 32 and finds support for public transit, aid for disadvantaged communities to help them reduce emissions and encouraging regional plans to ratchet down emissions to dovetail most neatly with the legislation’s stated goals.