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LAO criticizes key fiscal points in greenhouse plan

By John Howard

California's attempt to curb climate-changing greenhouse gases has been targeted in a sharply worded analysis by the Legislature's nonpartisan fiscal adviser, who says the plan relies in part on incomplete data and provides dubious analyses of the cost-savings associated with the proposal.

The Air Resources Board, which crafted the plan, questioned the findings of the Legislative Analyst's Office, noting in part that the LAO's own inquiries did not go deeply enough into a complex and sensitive subject. The proposal, known in the bureaucracy as a "scoping plan," is scheduled to be approved this month by the ARB. It is the foundation of California's 2006 law to curb carbon emissions, and it will serve as a template for regulations – to be drawn up by the ARB next year – to enforce the new law. The law, AB 32, requires California to cut greenhouse gases to 1990 levels by 2020.

The scoping plan has been the subject of a myriad of exhaustive hearings and thousands of pages of critical and supportive testimony across the state.

But the LAO's analysis, provided initially to the lawmaker who sought the study, Assemblyman Roger Niello, R-Sacramento, is unusual in that it aggressively raises questions about the financial underpinning of the implementation of AB 32 – an especially controversial topic as the state's economy weakens. The LAO's core finding: The ARB analyses are, in some cases, incomplete at best.

The LAO's assessment was contained in a 24-page letter dated Nov. 17 to Niello who sought the analysis after questions arose about the economic impact of the plan. Niello, an opponent of AB 32, said he was skeptical of the plan "primarily because of the increased proclamations I was hearing from the governor's office and other places that AB 32 was going to be a huge economic stimulus. From a common-sense standpoint, I wondered about that. I was very concerned that the ARB might move forward with the assumption that it (AB 32) wouldn't cost us any money."

The LAO's findings found support from business and industry critics of the greenhouse gas law. They contend, like Niello, that the proposal hasn't been well thought out and could cripple the state's economy by hamstringing industry.

"We agree with a lot of the LAO's findings, which correspond with our concerns," said Shelly Sullivan, a spokeswoman for the AB 32 Implementation Group, a coalition of businesses.

Many scientists believe that climate-changing greenhouse gases have increased globally since the industrial revolution and are attributable in part to human activity. The single largest producer of greenhouse gases is China, with an estimated 6,200 megatons annually, followed by the U.S., with 5,800 megatons, according to the Environmental Assessment Agency in the Netherlands.

In the U.S., the ARB – even though it is a state agency and not a federal one – is considered the nation’s top air-quality regulator, with most of the industrialized states following its lead. The ARB is the lead agency responsible for putting AB 32 into effect. The bill originally was authored by then-Assemblywoman Fran Pavley, D-Agoura Hills, and signed by Gov. Schwarzenegger in 2006. The law has since become the crown jewel of the Schwarzenegger administration’s environmental strategy.

The LAO’s analysis criticized the scoping plan on several levels, mostly economic, and noted that the ARB failed to provide documentation to the LAO, which had sought the material for its review. The ARB said that data was not available.

The Legislative Analyst said the ARB’s “evaluation of the costs and savings of some recommended measures is inconsistent and incomplete... For one measure, the low-carbon fuel standard, ARB acknowledges that the assumptions behinds its estimates of cost savings are weak at present, even though this measure represents a significant portion of the plan’s direct costs and savings.”

But the ARB contends that some programs – the so-called million solar roofs, ship electrification and high-speed rail, for example – were “correctly excluded from the (ARB) analyses because these measures are not intended in substantial part to address issues other than climate change, and therefore it is not appropriate to attribute either their costs or savings to AB 32.”

The LAO also said ARB’s economic analyses, among other things, show “a lack of analytical rigor in the macroeconomic modeling,” and failed to lay out an “investment pathway” for the new greenhouse gas law. “The scoping plan documents, including the figures that illustrate the emissions reductions, costs and savings associated with the scoping plan measures, include no cost or savings data for the program. This is yet another weakness in the economic analysis accompanying the proposed scoping plan.”

The ARB rejected those contentions, saying its macroeconomic analysis “was intended to determine the overall economic effect of the recommendations, not to select specific measures to include or exclude from the plan.” The ARB added that further analyses would be conducted on each segment of the new law.

On the investment pathway, the ARB noted that it’s not “government’s responsibility to pre-script investments that will be induced by AB32,” and said savings under the program will reach \$3 billion annually after 2014.

But Niello, who sought the study in the first place, is not persuaded by the ARB’s financial projections, noting that the board is an air regulator not a predictor of economic trends.

“They (the LAO) came back with conclusions that challenge the ARB’s scoping plan,” he said. “My conclusion from the LAO’s study is that the ARB scoping plan is fundamentally flawed with potentially inappropriate conclusions and potentially leading us in a direction that could be much more damaging than might be perceived.