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## State's Cap-and-Trade Plan Comes With Hefty Price

By Tom Tanton

I recently completed a study to estimate the costs of California's proposed cap-and-trade auction tax that would result from AB 32, California's Global Warming Solutions Act.

An auction tax is one of the proposed methods for allocating permits to California companies and public agencies subject to the AB 32 cap-and-trade program being developed by the California Air Resources Board. In an auction system for allocating greenhouse gas permits, the air board would hold an auction between cap-and-trade participants to determine the price of emission permits. Entities would then have to purchase permits, every year, equal to every ton of greenhouse gas emissions they generate. In practice, these auction costs on companies and agencies would function much like a direct tax because, in order to operate, they would be required to purchase these permits.

Here are a few examples of what individual companies and public agencies would have to pay under a cap-and-trade program using 100 percent auctions at a price of \$60 per ton:

- AES Alamitos LLC, the electricity generator in Long Beach, would pay \$86.6 million in the first year. In 10 years, the cost would be \$866 million.
- The Los Angeles Department of Water and Power would pay \$246 million a year for its electricity generation facilities in California alone, and nearly \$2.5 billion in 10 years.
- UCLA would pay nearly \$11 million a year in AB 32 auction taxes.
- An L.A. brewery would face AB 32 auction tax costs of \$45 million over 10 years.

My study went on to estimate what the overall economic impact of this AB 32 Auction Tax would be on the state. Specifically, it would increase basic household costs by \$818 to more than \$9,300 per year for a family. These cost increases would harm low-income families the most. These higher costs would lead to job losses in the range of 76,000 per year to more than 1.6 million a year, depending upon the rate of the new auction tax. There would be a loss of economic activity of nearly 2 percent of gross state product or about \$250 billion to \$350 billion over 10 years.

My study focused on just one of the more than 70 AB 32 regulations either approved or under consideration by the air board. Other studies by government agencies and private economists have confirmed the magnitude of my findings:

- AB 32 would increase electricity rates by 30 percent to 60 percent according to the Southern California Public Power Authority.
- AB 32 would increase gasoline costs by \$3.7 billion a year according to Sierra Research headed by the former executive director of the air board.
- AB 32's zero net energy recommendation would increase the cost of a new home by \$50,000 based on a National Renewable Energy Laboratory report.

- AB 32 would result in the loss of more than 1 million jobs according to study by Sacramento State University professors.
- AB 32 would put more than 3 million blue-collar jobs at risk in the manufacturing sector according to a study by the UC Berkeley Center for Labor Research and Education.

The conclusion of my study and these other studies show growing agreement that AB 32 as being implemented would significantly increase energy costs and lead to job losses in California.

Tom Tanton is a principal at T2 & Associates, an energy technology consulting firm near Sacramento. Tanton served 28 years at the California Energy Commission, including six years as principal policy adviser, and subsequently at the Electric Power Research Institute as general manager of renewables and hydroelectric. He prepared this report for the AB 32 Implementation Group, a group of businesses and business associations in California.