STATE AUCTION PLAN UNDER AB 32 PENALIZES BUSINESS, WILL COST EVERYONE

By David Slater

California's cap-and-trade program will create significant financial penalties for companies like ours who chose to invest in a cleaner method of powering our operations. Our method of electricity generation was incentivized by our state not long ago, now we are being penalized for our clean energy generation facility under AB 32's cap-and-trade program. We are not an isolated case. Many companies throughout various industries will be severely penalized by this regulation.

We are a family-owned company in Signal Hill specializing in the responsible and sustainable exploration, development, and production of oil in urban areas. We produce more than one million barrels of oil a year.

With that oil we produce natural gas, which is essentially a by-product. To efficiently utilize this by-product and reduce our reliance on utility-generated electricity, our company constructed an in-house natural gas powered electrical generator that powers the majority of our operations.

This generator was installed entirely at our cost and utilizes the best available control technology to reduce emissions. It is one of the cleanest electrical generating facilities in Southern California and is significantly cleaner than utility gas-powered generation sources. It has also added to the electrical supply for Southern California and has been a factor in forestalling the need for new generating capacity.

AB32, the Global Warming Solutions Act of 2006, is the most expensive regulation of its kind in history, and mandates the control of greenhouse gases (GHG) with the goal of bringing GHG emissions to 1990 levels. The current cap-and-trade rule creates a trading market for businesses to buy the rights to produce GHG. It is essentially a tax that is being imposed by the California Air Resources Board (CARB), an agency that is not accountable to our state legislature.

The legislature sold AB 32 as a regulation that would help the environment while protecting the economy. Legislative supporters promised that utility and gasoline costs would not increase with the bill's implementation. The opposite is happening. Businesses are being taxed severely in the form of buying carbon credits, and the costs will be passed on to consumers. Electricity bills will go up and it will dramatically increase the cost of gas and diesel.

California has not convinced any other US state to join in this greenhouse gas reduction scheme, and the federal government and other countries have also declined to pursue similarly aggressive policies. Therefore it is expected to have negligible impact on global emissions. Still the state moves forward with billions of dollars of new costs being piled upon California companies.

(more)

Cap-and-trade was originally envisioned as a gradual reduction of emissions allowance levels to give companies time to implement cost-effective methods to reduce their GHG emissions. CARB set a baseline emission limit by industry based on average emissions, and that limit would be lowered over the years. If companies failed to meet the reduced levels, they would be forced to buy credits, creating a penalty for not reducing emissions.

What actually happened was in October of 2011, CARB cut allowances by 10% in every regulated industry for each company's respective emissions, which has forced many companies to buy carbon credits immediately. The cost to many California industries and the electrical utilities will ripple through our state starting in January next year. Our company will be forced to pay an estimated $500,000 in the first year of the program alone to continue to operate our clean, natural gas electrical turbine generator.

The regulation being implemented by CARB will take millions of dollars from struggling companies at the worst possible time and may actually prove to be an illegal tax that can't be spent on state programs policymakers have in mind.

Hardest hit by the cap-and-trade auction will be energy producers, but there are many industries you would not expect that will fall victim to this program. Our state's colleges and universities fall under this regulation, as many campuses use self-generation – like we do – to power their facilities. Hospitals will also be impacted and eventually all consumers will pay with significantly higher energy costs.

Didn't someone once say no good deed goes unpunished?

And punishment it will be. Especially as California's economy continues to struggle with unemployment at 10.7 percent.

The cap-and-trade auction will begin in November this year. Governor Brown needs to act now and tell the Air Resources Board to not move forward with the auction as currently planned.

You can do your part and save the state from unwanted surprises in our economy by telling the governor to stop the cap-and-trade auction.

David Slater is executive vice president of Signal Hill Petroleum.

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Mod Dems Urge Governor To Freely Allocate All Cap & Trade Allowances

Fourteen Democrats in the Assembly and two in the Senate considered to be "moderate" on certain issues this week sent Gov. Jerry Brown (D) a letter urging him to direct the state air board to freely allocate 100 percent of greenhouse gas (GHG) emission allowances to industries and other regulated entities under the state's cap-and-trade program, to help reduce compliance costs and economic impacts to consumers.

However, sources say they highly doubt the governor would agree to the proposal. The letter also comes a day after dozens of economists sent a letter to Brown urging him to ensure some of the allowances are sold at auction, as currently planned.

A spokesman for the governor declined to comment this week, other than to say administration officials are reviewing the letter.

The Democrats' letter — spearheaded by Assemblyman Henry Perea (Fresno) and Sen. Michael Rubio (Bakersfield) — reflects rising apprehension among some Democratic lawmakers that the cap-and-trade program will seriously harm major industries and institutions located in their districts, such as food processing plants, oil refineries and major universities. The first auction is scheduled for Nov. 14.

In the Aug. 27 letter to the governor, the lawmakers point out that the GHG auctions are estimated to generate up to $3 billion in revenue to the state during the 2012-13 fiscal year. "It has been reported that these increased costs on the covered entities will result in job losses and increased costs for energy and consumer products," the letter states. "With these reports, our constituents have grown increasingly concerned of the impacts that the proposed auction under cap-and-trade will have on jobs, consumers and the economy."

Consequently, the lawmakers argue that the California Air Resources Board (ARB) should allocate all the GHG allowances to regulated entities for free, in contrast to ARB's current plan to allocate 90 percent of allowances for free for most sectors.

The legislators cite a recent letter by the Legislative Analyst's Office (LAO), responding to an inquiry by Perea, that outlines the benefits of increasing free allowances under the program. The LAO analysis also concludes that ARB does not need to hold auctions at all to meet its GHG emission-reduction targets established by the 2006 global warming solutions law AB 32.

The other Assembly Democrats who signed the letter are Susan Bonilla (Martinez), Isadore Hall (Los Angeles), Jose Solorio (Santa Ana), Alyson Huber (El Dorado Hills), Ron Calderon (Montebello), Tony Mendoza (Artesia), Norma Torres (Pomona), Cathleen Galgiani (Tracy), Roger Hernández (Baldwin Park), Ricardo Lara (South Gate), Stephen Bradford (Inglewood), Richard Pan (Sacramento), Anthony Portantino (Pasadena) and Joan Buchanan (San Ramon). In addition, Republican Assemblyman Nathan Fletcher (San Diego) signed the letter.

Relevant documents are available on InsideEPA.com. See page 2 for details. (Doc. ID: 2408732)

An environmentalist says the letter is very unlikely to prompt Brown to direct ARB to freely allocate all the GHG allowances under the cap-and-trade program. "We believe the governor has a continued faith in this market, continues to support it and sees the value of it both for reducing emissions as well as for creating new economic opportunities, so we

don't expect the letter to make the governor waver in his support for the cap-and-trade program," the source says.

The source also points to a recent letter to the governor from dozens of economists who argue the auction is critical to the success of the trading program and the state should not scale back or modify it.

"The difference between auctioning allowances and giving them away for free is largely one around who gets the rents associated with the carbon price," the economists' letter states. "The more allowances are given away for free, the more rents businesses will receive. Auctioning allowances generates proceeds for government to redistribute to households, reduce other taxes, or achieve further environmental and equity goals that otherwise may not be achieved if allowances are given for free."

In addition, "whether an industry operates in a perfectly competitive market or otherwise, there is always the potential for windfall profits from free allocation," the economists adds. "In most situations businesses are able to pass the market value of allowances through to consumers, even though they themselves received allowances for free. This is what happened in the [European Union's] wholesale electricity market. Short of fundamental market reform, the easiest step to reduce the potential for such undue profits is to auction allowances, a step the EU has since taken."

September 7, 2012

The Honorable Edmund G. Brown, Jr.
Governorof California
State Capitol, Suite 1173
Sacramento, CA 95814

Dear Governor Brown:

The upcoming carbon credits auction planned by the Air Resources Board is poorly designed and not necessary to implement AB 32, California's Global Warming Solutions Act. As the Legislative Analyst's Office has stated, cap and trade can be implemented in a way which both meets the program's goals of reducing greenhouse gases *and* protects businesses, universities, hospitals and ultimately consumers – without conductingthis expensive, job killing auction. These objectives can all be met simply by maximizing free allowances allocated to covered entities.

While our members recognize that the implementation of AB 32 will add to the cost of energy, they are committed to complying with the goals of AB 32 in a way that will be the most cost effective and that will mitigate the impacts on consumers and business. Many were even willing to accept a legitimate fee to cover the regulatory costs of the program. To date, we have supported a market-based system that will lead to innovation and efficient implementation.

However, the cap and trade auction now being implemented by the Air Resources Board goes far beyond that, imposing an additional multi-billion dollar energy tax on consumers and businesses– but doing nothing to further the goals of AB 32. This tax will distort the true market benefits of a trading system and drive up the price of consumer goods and the cost of doing business in California.

We agree with the LAO that the cap and trade auction is not necessary to achieve the state goals of reducing greenhouse gases. Rather, the current version of the cap and trade auction isan ill-conceived,experimental and poorly-disguised attempt to raise revenue from California's energy consumers for the state Legislature to spend on unrelated programs. We cannot support the current program whose scope exceeds the intent of the underlying law and whose price tag exceeds areasonable fee to cover the regulatory costs.

The fact is that this auction represents a multi-billion dollar hidden tax that will harm California businesses and consumers by dramatically increasing energy costs at a time we can least afford it. California businesses, large and small, are the economic engine which creates jobs in our state. If we do not protect businesses as we implement AB32, we will only delay the economic recovery and the job and long-term revenue growth our state so desperately needs.

Finally, this auction is a tax that was never approved by a two-thirds vote of the Legislature or by voters as required by California's Constitution. Voters spoke loud and clear when they enacted Prop. 26 in 2010 – a tax is a tax and must be enacted by the voters or by a two-thirds vote of the Legislature.

We urge you to take immediate steps to protect California businesses and consumers by increasing the allocation of free allowances. If more time is needed, we urge you to halt this auction as it is currently envisioned.We must ensure that this auction does not raise billions of dollars in new taxes on the backs of California businesses and consumers and does not kill jobs or damage our fragile economic recovery.

The business community stands ready to work with you to develop such a program, while still supporting the greenhouse gas reduction goals envisioned in AB 32.

Sincerely,

Rob Neenan, President
California League of Food Processors

Allan Zaremberg, President
California Chamber of Commerce

Robert C. Lapsley

Rob Lapsley, President
California Business Roundtable

Jack Stewart, President
California Manufacturers and Technology Association

THE WALL STREET JOURNAL.

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The Price of Green Virtue

The bill starts to come due for California's climate change law.

When California's economy was booming in 2006—remember that?—Governor Arnold Schwarzenegger and many Californians wanted to show their environmental virtue by becoming the first state to pass a comprehensive climate change law. And so they did, for which the bill is starting to come due.

Lawmakers and environmentalists predicted that the new law, called AB 32, would become a model for the rest of the nation. It never did. They also said the Golden State's head start in developing green technologies would create thousands of new jobs. In 2008 the California Air Resources Board even estimated that the new rules and cap-and-trade tax would increase state GDP. In short, AB 32 was sold to the voters who declined to overturn it in a 2010 referendum as a green free lunch.

Now fast forward to 2012. California's economy is still struggling, the jobless rate is 10.8%, and AB 32's taxes and regulations are starting to bite. Two new studies by private consulting firms add up the real-world cost to California families and businesses.

The first study—sponsored by the California Manufacturers and Technology Association, whose members employ 1.2 million residents—estimates the price tag for three major new regulations associated with the law: cap-and-trade taxes on carbon emissions, a "low carbon fuel standard," and a stringent 33% renewable mandate for electricity production. Together these policies raise energy costs and are expected to reduce state GDP by between 3.5% and 8.9% by 2020.

Even under the "optimistic" scenario, that's a loss of up to $447 billion in California output over eight years and represents a bigger loss in income than the 2008-09 recession. The cost per California family is estimated at $2,500 a year due to higher costs. Repeat after Milton Friedman: There is no such thing as a free lunch.

One alarming conclusion is that "emissions reductions due to economic harm account for 26% of total reductions, more than any ARB mandated program" except cap and trade. This means that a major way Californians will reduce their greenhouse emissions is by slower growth, chasing industry out of the state, and putting more people out of work. If Californians produce less, their carbon footprint is smaller. The Sierra Club must be loving this weak recovery.

The second study by the Boston Consulting Group for the Western States Petroleum Association examined AB 32's low carbon fuel standard. This regulation requires a 10% reduction in the carbon intensity of California transportation fuels by 2020, which can only be achieved with biofuels (but not corn ethanol because it is too carbon intensive).

This idea was devised in 2006 when the Bush Administration fantasized that cellulosic ethanol would soon become plentiful and cheap. The White House and Congress thought that by 2011 the U.S. would be producing about 240 million gallons a year. Even with lavish federal subsidies, it produced about seven million. (See "The Cellulosic Ethanol Debacle," December 14, 2011.)

So the California government is forcing oil and gas companies to sell a fuel that barely exists. The only viable short-term compliance option is for California to import sugar-cane ethanol from Brazil. One result is that gasoline prices could rise by anywhere between 50 cents and $2.70 a gallon at the pump after 2015, says BCG. Californians could pay $6 a gallon. Maybe this is how Sacramento politicians think they can get left coasters to ride their high-speed train.

Environmentalists dismiss these studies as biased, but they echo the government's own recent studies. The only real argument is over the extent of the economic damage. Californians may believe this price is worth it, but they shouldn't pretend they aren't paying it.

Assemblymember Henry Perea
31st Assembly District
State of California

Press Release

Thursday, August 23 2012

LAO Says Cap-and-Trade 100 Percent Free Allowance Auction Could Benefit Business and Environment

SACRAMENTO – A report by the Legislative Analyst's Office (LAO) requested by Assemblymember Henry T. Perea (D-Fresno) and Senator Michael J. Rubio (D-Shafter) to explore options that would minimize effects of cap-and-trade on California businesses showed an allowance auction is not necessary to achieve the goals set forth in AB 32.

Assemblymember Perea requested the LAO explore opportunities to achieve the emission reduction goals of the AB 32 program without conducting costly allowance auctions that concerned members of the many industries targeted.

"The fact that we can accomplish our environmental goals without forcing the sale of allowances is encouraging," Assemblymember Perea said. "We need to remember our ultimate goal here is to improve our air quality by encouraging industries to invest in clean technology and I believe that can be done with 100 percent free allowance auctions."

"We need to make sure we are exploring all alternatives to reducing greenhouse gas emissions in our state while minimizing potential economic impacts on California businesses and the jobs they create," said Senator Rubio.

The LAO report says "a key advantage of 100 percent free allocation is that it would significantly offset more of the marginal cost increase resulting from compliance with the program as compared with the Air Resources Board (ARB) approach and reduce the potential for leakage while preserving the environmental integrity of the program."

Assemblymember Perea hosted two forums this summer to discuss the potential impacts of cap and trade on various industries. What he heard from concerned business owners solidified his views about the devastating effects cap and trade could have on businesses.

» View LAO Response Letter

NOTE: For comment from the Legislative Analyst's Office regarding this report please contact Tiffany Roberts at 916-319-8309.

Contact: Alisha Gallon 661-364-3655