As California prepares to implement low carbon standards under A.B. 32, fears of energy price spikes mount

Erick Galindo, Los Angeles Newspaper Group, 12-5-10

California continues to lead the nation in an effort to reduce carbon emissions, but at what cost?

According to a report compiled by free market proponent Calwatchdog.org, the potential cost per household ranges from $570 to $6,500 annually, and the price of gasoline would increase 61 cents per gallon by January.

However, some economists argue that the studies cited in the report are flawed and politically motivated. There is also evidence that energy prices will rise naturally with increased consumption.

"These claims are part of a long tradition of fear-mongering about environmental costs, based on astonishingly little empirical information," noted Frank Ackerman, an economist with the Stockholm Environment Institute-US Center.

According to a separate report compiled by three economists, Califronia's effort to reduce carbon emissions could save the average household up to $670 in 2020 if oil and natural gas prices spike.

Beginning in January, the California Air Resources Board will begin to regulate carbon emissions, with the goal of reducing carbon intensity in the state's fuel by at least 10 percent.

CARB received the authority to adopt a low carbon fuel standard by the state Assembly under AB 32, the Global Warming Solutions Act of 2006, which set the 2020 greenhouse gas emissions reduction goal into law. It directed CARB to develop a policy to reduce greenhouse gases while also preparing a plan to identify how best to reach the 2020 limit.

News that CARB will begin to implement the rules comes as the U.N. weather agency says 2010 is "almost certain" to rank among the three hottest years on record.

According to the Intergovernmental Panel on Climate Change, most of the temperature increase since the middle of the 20th century has been caused by increasing concentrations of greenhouse gases, which result from human activity.

But there are those who disagree.

Virginia-based Marshall Institute, a Libertarian scientific think tank which conducted one of the studies cited in the Calwatchdog.org report, makes the case that the scientific debate over climate change is unsettled.

"The principal winners under an LCFS are those who are subsidized - namely suppliers of the low carbon fuel, and raw material suppliers and processors of that fuel," states the Marshall study. "Among the principal losers are consumers who will have to pay higher costs for transportation fuels while realizing little environmental or other benefits."

Ackerman, who reviewed the Marshall report, found it lacking.

"The study appears to me to be a long, partisan essay on the importance of allowing oil imports, from Canada's oil shale and from the Middle East, and the harm that we would do to the U.S. and world economy if we tried to move toward energy independence," he said.

Republican Assemblyman-elect Tim Donnelly agrees with the Marshall Institute that the debate over climate change is up in the air.

"Whether you believe in one side of the argument or the other, AB 32 is going to have some unintended consequences," he said. "If we destroy the economy, saving the environment isn't going to save anyone."

Donnelly cited a report by Charles River and Associates, arguing that the initial price shock of implementing AB 32 would cause a spike in energy prices and drive businesses out of the Golden State.

"California is giving businesses reasons not to come here," he said. "And giving reasons for business to leave."

Donnelly called AB 32 one of the worst pieces of legislation in the history of the state. He suggested suspending AB 32 until unemployment, currently at 12.4 percent, is curtailed.

In November voters soundly defeated Proposition 23 which would have done exactly that.

"The results of the November election and the very large victory (over Prop. 23) has generated a lot of excitement," CARB Chairwoman Mary Nichols said during CARB's last meeting. "I think it is a recognition on the part of the people of California that our future lies in the direction of clean technology and greening our economy."

The study by Charles River and Associates predicted a price shock of about a 30 to 80 percent increase in the cost of transportation fuels caused by the large increase in production of low-carbon fuels required to achieve the reductions in emissions required by the standard.

"It is highly unlikely that it will be possible to produce sufficient quantities of fuel with sufficiently low emissions to meet the standard without drastically reducing the total amount of fuel consumed," the report noted.

Ackerman noted that Chalres River's findings are flawed in assuming that energy prices will remain consistent under current standards. He also faulted it for assuming, without proof, that the implementation of one standard would have a significant impact on jobs and the state's GDP.

"Outside of directly environmentally damaging extractive industries such as logging, mining, and oil drilling, it is very difficult to identify any jobs that have ever been lost to environmental regulations," he argued. "There's no reason to think that AB 32 or its LCFS will be different. The careful studies by CARB and researchers at UC Berkeley predict roughly zero net effect on state incomes and employment.

One report acutally shows a positive impact on energy savings.

The U.S. economy has experienced five price shocks in the last 30 years when crude oil prices rose an average of 179 percent in just one year, noted a joint report released in September by the Center for Resource Solutions, Energy Independence Now and Environmental Defense Fund. The study analyzed how much more Californians would pay if wholesale crude oil and natural gas prices doubled at the start of 2020 and stayed there for a year.

"No study has calculated the benefits of AB 32 in the event of an energy price shock," said James Fine, an economist for the Environmental Defense Fund and one of the report's authors, in a statement. "This study uncovers massive potential savings, and shows how the state's landmark policy will protect California's economy from unpredictable events, such as hurricanes and wars, that cause energy prices to jump."