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June 12, 2014

Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Cap & Trade Program for Fuels 2015

Dear Chairwoman Nichols:

On behalf of my constituents in the San Joaquin Valley, I am deeply concerned that the real impacts of next year's planned expansion of the AB 32 cap-and-trade program to include transportation fuels for the first time are unknown to most of the consumers who ultimately will pay significantly more for gasoline and diesel. Before proceeding to impose this expanded regulation to apply to the transportation fuels we use on a daily basis, you have an obligation to ensure that the public can understand and fully assess the effect on their personal and business budgets. Whether your rules require it or whether fuels suppliers decide to pass on the costs imposed by your rules, the impact to my constituents will be the same - increased fuels costs. For that reason, I was disappointed with the ARB's recent statement on this matter. In response to a recent television news story on this subject, your spokesman made the following statement:

“Any costs from cap-and-trade compliance are with the suppliers, not consumers. If fuel companies choose to pass costs to their customers, that is their decision. If they choose to trigger a price spike on January 1, 2015, that is also their decision.”

Price on Carbon: No Impact on Consumers or Nudging for Behavioral Change?

According to our Legislative Analyst (LAO), the cap & trade program will incorporate a carbon price into goods and services produced in the state and will have the effect of making many things in the economy more expensive. In fact, according to the LAO, allowing prices of more emissions-intensive goods and services to rise over time is intended to effectively motivate people or businesses to change their behavior in order to reduce GHG emissions.¹ In your joint article on California's climate policies, you and ARB Board member Daniel Sperling appear to confirm this same principle that placing a price of carbon on goods like transportation fuels is

¹ Legislative Analyst's Office, Evaluating the Policy Trade-Offs in ARB's Cap-and-Trade Program, February 9, 2012, p.18.

intended to motivate behavioral change. In this article, you state “GHG emissions will be reduced if people drive less, and people can be nudged to drive less by cities that reduce urban sprawl, enhance public transportation, and raise the price of travel to incorporate externalities of carbon emissions, pollution and energy security.”² If the purpose of including transportation fuels in the cap & trade program and placing a carbon price on fuels is to incent behavioral change as you state in your article, how can the ARB suggest that any increase costs that consumers see will be the decision of fuel suppliers? It appears clear that the purpose of the ARB’s program is to discourage gasoline and diesel use by adding a carbon price starting in January, 2015. In your joint article with Board member Sperling, you also state that policies that shield consumers from price increases will slow the necessary behavioral response.³ To his credit, Senator Steinberg at least acknowledged the certain impact on the people of California when he stated that when fuels are placed in the cap & trade program, consumers will pay more at the pump. “If carbon prices don’t sting, we won’t change our habits.”⁴

How does a carbon price translate into fuels cost?

In your paper, you state that \$70 per ton of carbon translates into \$0.70 per gallon of gasoline.⁵ UC Berkeley Professor Severin Borenstein, a member of the ARB’s Emissions Market Assessment Committee, also stated in a recent blog post that \$50 per ton of carbon would raise gasoline prices about 50 cents per gallon.⁶ This rather straight forward calculation (\$1 per ton = .01 cents per gallon) appears to be accepted fact by both regulators and academics.

This fact, however, will likely be unacceptable to my constituents in the heart of the San Joaquin Valley and to most families and small business owners throughout California. Fuel user groups, farmers, truckers, and other businesses and consumers have been raising the alarm about almost certain fuel cost increases of at least 12 cents more per gallon. These increased costs will have a disproportionate impact on individuals and families least able to afford them. Many of these hardworking, low income people live in the San Joaquin Valley, where they rely on vehicles – often older and less efficient – to get to work and put food on the family table. Additionally, people in rural areas who typically need to commute farther from home to work will take a harder hit from higher gas prices that will now include a carbon price. According to a recent study, one in four residents of Merced County and Fresno County and one in five in Madera County live below the poverty line. This same study found that transportation costs in Fresno County are 31 percent of the median area income and approach 40 percent in some San Joaquin Valley communities.⁷

² Daniel Sperling & Mary Nichols, California’s Pioneering Transportation Strategy, Issues in Science & Technology, Winter 2012, p. 64.

³ Daniel Sperling & Mary Nichols, p. 65.

⁴ Senator Steinberg, February 20, 2014, Sacramento Press Club.

⁵ Daniel Sperling & Mary Nichols, p. 65

⁶ Severin Borenstein, California’s Cap-and-Trade Market Still Needs a Price Ceiling, blog, September 30, 2013.

⁷ Cole Wheeler, Jesse Morris, Kate Gordon, “No Californian Left Behind: Clean and affordable transportation options for all through vehicle replacement,” February, 2014, p.10.

In a recent *Sacramento Bee* op-ed, two UC Berkeley professors acknowledged the impact of including fuels in the cap-and-trade program on the working class. They wrote, “If the cap-and-trade program is to meet its environmental goals, the price of fuels will rise. Californians will pay more at the pump. . . Unfortunately, as currently structured, the cap-and-trade program is almost certain to either fail at its environmental goals or else to unduly harm working-class Californians.”⁸

Fuels Prices Volatility Linked to Carbon Markets?

Earlier this year, Senator Darrel Steinberg (D-Sacramento) raised serious concerns that transportation fuel costs under cap and trade would be subject to carbon market gaming that leads to dramatic, unpredictable price spikes, leaving consumers scrambling to keep pace. In their previous evaluation of your cap & trade program, the LAO also warned about the potential for excessive volatility in carbon prices. While they recognize that the ARB has adopted some mechanisms to reduce this volatility like the reserve, the LAO warns that “If the reserve were ever exhausted, the ARB’s cap-and-trade regulation would not limit how high compliance prices could go.”⁹ UC Professor Severin Borenstein also expressed his concern that the cap-and-trade market could be vulnerable to extreme price fluctuations as recently as last month and urged you to implement a price ceiling in the program.¹⁰ Without a firm price ceiling, Professor Borenstein warns that an extreme carbon price fluctuation would pose a significant risk and disruption to both our economy and our state’s strategy for addressing climate change. Placing transportation fuels under the cap-and-trade program and linking our transportation costs with what experts warn could be a highly volatile carbon market will place my constituents and all Californians at risk.

Time to be honest with the people of California

ARB cannot honestly expect to exact billions of dollars from fuel suppliers in California and believe that it is not going to impact fuel costs for the people of California. At the very minimum, you have an obligation to clearly communicate to the people of California the purpose and expectations for this program. If it is a necessary pain as Senator Steinberg believes, then you should make sure that the public understands their expected contribution to our state’s climate goals. Starting in January, the people of California become direct stakeholders in the cap & trade program. My constituents and all of the people of California deserve to be informed about how the state’s cap & trade program will directly impact their pocket books and family budgets.

⁸Mark Gergen and David Gamage, *Sacramento Bee*, Mar. 22, 2014, <http://www.sacbee.com/2014/03/22/6257858/viewpoints-a-better-direction.html>

⁹ Legislative Analyst’s Office, *Evaluating the Policy Trade-Offs in ARB’s Cap-and-Trade Program*, February 9, 2012, p.21.

¹⁰ Testimony of Professor Severin Borenstein before the California Little Hoover Commission, April 24, 21014.

Please Provide Me With A Written Response To the Following Questions:

- What are the expected carbon prices for allowances under the cap & trade program for the years 2015-2020?
- How does \$/ton translate into c/gallon? Is it generally accepted, as you and Professor Borenstein indicate in your respective articles, that \$1/ton = .01 c/gallon?
- How does including transportation fuels in the cap & trade program reduce carbon emissions? Higher prices or less amount of fuel in the market?
- It is my understanding that the ARB will provide electricity distribution utilities free allowances to reduce the cost burden on electricity users from price increases expected to result from the implementation of the cap-and-trade program. Do you similarly plan to protect motorists from increasing costs as a result of including transportation fuels in the cap-and-trade program?

Please provide me a written response to these questions by July 1. Thank you for your attention to this issue.

Sincerely,



Kristin Olsen
Assemblymember, 12th District

cc:

Daniel Sperling
Automotive Related Member

Phil Serna
Sacramento Region Air District

John Eisenhut
Agriculture Member

Mrs. Barbara Riordan
Mojave Desert AQMD Member

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