

CAP-AND-TRADE PROGRAM: CAP-AND-TRADE COULD INCREASE FUEL PRICES 20 CENTS PER GALLON, LEGISLATIVE ANALYST SAYS

A [new analysis](#) from the Legislative Analyst's Office estimates that fuel prices in California could increase 13 cents to 20 cents per gallon – possibly much more – under the state's cap-and-trade program. The analysis was provided in a letter responding to an inquiry from Assemblyman Henry Perea regarding how transportation fuel prices would be affected by the cap-and-trade program.

Beginning in 2015, transportation fuels will be subject to the cap-and-trade program, which was adopted by the California Air Resources Board (CARB) as part of its effort to reduce statewide emissions in California to 1990 levels by 2020. Critics of the program have filed several lawsuits claiming that the program's mandate for some businesses to purchase "allowances" constitutes an illegal tax, as it was not approved by at least a two-thirds vote of the Legislature. Revenue generated from the program is being spent on the high-speed rail project, for low-income communities, and for other purposes.

Prefacing the analysis provided to Assemblyman Perea, the analyst said that fuel prices will be much more difficult to predict in 2015 than in 2020, since the uncertainty facing fuel suppliers in the first year is substantial, but the uncertainty should diminish as participation in the cap-and-trade program continues.

"The magnitude of this price increase is uncertain," the analyst said. "Under the most likely outcome, the price increase will be 13 cents to 20 cents per gallon by 2020. However, the price increase could exceed 50 cents per gallon by 2020. The actual magnitude of the price increase will depend on a wide variety of economic, technological, and regulatory factors that are very difficult to predict."

CARB's comments on the impact that the cap-and-trade program will have on transportation fuel prices has been mixed. During the past two months, CARB has made the following statements:

- "They [transportation fuel suppliers] really don't have to pony up anything until November 2018." (Dave Clegern, spokesman for CARB, *Inland Valley Daily Bulletin*, July 2.)
- "Stanley Young, a spokesman for the Air Resources Board, said many companies coming under the cap in January have bought allowances ahead of time. He declined to say how much any oil supplier has already purchased, but he said 'many of these fuel suppliers have been purchasing this, which means that they have been spending money.' He suggested the cost of compliance has already been incorporated into the price of fuel." (*The Sacramento Bee*, June 30.)
- "The ARB itself estimated in 2010 that gas prices could increase 4 percent to 19 percent by 2020 as a result of cap and trade, but ARB

officials said that estimate is outdated. [Stanley] Young said 'we don't believe there will be any discernible increase in pricing' next year." (*The Sacramento Bee*, June 30.)

- "There's no rule that any cost of compliance must be passed through the consumers. That's purely a decision of the ... suppliers." (CARB spokesman Dave Clegern, *Bakersfield Californian*, July 1.)

In an [August 1 letter](#) to CARB Chair Mary Nichols, Western States Petroleum Association President Catherine Reheis-Boyd wrote: "We welcome any explanation, clarification or correction you may wish to provide to address our concerns about CARB's public statements. We would especially ask that you clarify which of the statements discussed above reflect the Board's current thinking on expansion of cap and trade for fuels, i.e.: a) Consumers will see gasoline costs increase between 4 percent and 19 percent; b) Consumers will not see impacts of the regulation until 2018; c) Consumers already are paying the higher costs for fuels; or d) Consumers will not see any impact on fuel costs as a result of the regulation."

Fuel suppliers have launched a [radio and newspaper campaign](#) asking voters to contact their legislators and ask them to oppose the increase in fuel costs.