Climate Change

All six of the WSPA states have developed rules and laws aimed at mitigating climate change, but California's global warming policies are the most ambitious by far.

In 2006, the California State Legislature passed and Governor Schwarzenegger signed AB 32, the Global Warming Solutions Act. This law requires that greenhouse gas emissions in California be reduced to 1990 levels by the year 2020 and designated the California Air Resources Board (CARB) to develop a plan to meet this goal.

CARB prepared a blueprint, known as the AB 32 Scoping Plan, laying out various measures necessary to achieve the required reductions. The resulting regulations and market mechanisms have been adopted. The rules went into effect in January of 2012, and the implementation phase has begun.

While the costs of compliance with AB 32 will ultimately be borne by all Californians, the immediate burden falls on energy producers and energy-intensive industries such as electric utilities, oil producers and refiners, agriculture, and manufacturers.

Here are descriptions of the key regulations and how their implementation could impact energy supplies and consumer costs in California.

Cap & Trade

WSPA supports market based programs like properly designed cap and trade programs as the most cost effective way to reduce carbon emissions. The California cap-and-trade auction program as currently designed -- the first in the nation -- requires some companies to purchase allowances to cover the carbon dioxide they emit. Companies receive allowances for their emissions, but those allowances will decrease over the years. Cap-and-trade auctions are expected to raise the cost of doing business for companies with carbon emissions and could create volatility in the fuel market:

WSPA and other industry representatives believe the California
cap-and-trade program as currently designed creates severe competitive disadvantages for some businesses, including refiners. CARB also exceeded the authority granted it by AB 32 legislation by withholding allowances as a means of generating billions of dollars in new revenue for the State.

According to a comprehensive study commissioned by WSPA, the highly regarded Boston Consulting Group concluded:

- California’s cap-and-trade auction program, as currently written and being implemented, will increase the cost of making gasoline and diesel 14 cents per gallon to 69 cents per gallon, depending on the cost of carbon allowances.

- The cost of compliance could be significantly higher if the cost of carbon rises above CARB’s projected auction prices.

- Carbon costs could be extremely volatile initially, creating the potential for market disruptions.

### Low Carbon Fuel Standard

The Low Carbon Fuel Standard (LCFS) is a regulation developed by the California Air Resources Board as part of the implementation of AB 32. It requires fuel providers to reduce the carbon intensity of gasoline and diesel fuel 10 percent by 2020. Though simple sounding, the regulation creates major problems for the state’s refiners. According to the Boston Consulting Group, the LCFS will have a profound impact on the cost of providing fuels, and will result in major job losses and declines in tax revenue. According to BCG:

- The LCFS, as currently being implemented, is infeasible. Inadequate supplies of low carbon intensity (CI) biofuels and LCFS credits leave refiners no viable compliance options.

- Even if it were feasible, the LCFS would produce a steep decline in demand for refined products, particularly gasoline, in California, resulting in the loss of 20 percent to 30 percent of the state’s refining capacity by 2017 and 25 percent to 35 percent by 2020.

- Between five and seven of California’s 14 fuel refineries could cease production by 2020, potentially compromising California’s security of fuel supply.

- The cost of compliance would be between 33 cents per gallon and $1.06 per gallon by 2020 using current sugar cane price forecasts. The actual cost could be much higher if California’s or other states’ significant incremental demand increases the price of low CI biofuels.

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