Californians for
Cost Containment

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Frequently Asked Questions

California lawmakers came together to enact bipartisan legislation last year aimed to reduce emissions while protecting consumers and businesses from excessive costs. Assembly Bill 398 (Garcia, 2017) extends the life of California's Cap-and-Trade program, with added safeguards to contain costs. But now the state regulators that are directed to implement the Cap-and-Trade program are ignoring the Legislature's direction to contain costs and proposing a program that may lead to skyrocketing costs on energy.

What is Cap-and-Trade?

Cap-and-Trade is designed to reduce carbon emissions while containing costs for consumers and small businesses. This program is considered a cost-effective approach because it gives businesses options for how to reduce their carbon emissions. Cap-and-Trade requires businesses to obtain an "allowance" for every ton of carbon they emit. This approach encourages flexibility and innovation while reducing emissions.

What is a price ceiling?

As the total allowances available for trading will decline, the price of allowances could increase dramatically, exposing Californians to unaffordable costs. So the Legislature directed the California Air Resources Board (CARB) to set a limit on the price of allowances specifically to "avoid adverse impacts on resident households, businesses and the state's economy." Unfortunately, CARB is proposing a price ceiling that is nearly double what experts recommend, allowing allowance prices to rise significantly without effective safeguards for consumers and businesses.

What are the Cap-and-Trade "speed bumps"?

The Legislature also directed CARB to establish two "speed bumps", where a quickly escalating price of allowances would trigger the sale of additional allowances in order to slow the rise. These "speed bumps" are crucial to protecting the economy from price shocks and reducing market volatility. But CARB has proposed to place speed bumps at a point that won't protect Californians from potential runaway cost increases.

Why do a price ceiling and "speed bumps" matter to me?

The prices that businesses must pay for allowances could increase the cost for fuel, resulting in increased costs of goods and services.[1] So, as allowance prices go up, daily costs go up too. CARB's own experts and other independent studies have determined that California's Cap-and-Trade program could increase costs at the gas pump as well as energy costs.[2] The costs that small businesses must pay could impact their profitability and ability to pay their workers.

Is there a way to determine how much costs will increase?

According to CARB's own economic analysis in its 2018 Standardized Regulatory Impact Assessment of its Initial Statement of Reasons, every $10 that is added to the price of an allowance adds 9 cents to the cost of a gallon of gasoline.[3]

In 2030, CARB is supposedly proposing a price ceiling of $94, but this advertised price doesn't account for inflation. Using a modest 2% CPI (reflective of the 10-year average from 2008), the actual figure in 2030 is almost $120.

At a price ceiling of $120, there's an increase of $1.09 to the cost of a gallon of gasoline.

How does this impact cost of living?

Increasing the costs of essentials will dramatically increase Californians' daily cost of living. A new report by the Energy Information Administration finds that nearly a third of U.S. households struggle to pay their energy bills. "About one in five households had to reduce or forgo food, medicine and other necessities to pay an energy bill," and "More than 10 percent of households kept their homes at unhealthy or unsafe temperatures."[4] And Californians pay 40.9 percent more than the average U.S. household for electricity bills according to the U.S. Energy Information Administration.[5] Californians also pay some of the highest costs for gasoline, affecting residents with long commutes. CARB's proposal could significantly exacerbate the burdens already weighing heavily on California families.

How does this impact California businesses?

CARB's proposal not only hurts consumers, it also hurts the small businesses and other businesses that provide the products and services consumers depend on. Farmers, manufacturers, and other companies in California already pay some of the highest utility bills in the country, with industrial companies paying 86 percent more for electricity than the U.S. average, and commercial ratepayers paying 49 percent more. California manufacturers pay 113 percent more for electricity than their competitors in other western states.[6] All of these costs are factored into the prices Californians pay for their food, services, and other products. By increasing these costs without any adequate safeguards, CARB's proposal may hit Californians in the pocketbook every time they fill their gas tank, shop for groceries, or pay the electric bill.

Will CARB's proposal impact jobs and wages?

Increased costs of fuel, energy, and other operational expenses will make it harder for businesses to sustain good-paying jobs. This is true for businesses that have to buy allowances as well as other businesses. A business that has to pay shipping costs, for example, will be impacted by higher gasoline prices. A business that requires a lot of electricity will be impacted by higher utility rates, especially for manufacturers and others that compete with companies in lower-cost states.

Didn't the Legislature and Governor direct CARB to take resident households, businesses, and the economy into account and contain costs?

Yes, the legislation authorizing Cap-and-Trade to continue, AB 398 (2017), was a carefully crafted, bipartisan agreement, specifically designed to rein in costs while we reduce carbon emissions. Given the evidence that Cap-and-Trade had already been increasing Californians' cost of living since it was established, lawmakers were extremely concerned that continuing the program could force even greater costs on consumers and businesses. That's why AB 398 specifically directs CARB to take specific actions to minimize costs.

Why isn't CARB following the Legislature's direction?

We don't know, but we need to ensure that state regulators follow the Legislature's direction. The unelected bureaucrats at CARB aren't accountable to the voters for the impacts their proposal will have. Our elected representatives in the Legislature are. We must remind CARB to follow the Legislature's direction and protect Californians from unnecessary and potentially devastating cost increases.

[1] https://www.arb.ca.gov/regact/2018/capandtrade18/ct18sria.pdf

[2] https://www.arb.ca.gov/regact/2016/capandtrade16/appc.pdf

[3] https://www.arb.ca.gov/regact/2018/capandtrade18/ct18sria.pdf

[4] https://www.npr.org/2018/09/19/649633468/31-percent-of-u-s-households-have-trouble-paying-energy-bills

[5] https://www.cnbc.com/2017/02/06/californias-electricity-glut-residents-pay-more-than-national-average.html

[6] U.S. Energy Information Administration