



**PRESS RELEASE**

May 17, 2012

Contact: Roxanna Smith, 323.466.2491

**Allocating California's Carbon-Market Generated Dollars**

*New reports examine legal and economic impacts of allowance revenue expenditures*

San Francisco – A new series of reports from University of California, Berkeley (UCB), University of California, Berkeley, School of Law, and Resources for the Future (RFF) experts examine how California might spend the funds generated by the state's soon-to-be-launched carbon market under AB 32 (The California Global Warming Solutions Act). The four studies, commissioned by the nonpartisan nonprofit organization Next 10, together provide legal and economic analysis of different investment scenarios, including impacts on utility ratepayers and the economy.

“California policymakers are discussing how to spend this money right now, which will have implications for the state's economy, family budgets, and California's future,” said F. Noel Perry, businessman and founder of Next 10. “The major takeaways from these reports are that from an economic perspective, funding new energy efficiency programs produce the greatest economic benefits. From a legal perspective, these and other investments that further the goals of AB32 are considered low risk. And, In terms of impacts on households, the research shows minimal impacts on electricity rates once the allowance value has been allocated.”

**REPORT I** *Options for Cap and Trade Auction Revenue Allocation: An Economic Assessment for California* examines 18 potential scenarios for annually allocating \$100 million in revenues generated by the sale of emissions allowances to non-utility entities under the cap. The UCB study projects the effects of each spending option on job creation, Gross State Product (GSP) and revenues for California in the year 2020.

Highlights of report findings:

- Most of the spending options modeled create a greater return than the initial investment.
- Energy efficiency projects offer the biggest boost in terms of jobs, GSP, and state revenue.

The chart below includes the macroeconomic impacts in 2020 from \$100 million annual investments (from 2013) on five of the 18 alternatives modeled in the report:



Auction Revenue Spending Options	Real GSP (2010 millions)	State Revenue (millions)	Employment (full time)
Energy efficiency actions to upgrade residential lighting	\$997	\$58	6,902
Offset General Fund expenditures through creative financing approaches. (Revenue is spent on non-environmental investments with zero greenhouse gas reductions.)	\$285	\$26	1,710
Small business energy efficiency - financial and other supporting services to overcome technology adoption and compliance hurdles	\$468	\$10	6,480
Financing program for renewable energy installations at residential properties	\$664	\$57	6,765
Bookends of the High Speed Rail project (not the full High Speed Rail Bookends Project)	\$442	\$31	2,651

“Most of the scenarios we examined were cost-effective and would increase state revenue, but net benefits varied significantly,” said the study’s author, UCB Professor David Roland-Holst. “The most pro-growth options would invest auction proceeds in expanding energy efficiency and renewable technology at the household level.”

**REPORT II** *California's Cap-and-Trade Auction: Are the Auction Proceeds Fees, Taxes, or Something Else?* examines whether the auction proceeds are best characterized as taxes, fees, or something else, and the legal implications of that characterization for the same 18 potential spending scenarios. This is an important legal question because the California Constitution, specifically Proposition 13, requires that taxes be approved by a two-thirds vote of the legislature. AB 32, under which the cap-and-trade program was established, was passed by a simple majority.

Highlights of Report II conclusions:

- The same energy efficiency programs projected to give the economy the biggest boost in the study *Options for Cap and Trade Auction Revenue Allocation: An Economic Assessment for California* are also considered relatively “low risk” on the legal front.
- The proposed funding of the bookends of the High Speed Rail (\*note not the entire project) was found to be a relatively low to medium legal risk spending option.
- Spending revenues on items that do not support the goals of AB 32, to mitigate greenhouse gas emissions, is considered legally risky. So, any future possible plans to return proceeds to taxpayers in the form of rebates, or using cap and trade proceeds to close future budget gaps are both considered “high risk” options.



“The auction allowances are unlike other charges reviewed by California courts, which makes it difficult to predict how a court will respond. We conclude, however, that the cap-and-trade program was not imposed for the purpose of raising revenue, and thus is not a tax,” said co-author and law Professor Daniel Farber of UC Berkeley, who prepared the report with Deborah Lambe of UC Berkeley School of Law’s Center for Law, Energy, & the Environment. “If the program is challenged in court, we consider spending scenarios that support the primary goal of AB 32—to cut or mitigate GHG emissions—to be relatively ‘low risk’ from a legal standpoint. The charges that California courts have found to be ‘fees’ rather than ‘taxes’ are charges imposed to mitigate the harm caused by a business paying the fee. Therefore, that fee would not have to be approved by a two-thirds vote of the Legislature.”

***REPORT III For the Benefit of California Electricity Ratepayers: Electricity sector options for the use of allowance value created under California’s cap-and-trade program***, examines the impact on consumer utility bills of different scenarios being considered by the California Public Utilities Commission (CPUC).

By law, proceeds generated from the free allocation of emissions allowances to utilities must be used to the benefit of ratepayers. One approach is to repay California households for increases in electricity rates resulting from putting a price on the cost of carbon.

Next month, the CPUC will decide how to invest these proceeds in order to cut ratepayer costs. Three possible strategies include:

1. Crediting ratepayers’ total monthly utility bills—or issuing monthly rebate checks—in direct proportion to any rate increases. This idea is championed by the three largest IOUs in California.
2. Returning 90 percent of the money to ratepayers through annual rebates, and investing ten percent in energy efficiency programs. The California State Division of Ratepayer Advocates, the independent consumer advocacy division of the California Public Utilities Commission, backs this option.
3. Using about 47 percent of the allowance value in 2013 for energy efficiency programs, clean energy technologies investments, and investment in renewable generation. The rest of the revenues would fund rebates for residential customers and would give money back to trade-exposed, emission-intensive industries that might otherwise be tempted to leave California. The Joint Environmental Parties, a group of environmental, science, economic, law, and consumer- protection-focused nonprofit organizations, developed this option.

Report III measures the impact of these three scenarios on electricity costs and finds that allowance value created by the sale of IOU allowances can offset all or nearly all of the increased costs to ratepayers. The chart below details the net



change in those costs for California households receiving basic-level utility service in the summer months (before accounting for the possible benefits of investments under the various proposals):

Utility	Proposal #1- Cost Impacts	Proposal #2- Cost Impacts	Proposal #3- Cost Impacts
PG&E	0.0%	0.3%	1.4%
SCE	-0.1%	0.4%	2.3%
SDG&E	0.0%	0.3%	1.2%

“There is a lot of misinformation circulating about the true impact of cap and trade on utility costs for California households,” said Dallas Burtraw, senior fellow at Resources for the Future (RFF) and co-author of the report with Sarah Jo Szambelan. “What we found in our research is that if we use allowance value to the benefit of Californians—as we are directed to under the law—we can either mostly mitigate these costs or mitigate them altogether.”

“A key decision,” according to Burtraw, “is how that value is returned to ratepayers. Should it be used to mask changes in electricity bills? Or should bills be allowed to rise to reflect the utility’s costs, and pass the equivalent revenue directly back to households as a separate payment to keep them whole?”

**REPORT IV *A Primer on the Use of Allowance Value Created under the CO2 Cap-and-Trade Program***, prepared by RFF experts Burtraw and Szambelan, aims to help Californians better understand the state’s carbon trading program and the revenues it will generate. The report explains what “allowance value” is, outlines key decisions to be made, when and by whom, and explains the ramifications for all Californians.

“Public policy works best with a citizenry and state leaders who are well informed and engaged,” Perry said. “We hope these reports will help inform this vitally important decision in California.”

Next 10 created a summary document from the main findings of each of these reports entitled ***Using the Allowance Value from California’s Carbon Trading System: Legal Risk Factors, Impacts to Ratepayers and the Economy***. This summary document can be found at [www.next10.org](http://www.next10.org).

**About Next 10**

*Next 10 is an independent, nonpartisan organization that educates, engages and empowers Californians to improve the state’s future. Next 10 is focused on innovation and the intersection between the economy, the environment, and quality of life issues for all Californians. Next 10 employs research from leading experts on complex state*



*issues and creates a portfolio of nonpartisan educational materials to foster a deeper understanding of the critical issues affecting our state.*