Preliminary Economic Analysis

California Air Resources Board
Economic Modeling

- Goal: Evaluate the economic impact of options for achieving the 2030 GHG target
  - Estimate the economic impact of various technology pathways and carbon pricing
  - Inform measure development
  - Assess the economic impact of options for achieving the 2030 emissions target on the California economy, California businesses, and individuals

- Tools: California PATHWAYS and Regional Economic Models, Inc. (REMI)
Models and Cost Estimation

PATHWAYS
- Estimates direct technology, energy, and fuel costs of the GHG reduction scenarios
- Data sources for costs include:
  - EIA Annual Energy Outlook (AEO) for fuel price projections
  - CPUC RPS Calculator for renewable generation costs
  - National Energy Modeling System (NEMS) for residential and commercial technology costs

REMI
- Models the economic impact of GHG reduction scenarios on the California economy
- Uses technology and fuel costs from PATHWAYS as an input
- Estimates the indirect and induced impacts of GHG reduction scenarios
- Provides estimates of impact of scenarios on industrial sectors, individuals, and overall California economy
AB 197 directs ARB to identify the cost-effectiveness, including avoided social cost, for each measure in the Scoping Plan.

AB 197 cost-effectiveness calculations will be included in the draft 2030 Target Scoping Plan.
**Scoping Plan Economic Analysis**

Reference Scenario
- Economy; technology; population; practices

Existing Analyses
- IEPR, SIP, SLCP, AEO, others

Vision Model

Scoping Plan Measures
- Changes in Technologies & Practices

**Pathways Analysis**

- GHG Emissions
- Costs/Savings

- Cap and Trade Carbon Prices
- Other Monetized Costs/Savings

REMI

- Updated Economy

Updated Pathways Analysis

Updated GHG Emissions

Updated Economy

Macroeconomic Impacts
**Scoping Plan Economic Analysis**

- **Reference Scenario**
  - Economy; technology; population; practices

- **Existing Analyses**
  - IEPR, SIP, SLCP, AEO, others

- **Vision Model**

- **PATHWAYS ANALYSIS**
  - GHG Emissions
  - Costs/Savings

- **Cap and Trade Carbon Prices**

- **Other Monetized Costs/Savings**

- **REMI**
  - Updated Economy
  - Macroeconomic Impacts

- **Updated PATHWAYS ANALYSIS**

- **Updated GHG Emissions**
PATHWAYS Cost Accounting

- **Included**
  - Direct energy sector costs and savings by sector
    - Household, commercial, industrial, trucking, etc.
  - Annualized capital costs
  - Annual energy costs
  - Electricity and natural gas rates are calculated, other fuel prices are inputs
  - Mitigation costs of short-lived climate pollutants
  - Federal incentives and tax credits

- **Not Included**
  - Cap and trade or carbon tax impacts
  - Structural/macroeconomic changes to the economy
  - Climate or health benefits of GHG mitigation
  - Criteria and toxic pollutant emissions
  - In-state transfers or incentive payments
Scenarios

- **Draft Scoping Plan Policy Scenario – Includes Cap-and-Trade and Direct Regulations**
  - Cap-and-Trade Program is needed to achieve 2030 GHG target
  - Cap and Trade carbon price modeled in REMI

- **Alternative 1 – No Cap-and-Trade with Focus on Direct Regulations**
  - Additional direct regulations
  - More modeling work needed to meet 2030 GHG target
  - ARB requests input on closing GHG gap of 5 MMT in 2030

- **Alternative 2 – Includes Carbon Tax and Direct Regulations**
  - Uncertain if Alternative 2 will meet 2030 GHG target
  - Carbon tax structure and return of revenue currently undefined
  - Will be included in the draft 2030 Scoping Plan Update
### Preliminary Direct Cost Estimates in 2030 Relative to Reference Case

<table>
<thead>
<tr>
<th>Scenario</th>
<th>2030 GHG Reductions</th>
<th>2030 Stock Costs (Billion $2012)</th>
<th>2030 Fuel Costs (Billion $2012)</th>
<th>2030 Total Cost (Billion $2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft Scoping Plan Scenario</td>
<td>90.5</td>
<td>$6.2</td>
<td>-$4.5</td>
<td>$1.7</td>
</tr>
<tr>
<td>Alternative 1</td>
<td>127.3</td>
<td>$8.7</td>
<td>$1</td>
<td>$9.7</td>
</tr>
</tbody>
</table>

- Results represent the GHG reduction scenarios as modeled in PATHWAYS.
- Results do not reflect the cost and GHG reductions associated with the Cap-and-Trade Program in the Draft Scoping Plan Scenario (modeled in REMI).
Areas of Cost Uncertainty
Draft Scoping Plan Scenario

See slide 20 for details on the measures within the Draft Scoping Plan Scenario

- Mobile Source Strategy and Transportation
  - Cost of achieving reductions in vehicle miles traveled are not estimated
  - Capital cost of efficiency improvements in aviation, rail and ocean-going vessels are not included in the modeling

- Refining Measure
  - Capital cost is not estimated

- Demand Response and Flexible Load
  - Flexible loads do not include any capital cost estimates

- Energy efficiency
  - Costs of behavioral conservation are not estimated
Areas of Cost Uncertainty
Alternative 1

See slide 21 for details on measures within Alternative 1

- Heat Pumps and Early Retirement of Space Heaters
  - Cost does not include any incentive payment for early retirement

- Additional ZEVs and Early Retirement of LDVs
  - Cost does not include any incentive payment for early retirement

- Industrial, Oil & Gas, and Refining Measure
  - Capital costs are not included
SCOPING PLAN ECONOMIC ANALYSIS

Reference Scenario
Economy; technology; population; practices

Existing Analyses
IEPR, SIP, SLCP, AEO, others

Vision Model

Scoping Plan Measures
Changes in Technologies & Practices

PATHWAYS ANALYSIS

GHG Emissions

Costs/Savings

Cap and Trade Carbon Prices
Other Monetized Costs/Savings

REMI

Macroeconomic Impacts

Updated Economy

Updated PATHWAYS ANALYSIS

Updated GHG Emissions
REMI Model

- Dynamic forecasting and policy analysis tool
- Models economic changes over time
- Allows firms and individuals to change their behavior in response to changing economic conditions
- Estimates comprehensive economic and demographic effects of policies
  - Employment impacts
  - Business impacts
  - Impacts to individuals
  - Impacts on California Gross Domestic Product
  - Investment impacts
The expenditures for the PATHWAYS sectors are disaggregated among the REMI consumer, commercial and industrial sectors.

<table>
<thead>
<tr>
<th>Pathways Sectors</th>
<th>REMI Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>Consumer Sectors</td>
</tr>
<tr>
<td>Light Duty Vehicles</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>Commercial and Industrial Sectors</td>
</tr>
<tr>
<td>Oil &amp; Gas Extraction</td>
<td></td>
</tr>
<tr>
<td>Refining</td>
<td></td>
</tr>
<tr>
<td>Other Industrial</td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
</tr>
<tr>
<td>Freight Transport</td>
<td></td>
</tr>
<tr>
<td>Transportation, Communications, &amp; Utilities (TCU)</td>
<td></td>
</tr>
</tbody>
</table>
Example: Household Energy Efficiency

**PATHWAYS output**
- Change in household capital expenditure
- Change in household spending of electricity and natural gas
- Relative to the reference scenario

**REMI input**
- Adjust spending in household appliance category and retail trade
- Adjust spending in household electricity
  - Electricity power generation, transmission, and distribution
- Adjust spending in household natural gas
  - Natural gas distribution
Carbon Price Modeling

- Estimate annual emissions obligation of covered sectors
- Adjust firm production costs to incorporate carbon pricing at estimated auction floor price and Allowance Price Containment Reserve price

Return of value
- Draft Scoping Plan Scenario - Cap-and-Trade
  - Assumes $2 billion in auction proceeds are appropriated to sectors that currently receive GGRF funds
  - Remaining value is returned to individuals in California
- Alternative 2 - Carbon tax
  - Alternative 2 was not modeled
  - ARB requests stakeholder input on potential return of tax revenue under a carbon tax
The estimated carbon prices are used to model the impact of the Cap-and-Trade Program in the Draft Scoping Plan Scenario.
## Estimated Employment Impacts in 2030 Relative to Reference Scenario

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Absolute Change (Thousand Jobs)</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference Scenario</td>
<td>23 million projected jobs in 2030</td>
<td></td>
</tr>
<tr>
<td>Scoping Plan Scenario Low Carbon Price</td>
<td>-24.9</td>
<td>-0.11%</td>
</tr>
<tr>
<td>Scoping Plan Scenario High Carbon Price</td>
<td>-73.2</td>
<td>-0.31%</td>
</tr>
<tr>
<td>Alternative 1</td>
<td>-101.9</td>
<td>-0.43%</td>
</tr>
</tbody>
</table>

As modeled in REMI, California employment impacts are estimated to result in less than half a percent reduction in employment levels in 2030.
## Estimated Impact on GDP in 2030 Relative to Reference Scenario

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Absolute Change (Billion $ 2015)</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference Scenario</td>
<td>$3.423 trillion projected GDP in 2030</td>
<td></td>
</tr>
<tr>
<td>Scoping Plan Scenario Low Carbon Price</td>
<td>-$6.8</td>
<td>-0.20%</td>
</tr>
<tr>
<td>Scoping Plan Scenario High Carbon Price</td>
<td>-$19.5</td>
<td>-0.57%</td>
</tr>
<tr>
<td>Alternative 1</td>
<td>-$14.4</td>
<td>-0.43%</td>
</tr>
</tbody>
</table>

As modeled in REMI, the impact to California GDP of the GHG reduction scenarios is estimated to be small relative to the size of the California economy.
Stakeholder Input and Next Steps

- Request for Stakeholder Input
  - Structure of carbon tax
  - Return of revenue under a carbon tax
  - Inclusion of administrative costs in the modeling

- Next Steps
  - Estimate the impact of carbon tax scenario Alternative 2
  - Continue to refine modeling estimates
  - Close the 5 MMT GHG emissions gap in Alternative 1
  - Incorporate AB 197 requirements
  - Analyze economic impact on Disadvantaged Communities
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