

April 20, 2016

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

LAO  
**75**  
YEARS OF  
SERVICE

# **Administration's Cap-and-Trade Report Provides New Information, Raises Issues for Consideration**

Presented to:  
Assembly Budget Subcommittee No. 3  
On Resources and Transportation  
Hon. Richard Bloom, Chair





## Annual Report Consolidates Spending and GHG Information

---

- Recent report provides spending and greenhouse gas (GHG) information on projects funded from cap-and-trade auction revenues.
  - Reporting required by the Legislature.
  - For more detailed information on the report, please see our online report: *Administration's Cap-and-Trade Report Provides New Information, Raises Issues for Consideration*.
  
- Estimated to achieve 14 million metric tons of GHG reductions over life of projects.
  - Reductions expected to occur over several decades.
  - Total excludes reductions associated with high-speed rail.
  
- More than half of funding going to projects that benefit disadvantaged communities.



# Estimated Average GHG Reduction Cost Is High With Wide Variation Across Programs

## Estimated Average Cost Per Ton of Reduction Varies Greatly

Program	Cost Per Ton <sup>a</sup>
Organics and recycling loans	\$4
Forest health	4
Dairy digester research and development program	8
Organics composting/digestion grants	9
Forest legacy	10
Recycling manufacturing	15
Delta and coastal wetlands restoration	30
State water and efficiency and enhancement program	33
Clean vehicle rebates	46
Sustainable agricultural lands conservation	59
Mountain meadow ecosystems restoration	113
Urban and community forestry	116
Water-energy grant program	141
Affordable housing and sustainable communities	191
Single-family solar photovoltaics <sup>b</sup>	209
Transit and intercity rail capital	259
Single-family energy efficiency and solar water heating <sup>b</sup>	282
Large multifamily energy efficiency and renewables <sup>b</sup>	343
Enhanced fleet modernization program “plus-up”	414
Truck and bus voucher incentives	452
Incentives for public fleets pilot project for DACs	725
<b>Overall Average</b>	<b>\$57</b>

<sup>a</sup> Calculated as the amount of cap-and-trade funds awarded to a program divided by the total estimated greenhouse gas (GHG) emission reductions from the projects that receive cap-and-trade funds.

<sup>b</sup> Assumes GHG reductions at the midpoint of the administration’s estimated range.  
DACs = disadvantaged communities.

- Administration’s data suggests average cost of \$57 per ton reduced.
- At the most recent auction in February 2016, cap-and-trade allowances sold for substantially less—about \$13 per ton.



## **Current Shortcomings Limit Usefulness of Report to Policymakers**

---



### **Concerns About Accuracy of GHG Estimates**

- Estimates do not account for interaction with regulations, such as cap-and-trade.
- Estimates do not adequately account for likely activities that would occur without the program.



### **Report Lacks Estimates of Co-Benefits**

- Does not quantify other potential benefits of spending options, such as reduced local air pollution, water conservation, financial savings for low-income households, enhanced wildlife habitat, and improved forest health.
- Limits the amount of information that Legislature can use to weigh the trade-offs among various spending options.



## Considerations for Improving Outcomes and Information

---



### What Role Should Cap-and-Trade Spending Play in Achieving GHG Goals?

- In the long run, the Legislature might want to consider the extent to which it would like to rely on cap-and-trade spending programs versus relying on other policies, such as the cap-and-trade *regulation*, to achieve its GHG goals.



### Opportunities to Improve Future Reports

- Direct administration to take certain factors into account, such as interactions with other programs and what project outcomes would have occurred without the allocation of auction revenue.
- Establish independent expert committee to assist in estimating the outcomes of different programs.