

SUMMARY OF ARB RESPONSES TO PEER REVIEW COMMENTS

November 2008

The ARB Response to the Peer Review groups the major comments by the reviewers into general categories, with a specific response for each. These are:

1: Comment: ARB should have taken into account reduced fuel consumption resulting from higher fuel prices.

The estimate of savings from the Pavley motor vehicle greenhouse gas regulation didn't take into consideration how higher future fuel prices would drive down fuel consumption. This change to the 'business as usual' scenario – that is, without AB32 – means that estimated savings due to the Pavley regulation would decline.

Response: To address concerns that the analysis overstated the benefits of Pavley by not adequately considering the effects of higher fuel prices, ARB conducted an analysis that removed all Pavley benefits. This analysis still showed positive effects on real state output, personal income and labor demand.

2: Comment: Some measures should not have been included in the analysis.

Two reviewers thought that several measures that were already in place before AB 32 was passed should be considered "business as usual" rather than part of the Plan, since they would have been implemented anyway. Accordingly ARB should not have included their costs, or the savings and GHG reductions they achieve. The reason why this is particularly important is that the Pavley regulations provide the greatest savings, both in terms of fuel and dollars, and the largest reductions of GHGs.

Response: The ARB approach appropriately includes the full range of measures adopted to achieve greenhouse gas reductions. Additional analysis clearly shows that even if ARB includes the Pavley regulations as part of the baseline, the economic effects of the Plan are positive for most indicators.

3: Comment: ARB should have used a wider range of inputs.

Because there is so much uncertainty about what might happen several years out, several reviewers called upon ARB to use a wider range of inputs to determine how changes in some inputs (such as electricity costs) might impact the results. This is known technically as a 'sensitivity analysis', that is, determining how sensitive the results are to a range of different inputs.

Response: ARB looked at the impact of higher and lower fuel prices, as well as higher and lower estimates of costs and savings. These results show that the economic impact of the Plan remains positive for most indicators across a wide range of scenarios. .

4: Comment: ARB underestimated costs or overestimated savings.

Several reviewers believe that ARB underestimated the costs or overestimated the savings of the individual measures that were a key input to the economic modeling, especially Pavley. Additionally, reviewers questioned why in some cases the costs of individual measures (such as ship electrification, or high speed rail) were omitted entirely from the analysis.

Response: The cost and savings estimates are based on the best information currently available. The plan still has a positive impact even without the benefits of the Pavley regulations. ARB excluded costs from a handful of measures because their primary goal was not to reduce greenhouse gases. Estimates of both the costs and savings will be refined as the greenhouse gas reduction measures in the plan are developed through a stakeholder process over the next few years. For each regulatory proposal that is developed, ARB will rely on the most current information to design measures that are both technologically feasible and cost-effective.

5: Comment: The ARB results don't match those of other analyses.

Several reviewers commented that the ARB results were not in keeping with other economic analyses, specifically those undertaken by the United Nations Intergovernmental Panel on Climate Change (IPCC) whose results show a net economic cost for addressing climate change. (These are known as the Third and Fourth Assessment Reports).

Response: ARB is confident that its results reflect a sound analysis. Furthermore, there are many other analyses that also come to the conclusion that climate plans deliver positive economic benefits. Those include analyses by Maryland, Florida, the Western Climate Initiative, the Center for Climate Strategies, and Next 10.

6: Comment: ARB should have done comparative analyses

Some reviewers thought that ARB should have compared the recommendations in the Plan to other policy mixes -- for example, far more cap-and-trade, or far more direct regulations. This would have given the Board the ability to choose an appropriate mix from a broader range of options.

Response: ARB learned that there are no macro-economic models currently in use that can estimate the potential differences between traditional direct regulations and market-based regulations such as cap-and-trade. ARB relied on advanced, comprehensive modeling tools appropriate for addressing the impacts of the Plan on the California economy. In addition, many of the measures in the plan implement established State laws and policies and it does not make sense to analyze scenarios that do not include them.

7: Comment: ARB should provide more detail on short- and mid-term costs

Reviewers said ARB focused on the long-range goal of 2020 and ignored the short and mid-term costs of implementing measures such as energy efficiency.

Response: A more detailed look at the expected costs and savings revealed that near-term savings exceed near-term cash outlays for payments on investment financing. Few measures are in effect before 2012, and in this period, savings are \$300 million per year higher than expenditures. As the program comes fully into effect (2012 to 2014), the savings grow and exceed expenditures by almost \$3 billion per year.