STATE CAPITOL
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California Legislature

Liane Randolph
Chair, California Air Resources Board
1001 I Street Sacramento, CA 95814
Tuesday, May 14, 2024

Re: California's Proposed Increasing Gas Prices

Chairwoman Randolph:

We are writing to you with serious concerns about California's soaring gas prices and your pending regulations that will undoubtedly increase Californian's gas prices during a time of uncertainty and inflation. While Governor Newsom and his administration claim to be working to lower gas prices, it has come to our attention that the California Air Resources Board (CARB) is considering two items for adoption that will have the opposite effect. One will increase mandates as part of the Low Carbon Fuel Standard (LCFS), and the other will add further restrictions to the cap-and-trade program.

We urge CARB to prioritize affordability when adopting these regulations, specifically as they relate to transportation fuels. It is crucial to recognize the direct impact these regulations have on the prices our constituents pay at the pump. We respectfully request that CARB remain transparent in its rulemaking by clearly stating the anticipated costs of each of these programs and what consumers can anticipate paying per gallon.

On February 20, 2024, Michael Wara, Professor and Senior Research Scholar at Stanford Woods Institute for the Environment, submitted comments on the proposed amendments to the LCFS regulations that stated, "the impacts of these programs cannot be understood in isolation, and CARB needs to evaluate them together to understand both environmental and socioeconomic impacts before the Board should consider votes on proposals to amend either program." We agree and ask CARB to do the full analysis of these programs together as proposed by Professor Wara.

Professor Wara went on to state "this means that the burden from combined pass-through of both cap-and-trade allowance prices and LCFS credit prices – both of which will be required inputs to each gallon of liquid fuel – could be substantially higher for low-income Californians than evaluated in either program in isolation." We share this concern that the cost of these regulations to consumers will be significant and disproportionately impact lower income Californians.

Low Carbon Fuel Standard

Earlier this year, CARB released a required Standardized Regulatory Impact Assessment (SRIA) evaluating the economic impacts of the proposed update to the LCFS.

Table 22 in the LCFS SRIA (p.57) presents a range of potential pass-through costs for gasoline, diesel and jet fuel based on the proposed update. We appreciate that CARB was transparent in acknowledging the pass-through costs to consumers, but the large projected cost increases raise serious concerns.

Currently, consumers pay roughly 11 cents per gallon as a result of the LCFS program. Your proposed amendments are anticipated to cost consumers up to 47 cents per gallon in 2025 and 52 cents in 2026. This is a significant increase, especially given that our constituents already struggle to afford the highest gas prices in the nation.

The impact of these programs is significant for our constituents, who deserve to know the truth about the extent of the new costs.

Jaime Court, the president of Consumer Watchdog, captured these impacts vividly when he stated, "this will hit the working class between the eyes…that is unacceptable . . . even in exchange for what are very noble climate goals." Even the climate economist and advisor to the state, Danny Cullenward, said he "was shocked to see it . . . a 50 cent [per gallon] increase in the price of fuel is not a small thing."

Conflicting Reports

While we appreciated CARB being upfront about the impacts of the LCFS amendments, we were perplexed when we saw a document that contradicted your initial statement on costs.

On December 19, 2023, CARB released its Initial Statement of Reason (ISOR). This document states that the SRIA was "incomplete," and that "retail fossil fuel prices are strongly influenced by many factors beyond LCFS credit prices…and fossil fuel producer pricing strategies are complex." While we agree there are many factors that impact the cost of a gallon of gas, we are surprised that you, as the designer and regulator of the LCFS program, reversed course, and now claim to be unable to tell the public what they will actually be paying at the pump for the program.

In fact, CARB now seems to be distancing itself from the fact that the LCFS impacts gasoline prices. The cost of carbon pricing programs has been acknowledged for decades as a strategy to push consumers to switch to alternative energy. However, in your ISOR you now state "there is no expectation that a more stringent program would lead to higher fossil fuel transportation costs for Californians."

This is intellectually dishonest. We know, and CARB has repeatedly admitted, that this program impacts gas prices, and the more stringent a program becomes, the more expensive it becomes for consumers.

This contradiction was highlighted in a letter to you, on February 19, 2024 from James Duffy, a 13-year veteran of the California Air Resources Board, who worked almost exclusively on the LCFS program. Duffy stated, “Do not ignore the problem of pass-through cost to gasoline consumers.” He pointed out that in the past both in 2015 and 2018, CARB staff estimated pass-through cost to consumers and transparently conveyed that information to the public. His letter rightly points out that CARB staff have now disavowed these pass-through costs, a concern also pointed out by Danny Cullenward, who questioned why these costs wouldn’t be passed through to consumers.

We would appreciate a prompt response explaining this contradiction, and the sudden change of direction on to hide consumer costs. Californians deserve to know what they pay at the pump and all the true costs of your amendments to the LCFS program.

Cap-and-Trade

While we are concerned that the initial consumer cost estimate for the LCFS is now being walked back, we are appalled that for the cap-and-trade program, CARB has chosen to hide the cost of the program from the start. This is unprecedented and unfair to Californians.

On April 12, 2024 CARB released its SRIA on their proposed cap-and-trade amendments with critical cost impacts withheld from the document. With the cap-and-trade program, like LCFS, it has long been established that consumers feel an impact at the pump as a result of the program. Today, consumers pay about 30 cents per gallon as a result of cap-and-trade, a number derived from the state’s calculation that every $10 increase in the allowance price results in about 9 cents per gallon of gasoline in additional costs. So, following this practice, if the allowance price is $50, consumers would pay about 45 cents per gallon of gas.

Instead of acknowledging the potential costs as had been done in previous assessments, CARB’s SRIA purposely avoids showing consumers what to expect, and stated “retail gas prices in California aren’t fully explained by the current regulatory environment and are being evaluated further per direction from Governor Newsom. Predicting how allowance price changes impact these complex pricing strategies and the per gallon gasoline and diesel prices paid at the pump in the future by consumers is beyond the scope of this work.”

It is disappointing that CARB believes consumer price impacts are outside its scope of work, especially when the legislation that created the cap-and-trade program, AB 32 (Nunez, 2006) requires the Board “to minimize costs and maximize the total benefits to Californians.”

This is a strange deviation from the scope of your work in the past. In 2016, CARB’s SRIA stated “incorporating the cost of cap-and-trade program allowances into the price of carbon-based fuels increases the price of fossil fuels and the price of products based on their use of fossil fuels. With complete cost pass-through, for every $10 of allowance price, the price of fossil fuels will increase by about the values displayed in Table 3. This cost will be directly faced by individuals purchasing these fuels in California and will also increase the delivered price of delivered goods and services to Californians.”

Table 3
Price Increase for $10 Allowance Cost
Assuming Complete Cost Pass-Through

Gasoline	$0.09	Gallon
Diesel	$0.10	Gallon
Electricity	$6.35	MWh
Natural Gas	$0.05	Therm

CARB's 2018 cap-and-trade SRIA stated "incorporating the cost of cap-and-trade program allowance into the price of carbon-based fuels increases the price of fossil fuels and the price of products based on their use of fossil fuels. For example, with complete cost pass-through, for every $10 of allowance price, the price of gasoline could increase by about $0.09 per gallon."

CARB has clearly had consumer price impacts in its scope of work in the past. Why is an honest projection of the impact of your policies on consumers now outside of your scope of work?

We respectfully request that you analyze the LCFS and cap-and-trade programs together to understand the full impact to consumers at the pump and we expect that you be transparent about the consumer cost impact per gallon of the cap-and-trade amendments you are considering. To summarize, we specifically request answers to the following questions:

1. What are the anticipated costs of each program and what consumers can anticipate paying per gallon?
2. Will CARB do a combined analysis of the pass-through of both cap-and-trade allowance prices and LCFS credit prices?
3. Is it indeed true that the proposed amendments to LCFS are anticipated to cost consumers up to 47 cents per gallon in 2025 and 52 cents in 2026?
4. Does the LCFS program have an indirect or direct impact on the price of gas for consumers?
5. What critical cost impacts will the cap-and-trade amendments have on fossil fuel consumers, whether it be direct or passthrough?

We expect a response before CARB moves to adopt amendments for either the LCFS program, or the cap-and-trade program.

Assembly Republican Leader James Gallagher

Senate Republican Leader Brian Jones

Assemblymember Phil Chen

Assemblymember Tom Lackey

Assemblymember Laurie Davies

Senator Scott Wilk

Senator Brian Dahle

Senator Janet Nguyen

Senator Rosilicie Ochoa Bogh

Assemblymember Devon Mathis

Senator Shannon Grove

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Assemblymember Joe Patterson

Assemblymember Bill Essayli

Assemblymember Josh Hoover

Assemblymember Vince Fong

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John Eisenhut, Member, CARB
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