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AB 32 COULD SAVE BILLIONS IN ENERGY COSTS

Study finds household savings up to \$670 in 2020

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SAN FRANCISCO (September 13, 2010) — California's clean energy and clean air standards could save the average household up to \$670 in 2020 if oil and natural gas prices spike, according to a new study by three economists.

The U.S. economy has experienced five price shocks in the last 30 years when crude oil prices rose an average of 179% in just one year. This study analyzed how much more Californians would pay if wholesale crude oil and natural gas prices doubled at the start of 2020 and stayed there for a year.

"No study has calculated the benefits of AB 32 in the event of an energy price shock," said James Fine, economist for Environmental Defense Fund and one of the report's authors. "This study uncovers massive potential savings, and shows how the state's landmark policy will protect California's economy from unpredictable events, such as hurricanes and wars, that cause energy prices to jump."

The study, [*Shockproofing Society: How California's Global Warming Solutions Act \(AB 32\) Reduces the Economic Pain of Energy Price Shocks*](#), calculates the savings from added protections against energy price spikes achieved from implementing AB 32 through effective standards adopted by the California Air Resources Board (CARB). Savings occur from reduced demand for and dependence on imported oil and natural gas through a suite of standards that result in more efficient cars that cost less to drive, greater alternative fuel options, more renewable energy, better-planned neighborhoods that give people transportation options, and buildings that use less energy.

"The worst part about our dependence on oil is how much it hurts consumers and small businesses when the price shoots up and you have little choice but to empty

your wallet at the pump," said Remy Garderet, economist for Energy Independence Now and the report's co-author. "When you think about that at the scale of the California economy, you realize how much sense it makes to reduce our dependence on these fuels."

The study considered scenarios for "moderate" and "large" price shocks on two different spending conditions: 1) direct savings to consumers on transportation fuels, such as drivers purchasing gasoline, and industrial consumers buying oil and natural gas products; and 2) savings on imports that follow from reduced reliance on crude oil and natural gas. Essentially, these are two ways of looking at the same savings.

Chris Busch, report author and Policy Director at the Center for Resource Solutions noted that, "Since the 1970s, American political leaders and the public have recognized the problem of our dependence on imported oil. Yet, our reliance on these imports has only gotten worse. In our report, we give the first assessment of how AB 32 will protect consumers from the volatile prices of oil and natural gas. And we found that the savings are significant."

Study Conclusions:

- **Retail Savings:** By increasing energy efficiency and providing more fuel choices, AB 32 implementation will save California consumers and businesses \$4.8 billion if a moderate price shock occurs in 2020. The savings increase to \$9.6 billion if a large oil price shock occurs. This translates into household savings of \$337 to \$670.
- **Wholesale Savings:** Reduced dependence on fossil energy as a result of AB 32 will cut demand for oil imports by 75 million barrels (18% decrease) in 2020, and lessen natural gas demand by 10%. This means decreased spending in 2020 on oil and natural gas imports by \$18.8 billion if a moderate shock occurs, and by \$29.6 billion if a large shock occurs.

Previous studies on AB 32 typically have assumed steady energy prices. For example, the California Air Resources Board (CARB) estimated savings of \$7.5 billion using a price of gasoline in 2020 that is not much higher than the current price and significantly less than prices in 2008, when prices spiked 45% to \$4.59 per gallon. The retail savings calculated are in addition to those calculated by CARB using the U.S. Department of Energy's Annual Energy Outlook (AEO) reference price forecast for 2020.

The report was completed by Center for Resource Solutions, Energy Independence Now and Environmental Defense Fund. This analysis supports the adoption of effective standards by CARB to implement AB 32 and other clean energy and clean air policies.

To read a full version of the study, go to www.resource-solutions.org/publications.

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