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Economic Assessment for Climate Action in California

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This report is part of a series of research studies into alternative energy pathways for the global economy. In addition to disseminating original research findings, these studies are intended to contribute to policy dialogue and public awareness about environment-economy linkages and sustainable growth. All opinions expressed here are those of the authors and should not be attributed to their affiliated or supporting institutions.

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Executive Summary

Many initiatives have been put forward in California for Green House Gas (GHG) mitigation that offer the state significant opportunities to improve environmental quality. This report presents empirical analysis showing that GHG mitigation can be compatible with economic growth objectives. Using a new economy-wide forecasting tool, the Berkeley Energy and Resources (BEAR) model, we simulate the economic consequences of a variety of energy policy scenarios for California. After detailed examination of a range of actual and proposed policies, we find that the aggregate economic benefits of many GHG mitigation policies outweigh their microeconomic costs. Moreover, some of the most prominent policies have the potential to help meet the state's ambitious GHG reduction objectives, while at the same time stimulating aggregate economic growth by increasing productivity and efficiency.

For a package of GHG mitigation policies recommended by the California Climate Action Team (CAT), we summarize general macroeconomic effects and structural

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linkages that transmit economic impacts across the state economy. A consistent feature of these results is the economic importance of cumulative indirect and linkage effects, which in many cases far outweigh direct effects. Although the majority of the GHG responses and direct (adoption and monitoring) costs are easily identified, economic benefits of these policies extend over long supply and expenditure chains, the cumulative effect of which can only be assessed with methods like the one used here.

Three salient conclusions emerge from the economic analysis:

1. A variety of policies under active consideration could reduce GHG emissions significantly, at negligible or negative net cost to the overall state economy.
2. Policies that achieve higher levels of energy efficiency permit resources to be reallocated within the state economy, reducing external energy dependence and increasing in-state value added and employment.
3. With improved information and appropriate incentives, most of the GHG policies considered can enlist significant private agency at a public cost that is a small fraction of their potential benefit.

These general conclusions are supported by a myriad of more detailed structural adjustments, the elucidation of which can be essential to design and implement effective policies.

Rigorous policy research tools like the BEAR model can shed important light on the detailed economic incidence of energy and climate policies. By revealing detailed interactions between direct and indirect effects across a broad spectrum of stakeholders, simulation methods of this kind can support more effective policy responses to climate change.

Many studies emphasize the costs of policies that deal with climate change because they look only at the direct effects. This one finds that many policies under active consideration in California actually *save money* and *increase employment* overall

because the *indirect and incentive effects* are so important. These overall benefits only become apparent when the economywide implications and innovation potential of the policies are taken into account. For example, we shall see below that energy savings allow consumers to increase other spending, largely on in-state goods and services, and this stimulates California growth and employment. Industry-specific and bottom-up studies of GHG policies fail to capture these indirect benefits, giving disproportionate emphasis to direct costs. An economywide perspective like that of the BEAR model is needed to balance the adjustment and growth perspectives.

1 Introduction

Over the last two years, economists at UC Berkeley have conducted independent research to inform public and private dialogue surrounding California climate policy. Among these efforts has been the development and implementation of a statewide economic model, the Berkeley Energy and Resources (BEAR) model, the most detailed and comprehensive forecasting tool of its kind. The BEAR model has been used in numerous instances to promote public awareness and improve visibility for policy makers and private stakeholders.² In the legislative process leading to the California Global Warming Solutions Act (SB32), BEAR results figured prominently in public discussion and were quoted in the Governor’s Executive Order to carry out the act.

While researchers who developed and implement the BEAR model do not advocate particular climate policies, their primary objective is to promote evidenced-based dialogue that can make public policies more effective and transparent. California’s bold initiative in this area makes it an essential testing ground and precedent for climate policy in other states, nationally, and internationally. Because of its leadership, the state faces a significantly degree of uncertainty about direct and indirect effects of the many possible approaches to its stated goals for emissions reduction. High standards for economic analysis are needed to anticipate the opportunities and adjustment challenges that lie ahead and to design the right policies to meet them.

This report presents estimates from a new model of California that accounts for the economic and environmental effects of energy and GHG oriented policies. At the heart of the BEAR model is a dynamic computable general equilibrium (CGE) framework that elucidates complex economy-environment linkages in California. Because of the high level of institutional detail captured by the model and its database, it can be applied to a broad spectrum of policy scenarios. Because it determines prices and emission levels

² See e.g. Roland-Holst (2006ab, 2007a).

dynamically and endogenously, BEAR also captures policy interactions that would be lost in partial equilibrium, static, or sector-specific analysis. Indeed, the model was designed to elucidate the detailed market and incentive properties of a new generation of climate action policies, more complex and far reaching than any attempted to date.

Generally speaking, our results indicate that the scope for GHG mitigation in California is considerable, and that ambitious mitigation targets can probably be met without significant adverse effects on aggregate economic growth. On the contrary, we find that well designed GHG reduction policies can be economically expansionary if they are based on appropriate incentives, limit administrative costs, and promote the innovation and adoption behavior that has delivered historical improvements in emission efficiency.

2 Scenario Analysis for Climate Action

California has well-established leadership in policies related to climate change, including a broad spectrum of energy and emissions initiatives that have set national standards for economic growth through innovation and efficiency. These policies have targeted energy efficiency and air pollution from many different angles, including vehicle, appliance, and building standards, tax credits, and now economywide emissions targets. While the approaches are diverse, most of these policies share the important objective of seeking to influence economic behavior in ways that limit adverse environmental consequences. Thus climate action policies seek to change behavior, which in turn alters economic structure by inducing agents to choose different technologies, goods and services, and other modalities of economic behavior.

To support the state's deliberations on GHG mitigation and other policy responses to climate change, the BEAR model is being applied to a variety of actual and proposed policy scenarios (see Table 2.1 below). This is an extremely diverse set of initiatives,

reflecting the complexity of the California economy and the sophistication of the initiatives themselves. The policies also vary greatly in their scale, and some will affect nearly every energy consumer while others are targeted a very narrowly defined economic activities. For the scenario work with BEAR, we rely on policy definitions assembled by the California Air Resources Board (ARB) and a wide variety of data sources discussed in greater detail in Section 4 below.

In addition to an empirical assessment of the CAT policies, the BEAR project has been involved for several months in a collaborative model comparison exercise with ARB. This activity originally involved comparison of results from BEAR, ARB's own EDRAM model, and the MRN-NEEM model developed by the Electric Power Research Institute (EPRI) and Charles Rivers Associates (EPRI:2007). The point of the exercise was to appraise California climate policy from a variety of perspectives, using the models most closely associated with various stakeholders in the policy process. To facilitate comparison, ARB set forth a uniform set of policy scenarios, in each case involving a combination of CAT policies with market oriented carbon cap measures that would be designed to make up the difference between CAT mitigation and the state's official goals for GHG reduction.

The ARB scenarios are defined in Table 2.2 below, including an alternative baseline (*) which permitted consideration of independent (CPUC) energy price projections in a single comparison scenario (Scenario 3*). Although the present report is focused on the CAT policies, and the current BEAR project will produce another report on Cap and Trade policy options, we include these results for the interested reader.

Table 2.1: Climate Action Policies Evaluated

Strategy	Agency	Emissions Reductions MMTCO ₂ e		Double Counted 2020	Annualized (2006\$ in 2020) Cost	
		2010	2020		Cost	Saved
Vehicle Climate Change Standards	ARB	1	30		1,331	6,643
Diesel Anti-Idling	ARB	0.64	1.46		58	322
Other New Light Duty Vehicle Technologies	ARB	0	5.4		1,569	1,355
HFC Reduction Strategies	ARB	0	8.7		276	201
Transport Refrigeration Units (on and off road)	ARB	0.01	0.02		21	13
Shore Electrification	ARB	0.08	0.55		150	119
Manure Management	ARB	0	1		45	9
PFC Emission Reduction for Semiconductors	ARB	0.53	0.53		27	0
Alternative Fuels: Biodiesel Blends	ARB	0.4	0.8		0	0
Alternative Fuels: Ethanol	ARB	0.62	2.38		3,102	2,233
Heavy-Duty Vehicle Emission Reduction Measures	ARB	0	3.15		136	698
Venting and Leaks in Oil and Gas Systems	ARB	1	1		10	9
Hydrogen Highway	ARB					
Achieve 50% Statewide Recycling Goal	IWMB	3	3		82	0
Landfill Methane Capture	IWMB	0.89	2.66	0.86	61	171
Zero Waste - High Recycling	IWMB	0	3	0.00	180	111
Conservation Forest Management	Forestry	1	2.35		4	0
Forest Conservation	Forestry	0.4	0.4		15	0
Fuels Management/Biomass	Forestry	1.08	3.0	1.80	1,305	1,559
Urban Forestry	Forestry	0.08	0.88	0.69	287	155
Afforestation/Reforestation	Forestry	0.51	1.98		21	0
Water Use Efficiency	DWR	0.17	0.51		90	358
Building Energy Efficiency Standards in Place	CEC	0.71	2.14		255	658
Appliance Efficiency Standards in Place	CEC	0.41	4.48		509	1,489
Fuel-Efficient Replacement Tires & Inflation Progs	CEC	0.05	0.12		1	32
Building Energy Efficiency Standards in Progress	CEC					
Appliance Energy Efficiency Standards in Progress	CEC					
Cement Manufacturing	CEC	1	1		3	8
Municipal Utility EE Programs/DR	CEC	1.3	6.0		1,632	2,147
Municipal Utility Renewable Portfolio Standard	CEC	1.3	6.0		0	0
Municipal Utility Combined Heat and Power	CEC					
Municipal Utility Carbon Policy (no new coal)	CEC	1.3	6.0		216	0
Alternative Fuels: Non-Petroleum Fuels	CEC					
Measures to Improve Transp Energy Efficiency	BTH	1.68	8.7			
Smart Land Use and Intelligent Transportation	BTH	1.04	9.97			
BTH Strategies	BTH2				2,190	2,190
Conservation tillage/cover crops	Food/Ag					
Enteric Fermentation	Food/Ag	1	1		3	0
Green Buildings Initiative	SCSA	0.5	1.8		559	559
Transportation Policy Implementation	SCSA	0	0		--	--
Accelerated RPS to 33% by 2020	CPUC	3.7	8.2	2.66	100	0
California Solar Initiative	CPUC	0.19	0.92		890	322
IOU EE Programs	CPUC	4.52	3.66		987	1,186
IOU Additional EE Programs	CPUC	0	5.60		1,690	1,790
IOU CHP (Self Generation Incentive Program)	CPUC	0.2	0.4		TBD	TBD
SB 1368 Implementation for IOUs	CPUC	0	0		0	0
IOU Electricity Sector Carbon Policy	CPUC	TBD	TBD		TBD	TBD
Total		30.31	138.73	6.00	17,805	24,337

Source: California Air Resources Board

Table 2.2: Scenarios Analyzed for the ARB Comparison Project

Analysis Cases	Climate Strategies ¹	Cap-and-Trade Program ²	Offsets ³	Energy Prices ⁴
Baseline	None	None	None	IEPR Forecast
Scenario 1	Reference Case	Program A: All Sectors	None	EPRI Forecast
Scenario 2	Reference Case	Program A: All Sectors	\$10/ton	EPRI Forecast
Scenario 3	Reference Case	Program A: All Sectors	\$30/ton	EPRI Forecast
Scenario 4	Reference Case	Program A: All Sectors	\$50/ton	EPRI Forecast
Scenario 5	Reference Case	Program B: Major Sectors Only	None	EPRI Forecast
Scenario 6	Reference Case	Program B: Major Sectors Only	\$30/ton	EPRI Forecast
Scenario 7	Sensitivity Case ⁵	Program A: All Sectors	\$30/ton	EPRI Forecast
Scenario 8	Sensitivity Case ⁵	Program B: Major Sectors Only	\$30/ton	EPRI Forecast
Energy Price Sensitivity Case				
Baseline*	None	None	None	CPUC Forecast
Scenario 3*	Reference Case	Program A: All Sectors	\$30/ton	CPUC Forecast

- 1. Reference Case climate strategies listed in Error! Reference source not found.. The sensitivity case uses 0% or the emission reductions, costs, and savings.**
- 2. Program A sets the cap across the entire California economy. Program B sets the cap across the energy intensive sectors, including the electric sector (including electricity imports), the cement sector, and the refining sector.**
- 3. Offsets can account for up to 10% of the required emission reduction. In 2020, offsets can account for up to 10% of the 174 MMTCO₂e emission reduction required, or 17.4 MMTCO₂e.**
- 4. The energy prices are based on the 2005 Integrated Energy Policy Report (EPRI) forecast. The Sensitivity Case is based on the CPUC Market Price Referent (MPR) natural gas price forecast (see Section Error! Reference source not found.).**
- 5. Assumes CAT policies are 50% effective.**

2.1 Climate Action Team Results

Discussion of the BEAR results will move from aggregate to more detailed economic effects, and then from specific review of the CAT policy effects to general insights that emerged from both the CAT and ARB assessments. Macroeconomic effects are presented in Table 2.3 below, and a few salient results are immediately apparent. Firstly, the overall impact of this ambitious climate policy package on real growth is negligible, changing state real GSP by less than one quarter of one percent annually by

2020 and real state income by only about one half of one percent. Employment in the state actually increases, as expenditures shift from imported energy dependence to demand for more labor-intensive in-state goods and services. Although we do not discuss the ARB results in detail here, these small macro impacts are generally consistent across all the scenarios.

Table 2.3: Aggregate Adjustments
(percent changes with respect to baseline values in 2020)

Scenario	Real GSP	Personal Income	Emp	Emission Price ¹
CAT	-0.13%	-0.60%	0.05%	\$ -
Scenario 1	-0.10%	-0.60%	0.20%	\$22
Scenario 2	-0.20%	-0.70%	0.10%	\$ 7
Scenario 3	-0.10%	-0.60%	0.20%	\$ 22
Scenario 4	-0.10%	-0.60%	0.20%	\$ 22
Scenario 5	-0.20%	-0.60%	0.10%	\$ 80
Scenario 6	-0.10%	-0.60%	0.20%	\$ 17
Scenario 7	-0.20%	-0.70%	-0.10%	\$ 206
Scenario 8	-0.30%	-0.90%	-0.50%	\$ 442
Scenario 3*	-0.20%	-0.80%	-0.20%	\$ 9

¹2006 dollars per metric ton of CO2 equivalent carbon, in 2020.

It is worth noting that other findings have suggested larger growth costs from climate action policies. The main reason for this, as we interpret our own and alternative analysis, is failure to incorporate the many positive economic stimuli associated with the CAT policy package. This included significant new demand for

construction, technology, natural gas, and other components of a structural transition to greater energy efficiency and green modernization of the state economy.³

The latter effects are apparent in Table 2.4, which presents more detailed sectoral adjustments arising from the CAT policies. It is worth emphasizing for the reader that percent changes here are defined with respect to status quo growth rates in the baseline. For this reason, a negative effect does not mean negative absolute growth. For example, in the fuels sectors targeted by vehicle efficiency measures, gasoline use in California will still be higher in 2020 than in 2010, but not as much higher as (indeed significantly less so than) it was in the baseline.

Emissions adjustments are generally what would be mandated by the component policies themselves, although they can vary in the BEAR model because emission levels are endogenous. This happens for three reasons:

1. Policy interaction – In some cases, policies have interactive direct and indirect effects. The former will be deterministic ex ante, and are simply additive. The latter can be quite complex and require detailed inspection to identify positive and negative synergies.
2. Technical substitution – The current scenarios do not take account of the widely perceived potential for climate policies to induce innovation, but BEAR model does allow for technical substitution. In response to price changes, individual sectors can be expected to substitute fuels, other inputs, and/or factors of production to achieve greater cost effectiveness.
3. Indirect price effects – Sometimes referred to as rebound effects, these price responses will create a second round of demand adjustments in sectors with significant price changes. In the case of fuels, for example, falling demand

³ Other findings also focus on subjective welfare measures including inconvenience or disutility associated with technical change. We believe these behavioral parameters are open to question and focus our results on the real side of the economy: real output, incomes, and job growth.

may be somewhat offset by induced price declines. Likewise, rising demand for construction services may be partially attenuated by price increases.

Relevant examples of these effects include transport intensive service sectors, like Ground Transport (GndTns) and Wholesale and Retail Trade (WhlTrad). Both sectors experience significant emissions reductions because they are impacted by many components of the CAT policies, yet rising service sector demand offsets any negative output and employment effects for them. This is a combined result of policy interaction and substitution effects, and is typical of the structural transition benefits captured by BEAR. A partial equilibrium analysis of the individual direct industry policy effects would not identify these offsetting gains, yet though they accrue directly to CAT targeted sectors and require no redistribution or compensatory measures and yield a net benefit.

The Cement sector is another prime example, where possible adverse consequences of CAT emissions targeting are more than offset by induced construction demand arising from other CAT policies. These examples highlight the importance of understanding the CAT policies as an integrated package of climate action measures, of seeing both supply and demand side effects, linkages between policy components, and induced market effects. During the implementation process, policy dialogue often decomposed among stakeholder interests, and these integrated economic effects can be overlooked. These results demonstrate the essential contributions policies can make to each other, and the importance of a more comprehensive approach to assessment, design, and implementation.

Table 2.4: Sectoral Adjustments
(percent changes with respect to baseline values in 2020)

Sector	Emissions	Output	Emp	Price	Imports	Exports
Agric	-1.10	-1.02	-1.12	-.46	-1.93	.18
Cattle	-1.53	-1.05	-1.91	.82	.58	-.93
Dairy	-39.55	-.73	-2.07	.00	-.73	-.16
Forest	2.85	3.18	2.83	-3.86	-.83	4.15
OilGas	-31.91	-35.96	-32.89	-4.25	-38.71	-5.70
OthPrim	.49	-11.12	0.30	-3.23	-14.02	.29
DistElec	-31.68	-5.91	-7.28	-6.31	-11.91	.00
DistGas	17.05	17.63	17.30	-1.73	.00	5.14
DistOth	-2.11	-1.54	-2.52	.91	-.63	.00
ConRes	-.87	-.74	-0.89	-.18	-1.10	.00
ConNRes	30.90	30.74	30.88	-.24	30.11	.00
Constr	-8.19	22.51	4.86	2.54	28.80	2.24
FoodPrc	-1.89	-1.34	-2.28	-.59	-3.66	.22
TxtAprl	-.16	-.30	-0.17	-.35	-.65	.24
WoodPlp	.67	.88	0.52	.18	1.07	.03
PapPrnt	-.27	-.07	-0.50	-.67	-.75	.57
OilRef	-13.14	-12.23	-13.16	-1.39	-13.46	-1.60
Chemicl	-.59	-.22	-0.90	.03	-.18	-.08
Pharma	-.51	-.35	-0.89	-1.01	-1.36	.80
Cement	-5.05	2.40	1.30	1.05	4.55	-.39
Metal	-.24	.25	-0.25	.55	1.36	-.42
Aluminm	-.39	-.10	-0.51	3.31	6.62	-2.79
Machnry	.04	.58	-0.12	-.12	.10	.23
AirCon	4.53	12.42	4.51	1.97	14.66	.84
SemiCon	-23.93	-.23	-0.56	-.27	-.50	.18
ElecApp	6.96	10.61	6.89	-6.42	3.43	8.22
Autos	5.64	5.01	5.62	-6.71	-2.11	7.30
OthVeh	.95	1.75	0.86	.10	1.85	.29
AeroMfg	.38	.55	0.29	-.19	.36	.28
OthInd	-.35	-.26	-0.37	-.26	-.79	.17
WhlTrad	-20.30	.85	0.62	-.45	-.06	.57
RetVeh	1.73	1.95	1.56	-.58	.77	.92
AirTrns	.13	.10	0.04	-.86	-3.32	.77
GndTrns	-45.53	3.16	2.97	-2.97	.07	3.32
WatTrns	.21	-1.17	0.01	-1.39	-2.56	.96
TrkTrns	.27	.44	0.08	-.95	-.52	.92
PubTrns	-.12	.22	-0.13	-1.33	-1.13	1.21
RetAppl	.60	1.98	0.43	-.15	.00	.55
RetGen	.13	.37	-0.06	-.73	-.38	.72
InfCom	1.08	1.42	1.06	-.89	-.38	1.08
FinServ	-2.10	-1.34	-2.11	-1.82	-4.90	1.30
OthProf	.63	.91	0.41	-1.06	-1.22	1.13
BusServ	-.19	-.12	-0.26	-.78	-3.20	.65
WstServ	-1.02	-.63	-1.04	.76	.14	-.79
LandFill	-56.23	-.86	-3.10	2.02	1.16	-1.90
Educatn	3.17	3.44	3.13	-.69	2.72	1.34
Medicin	-1.81	-1.69	-1.82	-.85	-2.53	.37
Recratn	1.70	2.18	1.52	-.66	1.51	1.04
HotRest	.28	.68	0.11	-.17	.50	.30
OthPrSv	.98	1.35	0.97	-.34	.67	.58
Total/Average	-20.20	-.59	0.05	-1.15	-.73	1.00

2.2 General Results Interpretation

The general results of the ARB scenarios have been discussed in the main body of this document. In this section, a few independent observations are offered from the perspective of current and previous research with the BEAR model.

Aggregate Real Effects on the Economy are Small (Growth is not Threatened)

Despite the political and economic importance of state's climate policy initiatives, the economic burden of the proposed policies is small relative to the California economy. To take two examples, in Scenario 1 the approximate cost of all permits would be less than 2% of the value of output in the target sectors, and a much smaller fraction of state GDP. In a more extreme case, when CAT attains only half its target mitigation and C&T makes up the difference in only three sectors (Scenario 9), the permit cost is much higher (about 24% of three-sector output value), but still less than 2% of state GDP. To the extent that the sectoral costs are passed on, they cannot significantly reduce aggregate state income and consumption. In particular, they are much smaller than most climate damage estimates.

Individual Sector Demand, Output, and Employment can Change Significantly (Economic Structure Changes)

Energy fuel and carbon capped sectors can experience important adjustments, but these are offset by expansion elsewhere, including Services, Construction, and Consumer goods. The California economy is seen undergoing an important structural adjustment, reducing aggregate energy intensity and increasing the labor-intensity of state demand and output. These shifts, masked at the aggregate level, may present opportunities for policy makers to mitigate adjustment costs.

In other words, the aggregate results indicate that the policies considered will pose no significant net cost to the California economy. They might raise costs for some firms and individuals, but as a whole the California economy will probably experience higher growth and create more jobs than it would have without this action (even before considering climate damage aversion). The task for California policymakers in the near term will be to design policies that fairly and efficiently distribute the costs of reducing greenhouse gas emissions.

Combined Effects of the Climate Action Policy Packages have Net Effects On Individual Sectors that Cannot be Identified in Sector-specific Policy Analysis

Because of general equilibrium effects, including policy interaction, technical and expenditure substitution, price (e.g. rebound effects), the effects of individual climate policies on individual sectors can be partially or completely reversed. For this reason, it is essential to assess design and implementation of climate policies in an integrated manner to avoid misleading interpretation of direct effects or disarticulation of the policy dialogue. As a case in point, in the Cement sector, any adverse direct effects of new emission regulations are more than offset by new construction demand that is induced by other climate action measures.

Real Output and Employment Effects are Smaller than in Previous BEAR Results

The reason for this is that the ARB scenarios are technology neutral, meaning no innovation or efficiency improvements are anticipated in response to the C&T measures. By contrast, previous BEAR scenarios assumed induced efficiency gains in line with California's historical trend of ~1.4% per year. This was omitted for comparability and to conform with ARB scenario specification, but I plan to report it for comparison in the public presentation because I believe this is a more credible scenario. As in the past,

these efficiency gains are crucial determinants of the growth dividend from California's energy efficiency policies. In particular, the positive results would be much larger and the negative results could easily be reversed. This issue is discussed in greater detail below.

Employment Effects are Positive in the Majority of Scenarios

The reason for this, as in past BEAR estimates, is re-direction of consumer expenditure from energy/fuels to more labor-intensive goods and services. This is one of the most important economic effects of climate action policy, reducing import dependence on capital-intensive fuels and increasing spending on in-state goods and services. In the last round of CAT estimates, the EDRAM model revealed the same benefits, amplified by migration into California. The current BEAR scenarios do not allow for migration, so its results are smaller for this reason and because of tech-neutrality.

No Significant Leakage is Observed in the BEAR Scenarios

Import and export adjustments are significant in some sectors, but exhibit no discernable interaction with the carbon constraint in the capped sectors. Imports of fuels far sharply as the policies dictate, but there is negligible evidence of pollution outsourcing in targeted or energy dependent sectors.

No Forgone Damages are Taken into Account

For all scenarios, we have omitted consideration of this important class of policy benefits, including foregone local pollution and attendant public health cost savings. Over a thirteen year time horizon, and considering the amount of pollution reduction, these benefits could be significant (see e.g. Stern: 2006).

3 Background for the Climate Action Team Policy Scenarios

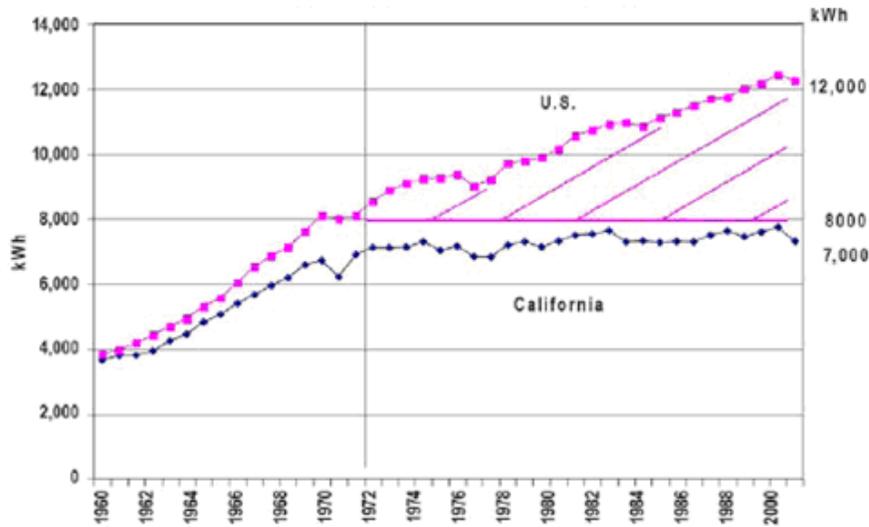
In this section, we provide detailed information on data and modeling standards for the component policies of the Climate Action Team recommendations (Table 2.1 above). Included with basic data and methodological information relevant to the BEAR model assessment are, for leading CAT policies, more detailed economic analysis of target sector initial conditions and issues.

3.1 Building efficiency policies already underway

Sector Analysis

For nearly three decades, under the authority of the California Energy Commission (CEC), California's Building Energy Efficiency Standards have spearheaded the national movement to achieve superior energy efficiency in the built environment (California Climate ... Agency A, 2006; Energy Efficiency Task Force, 2005) (See Figure 1). Relatedly, the Governors 2005 Green Buildings Initiative sets a mandate to achieve further levels of energy efficiency for state owned buildings (California Climate ... Agency B, 2007). This report (summary) contextualizes and overviews the standards with regards to their economic implications for the state of California.

Figure 4.1.1: Total Electricity Use Per Capita

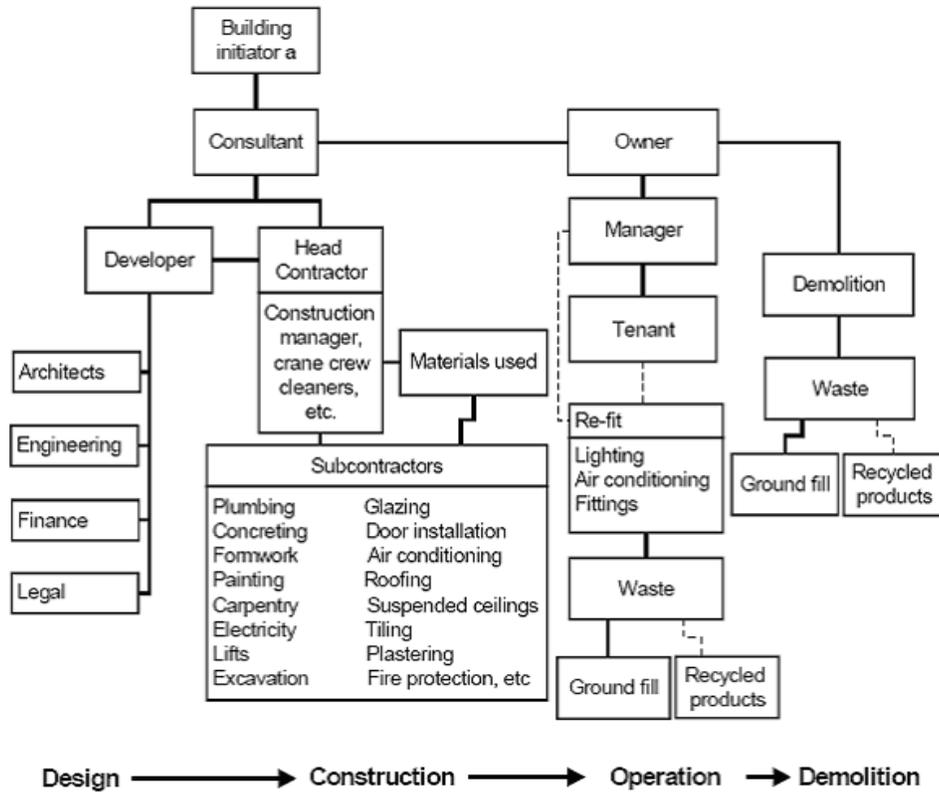


Source: California Energy Commission, 2005

The Market: Demand for Energy Efficiency over a Building's Lifecycle

Energy consumption in buildings is responsible for over 1/3 of total primary energy consumption and associated emissions, using about 2/3 of all electricity produced nationally (Interlaboratory Working Group, 2000). Decisions at each of stages of a building's lifecycle reflect opportunities to promote the practice of environmentally sound building techniques and adopt efficient technologies. A structure's lifecycle is determined by apparently physical, but ultimately economic, considerations. Typically, it is the building's financial viability under given physical and institutional conditions that determines whether it is refurbished or rebuilt. A building's lifecycle can be divided into six stages; resource extraction, manufacturing, design and construction, occupancy/maintenance, demolition, and recycling/reuse/disposal (The Environmental...Buildings, 1999) (See Figure 2).

Figure 4.1.2: Representation of the Phases of a Commercial Building



Source: The Environmental...Buildings, 1999.

Resources are extracted and processed, and structural components manufactured before a building is constructed (The Environmental...Buildings, 1999). In the first phase, environmental awareness relates to sound extraction and manufacturing techniques, transportation efficiencies, and the purchase of recycled or recovered materials. During

the design and construction phase, an owner or operator typically contracts with a specialized, licensed firm to design and construct the building. This is the primary opportunity to achieve efficiencies relating to the building shell. During the operation and maintenance phase, building efficiency can be measured in terms of the extent to which the building supports the energy efficient operations of its occupants (The Environmental... Buildings, 1999). During the next phase, owners must choose between refurbishing the building or demolition. This can be an opportunity for efficiency upgrades. When no longer economically viable, the building is demolished. In the last phase, contractors will decide whether waste is diverted or disposed.

A complex array of reasons might motivate stakeholders to adopt efficient technology at any stage, but most important to the demand for efficient technology from the economic perspective are the associated benefits and costs. Benefits during the construction phase could derive come from the cheaper prices of recycled or reclaimed construction materials. During the operation and maintenance phase, the primary incentive for the occupant to invest in energy efficiency would be associated cost savings. Other benefits throughout the lifecycle for both owners and occupants can include publicity, and preferences specifying an intrinsic value to promoting green principles. Also, by becoming more healthy and pleasant places to work, green buildings may enhance worker productivity (The Environmental...Buildings, 1999).

Major costs are most obvious when savings associated with green technologies or processes do not offset investment and service costs. In addition to explicit costs, there may be hidden costs. These include training employees to use cutting edge technologies, and production or operation downtime if technologies are installed as upgrades (The Environmental...Buildings, 1999). The risk associated with both investing in new technology and in the new technology itself may lead firms to highly discount the value of future savings (Train, 1985). Costs may also relate to the decision making and administrative costs involved in determining the appropriateness of various efficient technologies. Though economists traditionally assume that firms will adopt all

technologies for which revenues (or benefits when preferences are involved) exceed costs, we will see that this is not the case for building efficiencies, as a host of studies confirm that there are net benefits to many still un-adopted green technologies and processes.

It should not be forgotten that the public benefits extend well-beyond those considered above, but as externalities will not be recognized in the demand for energy efficiency unless somehow incorporated into price or tied to other private incentives. Public benefits include reduced dependence on imported fuel, reduced vulnerability to energy price spikes, economic development, greater flexibility in avoiding more controversial energy supply projects, reduced risk of power shortages, reduced water consumption, and reductions of the emissions and pollutants that facilitate global warming and endanger public health (Energy Efficiency Task Force, 2005).

Buildings Efficiency Regulation: Historical and Contemporary

California's AB-32 legislation calls on all state departments in the effort to reduce carbon emissions. Reports by the Cal Climate Action team, created to by the legislation to coordinate, support, and promote such policy, list the Building Energy efficiency Standards, programs of the California Public Utilities Commission, and the Green Buildings Initiative as included in such efforts (California Climate ... Agency A, 2006; California Climate ... Agency B, 2007).

The CEC was first created by the Warren-Alquist Act of 1974 and commissioned to construct and implement efficiency standards for new building construction and alterations/additions (California Energy Commission, 2005). Since 1977, it has adopted building standards for residential and commercial buildings under Title 24, Part 6 of the California Code of Regulations. The CEC now updates its standards every three years, with an impending round scheduled for completion in 2008 (Energy Efficiency Task Force, 2005).

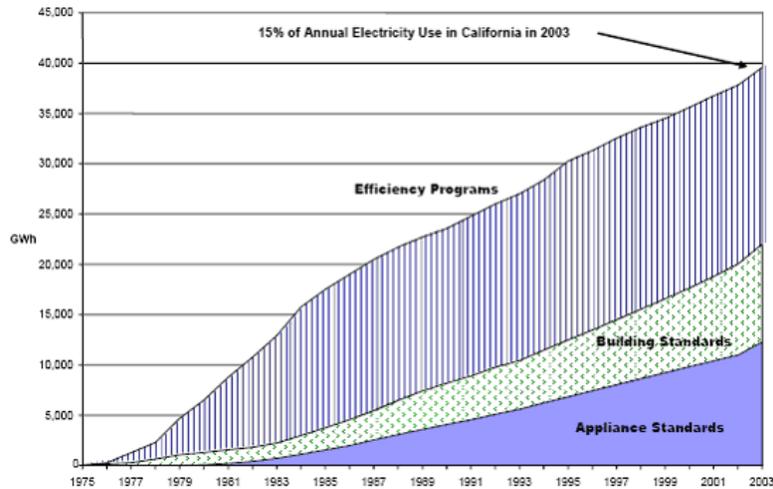
“Title 24 divides the state into 16 climate zones and sets differing requirements for climate-sensitive measures such as insulation, windows, and heating/air conditioning systems by climate zone. The code offers two compliance options: prescriptive and performance-based. The prescriptive approach lists a specific package of measures that must be utilized. This option makes it very easy for builders to understand what to install and also makes compliance verification simpler. Under the performance-based approach, the builder is provided with an energy budget that is based on the amount of energy that the proposed building would have used if it met the prescriptive requirements. Energy use is measured based on energy cost, so the high value of saving peak power is taken into account. The performance-based approach provides the builder with greater design flexibility and the potential to reduce the cost of compliance. Over 80% of all homes built in California take advantage of the performance-based approach.” (Energy Efficiency Task Force, 2005).

Though the standards are mandatory, they must be demonstrated to be cost effective before they are incorporated into the code. To be cost effective, incremental purchasing costs must be offset by resultant energy bill savings (Energy Efficiency Task Force, 2005). With separate standards for commercial and residential buildings, the process by which a given standard is incorporated into the code to become a legal imperative is preceded by a period in which the given standard is adopted optionally, allowing for feedback from effected communities.

Included as one of the Cal Climate Action Team’s early measures for reducing carbon emissions, these standards are expected to lower emissions by 4 Million Metric Tons in Carbon Dioxide Equivalent units (MMT_{CO2E}) by 2020 (California Climate ... Agency B, 2007). Historically, Californian energy efficiency programs have saved close to 40,000 gigawatt hours (GWh) of electricity and nearly 12,000 megawatts (MW) of peak demand, about the amount of electricity produced by more than two dozen 500 MW power plants (California Energy Commission, 2005) (See Figure 3). Efficiency standards have saved California’s consumers about \$1,000 per household, about \$56 billion in

electricity and natural gas costs since 1978, and the Energy Commission expects that the Standards will save an additional \$23 billion by 2013 (Climate ... Agency A, 2006; California Energy Commission, 2005). The standards enacted in 2005 will decrease energy use in newly constructed buildings by about 10%, providing near 180 MW per year in peak demand savings (Energy Efficiency Task Force, 2005).

Figure 4.1.3: Cumulative Energy Savings of California Standards and Energy Efficiency Programs



(California Energy Commission, 2005)

Collaborating with the CEC, The California Public Utilities Commission (CPUC) is also “promoting energy efficiency in buildings. Attempting to reduce energy consumption by an additional 23,183 GWh, 4,885 MW and 444 million therms per year by 2013, the CPUC has authorized spending of around \$2 billion on energy efficiency programs, primarily targeting retrofit investments in existing buildings” (California Energy Commission, 2005).

Also complementing the building energy efficiency standards, the Governor’s 2004 Green Building Initiative intends to cut 20% of energy use by 2015 compared with 2003. This should lead to expected reductions of .5 MMTCO₂E by 2010 and 1.8

MMTCO2E by 2020 (California Climate ... Agency A, 2006). The bill lays out specific actions that must be taken by state agencies in owned or leased buildings to achieve the targets, and considers incentives to encourage private building owners' contributions (California Climate ... Agency B, 2007). Through these measures, the order intends to save 1/5th of the \$500 million that state agencies spend on energy per year (Executive...California, 2004)

Room for Improvement: Buildings Efficiency in California

“There are over 13 million existing buildings in California, compared to the approximately 200,000 constructed each year. More than half of the existing buildings were constructed before the first Energy Efficiency Standards were established in 1978. While many have been upgraded over time, these older buildings represent a large reserve of potential energy and peak demand savings” (California Energy Commission, 2005).

While single family homes in California use an average of 7,000 kWh of electricity per year, multi-family units average only about 4,000 kWh per year, though these averages vary by location, size, income level and age of the home (California Energy Commission, 2005).

Space heating (35%) is the largest end-use in the residential sector identified in a report by the Interlaboratory Working Group (2000), followed by water heating (14%), refrigerator/freezers (9%) , space cooling (8%), and lighting (6%). Other end uses in the residential sector included cooking, clothes washers, clothes dryers, dishwashers, home electronics, fans in fuel fired furnaces, and other “miscellaneous” energy end-uses (Interlaboratory Working Group, 2000) (See Figure 4).

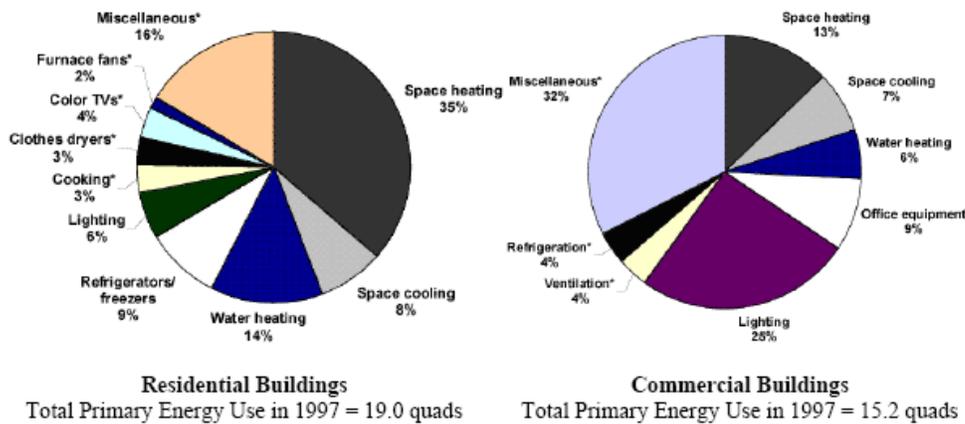
The residential building stock is comprised mostly of single family units. Approximately 70% of both single and multi-family homes were constructed prior to 1982's Building Standards (California Energy Commission, 2005). Using the 1982 Building

Standards as a benchmark, the California Energy Commission (2005) predicts that 8 million homes are likely candidates for efficiency improvements.

“California’s nonresidential building stock is much more diverse than the residential... Large offices, retail and non-refrigerated warehouses represent approximately half of the total nonresidential space. These data indicate that over 5 million square feet of nonresidential buildings may benefit from efficiency upgrades amounting to significant further savings” (California Energy Commission, 2005).

End uses identified by the Interlaboratory Working Group (2000) in the commercial sector included lighting (25%), space heating (13%), office equipment (9%) and cooling (8%). Other end uses included water heating, refrigeration, ventilation, cooking, district services, automated teller machines, telecommunications equipment, and medical equipment (See Figure 4).

Figure 4.1.4: Primary Energy Consumption in the Buildings Sector by End Use, in 1997



(Interlaboratory Working Group, 2000)

The Energy Commission (2005) estimates large potential energy savings in California buildings. “If one examines the technical potential alone, there could be savings of 12 percent of statewide electricity consumption, 17 percent of peak demand,

and 20 percent of natural gas consumption. The cost-effective savings potential would be a subset of the technical potential but would still offer significant savings of 9 percent, 11 percent, and 5 percent, respectively.”

Studies on the Impact of Regulation

In the Western United States, Electricity sales increased 1.7% per year on average during 1990-2003 (Brown et al, 1998). Moreover, the Western U.S. is the fastest growing region in the country in terms of both energy consumption and population. And yet, while climate change effects are expected to increase overall energy demand even further, studies on energy efficiency demonstrate that reducing electricity demand growth by 0.5-2% per year is possible (Brown et al, 1998; Hill 2000).

National studies are consistently optimistic in estimating America’s capacity for reductions in energy use and carbon emissions through technical, institutional, and economic transition to best practices. A study headed by Lawrence Berkeley Laboratory and Oak Ridge Laboratory, known as the Five Labs study, found that by instituting best practice measures including a 50\$/ton cap on carbon emissions, emissions could be reduced 390 MMTCO₂ from a baseline forecast between 1997 and 2010 to achieve 1990 levels by 2010 (Brown et al, 1998). 62MMTCO₂ would follow from increased buildings efficiencies alone. Though differing in their assumptions and time frames, three other studies, by the Tellus Institute, by the National Academy of Sciences (NAS), and by the Office of Technology Assessment (OTA), considered that best practice measure would reduce energy emissions by a high of 2.8% per year in the Tellus study, to a low of 1.3% per year in the NAS study (Brown et al, 1998). The Tellus study predicted that carbon emissions could drop by 593 MtC by 2010, 22% below 1990 emission levels. The OTA study predicted reductions of 892 MMTCO₂ by the year 2015, 281MMTCO₂ of which would come from efficiencies in residential and commercial buildings.

Equally encouraging as these forecasts for emissions reductions are forecasts for the associated costs/savings. Building efficiencies are frequently predicted as the least

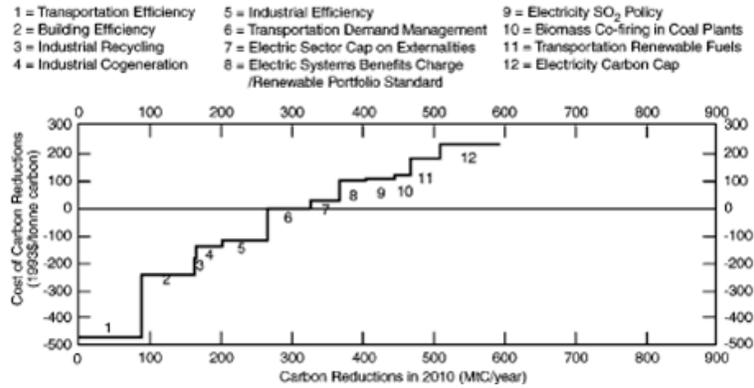
cost, or highest savings, arena of reductions. The Tellus study predicted net annual savings of \$50 billion in total, with net annual savings from building efficiency at around \$30 billion (Brown et al, 1998) (See Figure 5). While the OTA predicted that the 892MMTCO₂ reductions could be achieved with between \$20 billion of savings to \$150 billion of costs per year, the 86 MMTCO₂ associated with residential building efficiencies were predicted to result in savings of between \$25 and \$15 billion per year, while the 195 MMTCO₂ emissions reductions from commercial buildings were associated with between \$28 billion in savings to \$22 billion of costs per year (Brown et al, 1998) (See Figure 6). While the five labs study estimated between \$34 billion in net annual savings to \$5 billion in net annual costs in total, the reductions from building efficiency were predicted to be achieved at savings of between \$19 and \$9 billion per year (Brown et al, 1998) (See Figure 7). Finally, The NAS study predicted between 116\$ billion in savings per year to \$14 billion in savings per year in total, while the reductions from building efficiency were predicted at savings between \$70 and \$10 billion per year (See Figure 8).

A study conducted by the Energy Efficiency Task Force (2005) in 18 Western US states, including California, found that best practice building efficiency standards could reduce energy consumption by totals of 1.4% in 2010 and 3.9% in 2020, and standards for public buildings could cut totals by an additional .2% in 2010 and .5% in 2020. Combined with other efficiency measures considered in the report, Carbon dioxide emissions could decline by 17% by 2020 and NO_x emissions could decline by 7%.

Though the Energy Efficiency Task Force (2005) predicts little impact on electricity prices, overall energy use is projected to fall significantly, around 23% in 2020 in the best practices scenario, accounting for \$21 billion dollars of savings in 2020 to Western State's consumers (Energy Efficiency Task Force, 2005). Because electricity and natural gas account for about 90% of building sector primary energy use, and because buildings account for large portions of primary energy and electricity use nationally, decreasing demand from buildings for energy could result in significant reductions to

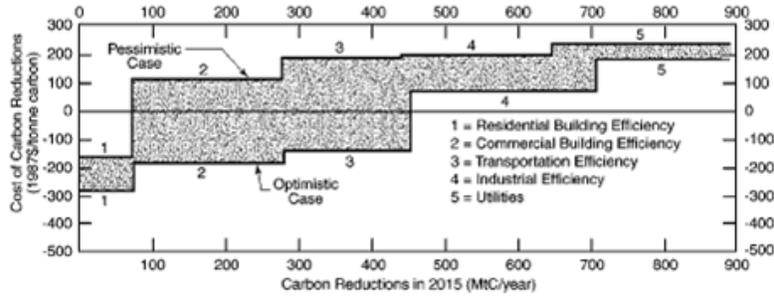
natural gas and coal use, and accordingly lead to the construction of far fewer power plants in the Western US (Interlaboratory Working Group, 2000) (See Figure 9).

Figure 4.1.5: Tellus Study



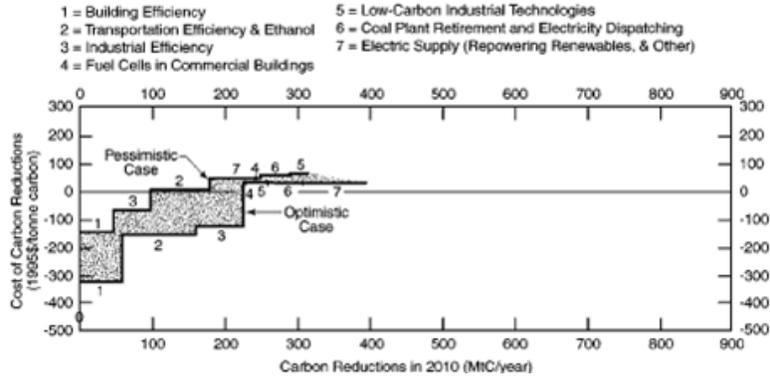
(Brown et al, 1998)

Figure 4.1.6: OTA Study



(Brown et al, 1998)

Figure 4.1.7: Five Lab Study



(Brown et al, 1998)

The 2000 report by the Interlaboratory Working Group goes into greater detail regarding its predictions for energy efficiency following from building and appliance efficiency standards and other energy management policies such as a 50\$ per ton carbon cap in its best practices scenario. In their study, energy use falls to 1997 levels by 2020, and carbon emissions fall well below 1990 levels for the same year, while achieving net savings in energy service delivery. This is achieved by increased efficiencies in such end uses as space heating and cooling, water heating, and relies on increased market penetration from such technologies as electronic ballasts, commercial transformers, and heat pump water heaters. They also list “Break Through” technologies that could “fundamentally alter the current upward trend of buildings energy use,” such as thermally-activated heat Pumps, electrochromic glazing (Interlaboratory Working Group, 2000).

Of interest are other costs and benefits associated with the reductions. The increase in air quality should be associated with lower national medical costs per capita. Though net employment effects are expected to be positive, some industries like the railroad and mining industry will suffer business and employment losses due to predicted reductions in the demand for coal (Brown et al, 1998).

In addition to the net savings many studies predict, most studies find potential benefits to GDP to be in the tens of billions. In a study on the effects of energy efficiency in the Southwest, the Southwest Energy Efficiency Project (covering Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming) predicted \$37 billion in gross economic benefits, an overall benefit-cost ratio of 4.2. The Energy Efficiency Task Force, (2005) predicted a benefit cost ratio of 2.5 for the Western U.S. under their best practices scenario, associate with total net economic benefits of \$53 billion in net present value by 2020. “Jaccard and Montgomery (1996) provide a summary of costs of carbon reductions for 15 major US mitigation studies. Six of these studies (including both the NAS and OTA Studies) describe 11 different scenarios that use forecast years ranging from 2005 to 2015... Excluding two of the 11 scenarios with carbon reductions that exceed 50%, the remaining scenarios reported economic costs as a percentage of GDP, ranging from -0.2% to 0.5% (or a benefit of \$20 billion to a cost of \$50 billion in 2010, when the United States will have a \$10 trillion economy)” (Brown et al, 1998).

Barriers to Efficient Technology: Why do we Need Standards?

If energy efficiency measures in buildings are cost effective to the point of generating cost savings, it might appear enigmatic that they are frequently neglected. If stakeholders behaved rationally to maximize benefits, then building standards, which as noted previously are only implemented conditionally upon their generating cost savings, would appear redundant. In fact, a host of market failures, institutional barriers, and social norms predispose builders against adopting efficiency enhancing standards independently.

Firstly, benefits from energy efficiency frequently do not accrue to the party who is in the best position to make the efficiency enhancing investment, resulting in split incentives such as between owners and renters (Brown et al, 1998) (See Figure 10). Pricing which reflects private, as opposed to social, costs gives additional incentives for builders to select inefficient technologies.

Users and businesses are often simply unaware of the financial and environmental costs from energy usage by a given technology, or the availability, technical applicability, or cost effectiveness of alternative technologies (Interlaboratory Working Group, 2000). Moreover, retrieving this information can itself be costly. Also, even if they do know, many consumers appear not to care. Neither Firms nor builders place a high priority on energy efficiency since the marginal benefit for any one firm is frequently a small portion of average variable cost. Not a cost relating to their core 'business', concerning output and the production process, consumers at all stages of the process demand too little energy efficiency. "A 10% rent saving can typically equate to a saving of \$30/m². A 10 per cent saving in electricity, cleaning, etc. might deliver savings of only \$3/m." (The Environmental...Buildings, 1999). As in the dilemma of collective action, benefits that may be vast when aggregated are frequently underinvested in when they are disseminated in such a way that that the gains to any one individual are small.

Firms further worry about the hidden cost of new investments such as increased risk or disrupted production (The Environmental...Buildings, 1999). Still, many scholars note that technologies for efficiency are underinvested in even if one takes into account risk and hidden costs (Kooimey and Sanstad, 1994; Sathaye, Jayant, and Murtishaw, 2004). Firms do not appear to behave rationally, using discount rates which far exceed the returns they could expect in capital markets (Biggart, and Lutzenhiser, 2007; Sanstad et al., 2006). Train (1985) noted discount rates between 10% and 32% in measures to improve thermal efficiency, 4.4 % to 36% with regards to heating systems, and 3.7% to 22.5% for air conditioning. Though some of the premium may reflect added risk, many scholars see the rates as exorbitant, reflecting institutionalized consumer and managerial disregard for efficiency. These may become norms of a business's culture, disseminated throughout the organizational hierarchy when subordinates attempt to mimic the values and actions of their superiors in order to conform to perceived expectations (Biggart and Lutzenhiser, 2007).

Of note is the paucity of R&D for energy efficiency in buildings. Notably underinvested in relative to other industries, this perpetuates low buildings efficiency. For instance, while industries average 3.5% of sales on R&D, the construction industry spends a paltry 0.2% of sales on R&D (Brown et al, 1998). This implies that, if normal levels of R&D could be reached, predictions for the technical potential of energy efficiency as well as for levels of economic benefit that could be achieved would need to be increased dramatically. Some of the failure to invest in R&D is already being targeted by government entry into the sector, offering grants for research and design purposes, including demonstration grants for early the application of findings in a commercial environment. Much of this work will be influential in creating future building standards such as the 2008 standards (California Energy Commission, 20005).

Concluding Remarks on the Impact of Regulation

Given the barriers to an efficient marketplace it is obvious that the continued promulgation of buildings standards is not only necessary, but frequently results in pareto enhancements to welfare. Since obligatory standards overcome barriers to efficiency by mandating efficient investments, they should be seen as an effective measure for combating climate change. Still, they are not ideal.

Since the costs and benefits of investment are diffuse, spread out over a range of stakeholders involved at each phase in the building's lifecycle, one might expect their effects to also be so dispersed. But, because standards can only target certain stakeholders in the building process, standards may convey the cost burden to a party less likely to benefit from the investment, as in the case of split incentives, or may create other distortions. Though many studies predict net savings associated with standards, some subgroups will face net costs. This may be ameliorated by inelastic demand in housing markets. The owners/builders that are most likely to be targeted should have sufficient market power to share cost burdens through prices, so that the standards should only slightly effect other economic decisions.

Still, targeting barriers to the adoption of efficient technologies directly should be considered as a natural compliment to implementing standards. While Sathaye, Jayant, and Murtishaw (2004) note that the significance of a given barrier to the implementation of efficient technology depends on the technology in question, there are known policy prescriptions for combating most of these barriers. “These include educating consumers and businesses, increasing the supply and visibility of energy-efficient products and services in retail establishments, offering consumers and businesses financial incentives to get their attention and stimulate greater willingness in adopting efficiency measures, removing inefficient products or buildings from the marketplace... and reforming pricing and regulatory policies” (Energy Efficiency Task Force, 2005).

A final and most profound synergy between standards and policies targeting barriers to efficiency lies in their contribution to changing preferences, creating novel institutions and social norms. In time, norms are internalized to become value based mandates, in addition to formal imperatives, becoming powerful motivating forces of human behavior and altering the premises and structure of our economic activity. In the long run, these should be the most powerful factors in structuring a sustainable society, relying on the organic decisions of individual economic actors rather than the mandates of ever changing administrations. Fortunately, preference shifts in favor of energy efficiency are already being observed, and barriers to efficiency, including pecuniary costs, are falling (Pimlott, 2007).

Scenario Description

In addition to the scenarios incorporated in our Baseline, the State of California has other initiatives to promote more efficient energy use patterns. While these are too numerous and diverse to be captured in a single scenario, the state has produced estimates of the aggregate relationship between public promotion expenses and private responses, and these provide a convenient reference to examining more comprehensive effects with a general equilibrium model. In particular, a recent CEC study by Messenger (2003) has estimated alternative time paths of public expenditure for promoting energy efficiency and linked these to increases in private aggregate energy efficiency. These results give us the raw material for additional energy efficiency scenarios.

Data Sources

Data used for these scenarios were obtained from the CPUC data synthesis conducted by Sanstad and Hallstein (2005) and Messenger (2003).

Modeling Approach

For BEAR implementation, these scenarios were constructed by interpolating Messenger's cost estimates annually from 2003, debiting this to the general fund state government account in the California Social Accounting Matrix (SAM).⁴ On the energy use side, we follow Messenger's analysis by assuming three scenarios for household energy use. In particular, we experiment with annual per capita reductions in residential electricity and natural gas use equal to -.5, -1.0, and -1.5 percent, respectively. Like Messenger, we implement these energy use reductions without specific reference to the technical means of achieving this efficiency. All households reduce electricity

⁴ The BEAR model uses a revised version of the 2003 California SAM documented in Berck et al (2004).

demand by the same annual percentages against Baseline values, and we further assume for simplicity that they incur no private adoption or other direct adjustment costs.⁵ Finally, the reduced expenditure on electricity is reallocated to other consumption in existing shares, with no net increase in private savings.

It should be emphasized that, in the present analysis, we assume the electricity sector is one of homogeneous technology, including out-of-state capacity. Thus any reductions in electricity demand will reduce output for a hypothetical average generation facility, and total emissions will fall accordingly. In reality, technologies for electricity production are quite diverse, particularly in their fuel sources and emission characteristics. A prototype version of BEAR is currently under development to capture these structural characteristics, but for the moment we work with a single, representative firm model of the industry.

3.2 Vehicle GHG policies already underway

Sector Analysis

Being one of the world's largest economies, California's market for motor vehicles is quite large. Due to rising gasoline prices and changes in consumer choice has caused many big American motor vehicle companies to earn less profits due to the lessened demand for high-profit margin cars such as SUVs. With increased global competition and consumer increase in demand for electronic and safety luxury additions to their cars, American auto manufacturer giants, General Motors Corporation and Ford Motors Corp. are losing market share and are facing deteriorating profitability (Standard and Poor's Industry Surveys 2006). The introduction of mandatory fuel efficiency standards and

⁵ Adding these costs would be a simple matter if estimates were made available.

other policies to reduce GHG will further hurt these corporations. GM and Ford already plan to shut down many production facilities to cut costs.

The California Climate Change Emissions Policy will have two effects on the automobile industry. The first is that manufacturers will need to take to comply with the regulatory standards are expected to lead to price increases for new vehicles. However, many of the technological options they may choose to use to comply with new regulations are expected to reduce operating costs. The negative and positive effects of these policies will produce a small net positive effect to the economy as a whole. The vehicle price increase will be borne by purchasers and may negatively affect businesses. However, the operating cost savings from the use of vehicles that comply with the regulation will positively impact consumers and most businesses (ARB 2007). Low profitability with the adoption of new higher cost technologies in the short run will cause automakers to put price pressures on suppliers. However, increase use of these new technologies will also bring profits to those suppliers.

Industry Overview

The automobile manufacturers located in California include General Motors, Ford, and Toyota, whose other major plants are centralized in the Midwest and are also located globally. The motor plants are mainly located in suburban areas surrounding major cities, such as Fremont, Ontario, and Torrance, California. The size of the motor vehicle plants produce about 400,000 each and employ over 5,700 employees (AIAM).

See list of manufacturing and research and development plants in California.

Production

The motor vehicle manufacturing industry forms generates one-sixth of all U.S. manufacturers' shipments of durable goods and consumes 30% of all the iron, 15% of all the steel, 25% of all the aluminum, and 75% of all the natural rubber bought by all industries in the nation (Pearce 2005).

The increased costs of materials such as steel, plastic resin, rubber, and aluminum is one of the concerns of the automaker's suppliers. The proposed cuts of about 3 million cars in U.S. production from Ford and GM will further hurt their suppliers. Currently, sustainability-conscious automakers such as Nissan, Toyota, and Honda are working diligently to install new technologies to increase efficiency gains. Nissan plans to introduce a new engine valve control technology that will contribute to a 10% reduction in fuel consumption and carbon-dioxide (GreenCarCongress.com).

Auto suppliers are in distress due to a combination of vehicle production cuts, high raw-material costs, unfavorable product mix shifts, and ongoing pricing pressure from a weakened customer demand caused most auto suppliers' earnings and cash flow to decline dramatically. They do not expect much reason for improvement in the near term.

Their main concerns include:

- the success of new vehicle launches, which if good will increase volume of parts demanded, or if bad will decrease the volume of parts demanded by the customer.
- high gasoline prices decrease the demand (though only modestly) for large, high profit margin vehicles, from which many auto suppliers generate a large share of their earnings.
- most auto suppliers are not able to fully offset increased costs of materials such as steel, plastic resin, rubber.
- the decline in market shares of the big American automakers also decreases their sales.
- high debt levels limit auto suppliers to access bank lines leading to negative investor sentiment in its ability to raise new capital.

Though the big automobile manufacturers are trying to protect their industry by suing California for raising the fuel efficiency standards, the smaller suppliers will be the ones hurt more drastically by the change in standards.

Cutting Production Costs

To cut production costs, automakers are simplifying parts and processes and cutting employee benefits. In automobile manufacturing, fewer parts means lower production costs and reduces assembly errors, which are also costly. Major automakers cut the

number of parts they use in each component and vehicle by redesigning existing models and designing new models. In a typical product overhaul or redesign, part counts have dropped by 20% to 30% for individual car models and by as much as 50% for certain subsystems like bumpers and airbags (Standard & Poor's Industry Surveys 2006). Other ways of reducing production costs and improve quality is by reducing the number of stampings on sheet metal parts between 5 and 7 to 3. Manufacturers are also lowering costs by minimizing industrial waste and pollution. Nearly all component manufacturers now deliver their goods in reusable shipping containers. This saves money for automakers and their suppliers by eliminating excess packaging and disposal costs (Standard & Poor's Industry Surveys 2006).

Many auto manufacturers have just been neglecting the costs they could cut. For example, from General Motors Corporate website, GM in Mexico claims to recycle 94.5% of their hazardous and non-hazardous wastes. They did not eliminate disposal of hazardous wastes in landfills until the beginning of August 2003. The hazardous waste is now recycled or used as alternative fuel. Since 2000, land filled waste has been reduced from 7,369 metric tons to 444 metric tons during 2003. The financial savings from this are calculated to be \$990,173. Additionally Non-Hazardous Waste landfill has been reduced from 3,188 to 2,340 metric tons from 2003 to 2004, which is a reduction of 27%.

Technology

New Materials

One method of increasing fuel efficiency is using lighter materials to build autos. Against improving fuel efficiency, U.S. consumers are demanding bigger, heavier SUVs and automakers continue to find efforts to increase performance and horsepower. Heavier, more powerful vehicles are typically less fuel-efficient. Passenger car sales accounted for only about 45.1% of the light vehicle market in 2005. Average fuel economy went down to 24.2 in 2005 from 25.1 in 1993. Despite the rising fuel prices,

passenger car sales only made a modest comeback with market share rising 1%, though it continues to rise (Standard & Poor's Industry Surveys 2006). Increase use of variety of materials such as aluminum and plastic lowers the weight of vehicles and improves fuel efficiency. Steel use fell from 60% to 54.5%. The use of more aluminum to lighten cars is for better fuel efficiency, but costs much more. One kilogram of aluminum in car production replaces two kilograms of steel, which cuts weights down by almost 50%.

Volkswagen AG's Audi created Audi A2 in 2000 with an all aluminum body, end production in 2005 and replace it with steel in 2008. The Aluminum body costs \$1,206 (based on June 30, 2005 conversion rate) per vehicle (Standard & Poor's Industry Surveys 2006). Higher priced aluminum cars sold poorly. Increase usage of lighter materials also makes designing cars much more challenging, which increase research and development costs.

Hybrids

Toyota's introduction of the first hybrid car, the Prius five years ago has caused it to decide to increase its production to one million hybrids annually in 2010 or soon afterwards. Cost-cutting efforts on the system's motor, battery and inverter were working so the cost structure would improve drastically by 2010. The executive vice president in charge of powertrain development expects margins to be equal to gasoline cars. "But sales began to suffer late last year after U.S. tax credits whittled down for the model, prompting Toyota to offer incentives of up to \$2,000 on each Prius." Despite these pressure on the tough margins on the hybrid. Takimoto saw little impact on profitability before and after the incentives, mainly thanks to larger volumes produced — Prius production will rise by 40 percent to 280,000 units this year, which will continue to cut costs (MSNB.com). Incentives should be given to consumers who buy hybrid vehicles to increase demand and to help automakers make larger volumes to reduce average costs.

Diesel Anti-Idling

Diesel PM doesn't yet have a well-defined GWP and thus is not readily incorporated into the AB 32 reduction framework. Anti-idling will be opposed by diesel-users because the official effect is unknown.

Variable Valve lift

This engine technology controls the flow of air and fuel into the cylinders and exhaust out of them. Optimum timing and lift settings are different for high and low engine speeds. Because traditional engines' timing is fixed, there are efficiency losses. The potential efficiency improvement is estimated to be 5% and savings over a vehicle's lifetime is \$1400 (fueleconomy.gov).

Dual Cam Phasing

A control strategy for controlling internal combustion engines, particularly for controlling valve timing relative to crankshaft position. It optimizes valve timing at lower revolutions to help create a broad torque band and eliminate turbo lag (patentstorm.com)

Balance Sheets

The length of time it takes for a technology or package of technologies to recoup their costs is called *payback time* (calcleancars.org). The payback time for these technology improvements depends on the price of gasoline. These increases in vehicle price are more than made up over the life of the vehicle (Figure 2).

At the gasoline price of approximately \$2.00/gallon, the average driver in California would regain the price of a near-term technology improvement in less than one and a half years of driving. The increased price of mid-term technology improvement would be made up in just over three and a half years of driving. Because gasoline prices have risen to about \$3/gallon, the payback time for the near-term technology falls about a

year. Over the lifetime of a vehicle, these savings add up. At a gasoline price of \$2.00/gallon, near-term technology improvements will result in a net savings of over \$1,700 to the average vehicle owner in California. Vehicles sold between 2009 and 2016 that meet California’s greenhouse gas standards will save the operators of these vehicles \$10.5 billion (in today’s dollars) over the vehicles’ lifetime. (calcleancars.org)

Figure 4.2.2: Source: California Air Resources Board

Payback Time for the Average Passenger Vehicle

		Fuel Price (\$/gallon)		
	Technology Cost	\$1.74	\$2.00	\$2.25
		Payback time (years)		
Near-term	\$326	1.6	1.4	1.2
Mid-term	\$1,048	4.3	3.6	3.1

The profit margins of motor vehicle manufacturers that include both firms with net income and zero net income are much lower than the profit margins of firms with positive net income. This means that most small automobile manufacturers or suppliers are not able to sell their goods with high price to reap profits. Automakers have limited pricing power on consumers. Therefore, they look for price concessions from their suppliers. These companies in turn make demands on their own suppliers and so on down the production chain. Automakers will be hurt from the increase cost of more research and development for new environmental standards, which will in turn hurt their suppliers. Small suppliers typically have less financial strength, liquidity, and ability to resist their customers’ demands, and therefore face the more difficult challenges. Decrease in the production of cars from major customers will be sharply lower leaving them in financial distress (Standard and Poor’s Industry Surveys Volume 1 A-D2006).

Looking at Figure 4.2.2, the marginal cost and benefit for increase in miles per gallon in light trucks are the same at about 13 miles per gallon. “Once these standards are in place, signaling a federal commitment to reducing the fuel consumption of our nation’s auto fleet, technological innovation may drive down the cost of new technologies, enabling more ambitious standards in later years” says DeCicco in the “Cost-Effective Targets for a 2008+ Light Truck CAFÉ Rule.” Previous studies also indicate that light truck fleet fuel economy improvements of 50% or higher relative to recent levels “can be achieved within a decade cost-effectively through use of available technologies.” A 50% improvement within ten years entails annual improvement rates of 4.1%/yr. (DeCicco et al. 2001).

Conclusion

Because there are mounting pressures on automakers from all areas such as consumer change in tastes, decline in market share, increase in complexity of auto production with the integration of many electronics, fierce competition, the automakers’ profits are declining. With the institution of California’s new climate change emissions standards, all cars sold to the state must pass those standards, which basically implies the same standards everywhere else in the U.S. Like Toyota’s Prius production volume, other car manufacturers should follow suite in implementing cleaner vehicles in large volumes to cut down on marginal costs. Because consumers may not absorb the large volume at first, incentives should be given out to those who do choose to adopt the new technology. Taxes on large SUVs and other bigger cars that are less fuel efficient will cause some consumers to buy more efficient cars, reducing overall carbon emissions.

Because developing new cars and adopting redesign vehicles is very costly and requires a lot of capital investments, the transition will be slow. First, consumers must become more environmentally friendly and sacrifice some of their extravagant needs in order to convince auto manufacturers that energy should be spent on producing more

green cars. Eventual adoption of this transition will then drive costs further down and make it feasible for every household to have a more efficient car.

Automobile manufacturers are battling California's new higher efficiency standards in courts. They state that California does not have the power to set higher standards than the Federal government. Many automakers are looking into new technologies to make cars more efficient, but the process is slow and very costly. While GM and Ford are turning their business structures around, they cannot afford to lose any more resources or to continue to lose market share. Cutting costs may cause them to continue to close down plants or move them to cheaper locations such as Mexico.

Scenario Description:

These scenarios relate to the GHG reduction policies in the transportation sector, particularly vehicle technologies and policies to regulate pollution levels and facilitate higher levels of pollution efficiency. This scenario group refers to vehicle technology improvements and new standards embodied in a bill mandating new vehicle emission standards in California. This initiative for Vehicle Emissions Standards would require automobile producers to import and sell more CO₂ efficient vehicles. In particular, we follow the classification of ARB's report on Assembly Bill 1493 and use their vehicle cost and operating saving data directly in this scenario.

The direct effects of these policies are already being anticipated in a spirited debate between producer, consumer, and environmental interests, yet the ultimate economic impact is far more complex. Generally speaking, it is reasonable to expect that higher short run costs associated with new vehicle acquisition will be offset by longer run savings on automotive operating expenses (primarily fuel). Because these two factors are very prominent economic variables, they will set in motion a complex series of adjustments across the automotive, energy, and related sectors, with the ultimate consequences for households depending on supply responses, demand patterns, and

other structural adjustments. In other words, this policy we set in motion a classic general equilibrium adjustment process across the California economy.

Modeling Approach:

Modeling these policies in the BEAR model is a routine matter because of its detailed treatment of household consumption and transport use patterns. The starting point is Baseline trends in supply and demand for transportation, to which we add intertemporal (ARB) data on vehicle cost increases and operating savings. The former are added to Baseline vehicle prices, while the operating savings are applied to household and industry light vehicle use over the forecast period. As one might expect, the former effect reduced purchasing power and GSP, while the latter has the opposite effect. The net result depends, as economists like to say, in initial shares and elasticities.

Data Sources and Description:

Data for all four scenario sets rely on a large body of research carried out by and for the California Air Resources Board. In the context of vehicle technologies and adoption, the most important sources for calibration data were CEC-ARB (2003) and CCAP (2005c). Several technical Appendixes to the former report provided calibration data for this and several of the following scenarios.

3.3 Trucking Industry Measures

Sector Analysis

The trucking industry is a key support network to the state's economy and a large contributor to greenhouse gas emissions. Though significant emissions-efficiency gains have been made in the industry, room still remains to further emission reductions.

Other than the costs of transitioning to cleaner technologies, few obstacles exist in the industry to implement AB32's measures. The history of environmental regulation of the industry makes it more receptive to regulation than industries unaccustomed to intervention and significant existing and developing technologies are available to help trucking firms meet AB32's provisions. Improved emission-efficiency practices have the simultaneous result of improved fuel efficiency, offsetting transition costs with reduced energy costs. The measures of AB32 ask that the trucking industry reduce emissions through a multiplicity of strategies. State efforts to in the implementation of AB32 can go a long way towards ensuring rapid and frictionless success in meeting its climate change goals.

The California trucking industry is dominated by a few, large national carriers but is largely composed by small, regional carriers. Approximately 60% of the 11,308 firms operating in California have less than five employees and earn less than half a million dollars in annual revenue (see Figures 1 and 2). 75% of California trucking firms have less than 10 employees, 87% have less than 20 employees and 98% employ less than 100 employees. The majority of small trucking firms in California are privately owned and operated. The handful of large firms operating in California are publicly held companies. The trucking industry nationwide is a price competitive market. Large carriers and small carriers are both characterized by small profit margins and price their rates near marginal cost levels.

For more than seventy years, the California Trucking Association (CTA) has provided support services to trucking firms of all sizes and companies that provide services and products to the industry. Its members transport 85% of trucking freight carried in the state. Democratically run by member vote, the CTA has a strong Environmental Affairs Department which lobbies with state agencies to represent member interests and advises its constituency on compliance with environmental regulation.

Altogether, the California trucking industry transports a wide variety of goods and is classified by route distance and shipment size. Local routes deliver goods within metropolitan areas and their surrounding regions whereas long distance routes span multiple commercial areas. Truckload carriers (TL) are direct carriers that deliver large shipments door-to-door from origin to destination whereas Less than Truckload (LTL) carriers sort combined shipments in distribution hubs to coordinate a flow of goods from multiple clients to nearby destinations. 60% of the carriers operating in California are long haul carriers delivering goods in and out of the state in long distance routes. The remainder of the state's carriers are short haul carriers traveling local routes of 50 to 700 miles within the state and within the West Coast region, including Mexico. The LTL market has higher barriers to entry than the TL market due to the costs of large sales forces, logistics technology and distribution terminals. Compared to other industries, however, both sectors have relatively low barriers to entry, are highly competitive and have low profit margins. Trucking firms differentiate themselves by the routes and type of goods they are authorized to carry.

Nationally, the trucking industry dominates the transport of high value goods, carrying 55% of national freight in weight and 75% of national freight in value. It carries 70% of construction goods like steel, sheet metal, wire, pipes and lumber and 85% of household goods like food and furniture. The trucking industry's main competitor is the rail freight industry. Railroads have cost advantages in long distance shipping in routes greater than 500 miles. Rail freight is preferred in the shipment of heavy commodities, like coal, but is increasingly being turned to for interstate shipment of manufactured goods as well. Intermodal collaboration between railroads and the trucking industry coordinates freight transport between the competing sectors. Other competitors to the trucking industry are pipelines, domestic water freight and air freight.

Competitiveness within the industry is characterized by a firm's financial strength, the quality of its salesforce, availability of tracking technologies, route coverage,

efficient claim settlement, fleet size and quality, insurance coverage, safety records and the type of freight firms are authorized to carry.

The industry is highly regulated in terms of the types of goods each carrier is certified to transport, environmental standards and safety standards. The industry underwent significant deregulation in the Motor Carrier Act of 1980, increasing cost competitiveness, reducing barriers to entry and increasing industry efficiency, especially in terms of carriers' abilities to transport full shipments on return trips.

The regional scope of the industry is key to its structure. National carriers with parent companies outside the state are generally operated by California subsidiaries. Routes in the state are connected to shippers and destinations throughout the North American continent. The crossing at Otay Mesa, CA is a significant truck portal between the US and Mexico, handling more than \$10 billion in traded goods in 2004.

The trucking industry is a growing industry in California. The transport of goods to and from the Los Angeles and Long Beach ports, for example, is forecasted to increase by 250% from 2005 to 2025 due to increased import activity. Thanks to an abundance of industry innovations which reduce greenhouse gas emissions, high growth rates do not imply increased emission rates or greenhouse gas concentrations.

Due to the number of firms operating in the industry, the small scale of the majority of its firms and the industry's network characteristics, it is challenging to discern precise cost and production statistics for the industry specific to California. This analysis will qualitatively consider the production factors, technologies, costs and perspectives of the trucking industry, providing quantitative state and national data when available. A snapshot of the overall industry will be followed by nuances among national and regional carriers and an industry wide prognosis.

Industry Overview

Production

Production in the trucking industry is measured in ton-mileage, indicating the mass of goods delivered in relation to mileage incurred. While ton-mileage within the state is difficult to separate from national data, mileage of the state's largest heavy-duty trucks, those carrying loads heavier than 33,000 pounds, traveled over 25 million daily miles daily 2005, topping 9 billion annual miles.

Nationally, trucking carries nearly 30% of American freight volume in ton-mileage. Alternate methods of freight include railroad (39%, due to railroad's dominance of heavy commodities like coal), pipeline (19%), domestic water (12%) and air freight (less than 0.5%).

Inputs

Trucking inputs include: diesel fuel, trucks, trailers, tires and equipment-related inputs, driving labor, management labor, distribution hubs and logistics technology.

Significant to AB32, factors on trucking's energy use include fuel prices, fuel efficiency and fuel composition.

Diesel fuel prices fluctuate between periods but have an overall increasing pattern industry wide and are expected to continue rising in future years. Fuel price per gallon is exogenous to the industry but significant savings opportunities exist to reduce fuel costs with improved fuel efficiency.

Fuel efficiency is a significant factor to both trucking profitability and emissions. Nationally, energy input of freight transport is expected to increase from 2005 levels by 27% by 2010 and 49% by 2020. An equivalent increase in California's fuel input for trucking is significant impetus to improve fuel efficiency and offers a significant opportunity to reduce greenhouse gas emissions. As proposed regulations are implemented in the state, gains in the industry's fuel efficiency would be partially

dictated by regulation measures and partially dictated by firms' inherent motivation to maximize competitiveness in face of rising fuel costs.

Fuel composition would be altered by proposed regulation by blending increased amounts of biomass fuel in diesel stock. Increased use of biofuel changes the composition of the industry's emissions.

AB32 also considers the industry's use of trucks, trailers, tires and equipment-related inputs. Arenas of input decision making that offer significant gains in fuel and emission efficiency include the use of driving labor, management labor, distribution hubs and logistics technology.

In regards to a cap and trade mechanism, the trucking industry will only be affected by a fuel-based allowance strategy. A fuel-based allowance cap and trade mechanism will have the downstream affect of a fuel tax, increasing marginal costs to trucking firms. A fuel-based cap and trade mechanism requires no technological or monitoring adaptations from the industry. Carbon caps and monitoring would occur at point sources upstream of the trucking industry; it would not be involved in the trading process.

Outputs

Trucking outputs include: transportation services and emittants, including greenhouse gases. Effects on trucking outputs include trucking demand, economies of scale and economies of utilization.

The most significant determinant of trucking demand is consumer demand. Nationwide, fluctuations in trucking demand closely shadow fluctuations in Gross Domestic Product (GDP). In developed economies, trucking demand is near unit-elastic to GDP, increasing slightly with gains in economic wealth. As one of the largest global economies, California's trucking demand is similarly driven by the rate of economic expansion.

Other significant drivers in trucking demand include the price of fuel and insurance costs. As the cost of both fuel and insurance increases, trucking demand decreases. Increasing adoption of practices which maximize tons of goods carried per mile minimize the dampening effects that rising fuel and insurance costs have on industry demand.

Industry wide, economies of scale do not result in gains in transportation services. While this is slightly less so in the LTL sector which benefits from increased ton-mileage per distribution hub, the large number of firms in the overall industry is evidence that firms with a focused scope have similar profit potentials as larger firms broader in scope. In terms of pending regulation, the significance of this characteristic is that, without the threat of monopoly power, trucking prices are not likely to increase above commensurate increases in trucking costs due to the price-minimizing pressure of industry competition.

Economies of scale are not known to affect industry emissions.

Economies of utilization have significant impact on both ton-mileage of transportation services and industry emissions. Economies of utilization allocate fixed costs and emissions over increased output, maximizing ton-mileage per dollar spent and pollution emitted. Equipment usage is limited by federal labor regulation limiting driver hours of service but can be greatly maximized by technologies and practices that improve fuel and ton-mileage efficiency.

Technology

Due to existing air quality regulation, basic technology employed by California's trucking industry is relatively homogenous in terms of emissions and fuel efficiency. How the industry's trucks and trailers are used by individual firms, however, can vary efficiency measures depending on route geography, type of goods carried and driving behavior. Regulation pressures have been shown to hasten the adoption of costly technologies. Beyond extending efforts to regulate the fuel and emissions efficiency of

trucks purchased in California, emissions can be further reduced by altering three industry characteristics:

1. characteristics of the vehicles currently in use, i.e. improving truck and trailer aerodynamics, reducing tire resistance, replacing existing engines with cleaner engines or retrofitting vehicles with emission control systems
2. characteristics of fuel sold in California, i.e. blending diesel with biodiesel
3. how vehicles are used in California, i.e. optimizing driving behavior and route efficiency

AB32 considers emissions reductions in all of the above strategies. It is significant to note that industry investment in emission-reduction methods offer simultaneous savings benefits in fuel efficiency gains among firms. Extension of existing vehicle and engine scrapping programs in the state would hasten industry adoption of its measures.

Technology adoption that helps firms meet AB32 provisions before its implementation can be registered with the California Climate Action Registry. Registration reduces firms' transition costs without losing recognition of improvements incurred early on. To date, only one firm out of the industry's 11,000 plus firms has signed on to the registry.

Following is an analysis of AB32's provisions related to trucking technology and the industry's ability to meet regulation requirements with existing capabilities:

Diesel Anti-Idling

THE GOAL: To extend existing anti-idling regulation to further climate change emission reductions by about 4% with significant cost savings to both the industry and trucking consumers and substantial air quality benefits.

INDUSTRY VIABILITY: National estimates of engine idling for the purpose of powering cab amenities and running electrical appliances range from 1000 to 5000 hours per year per truck. The industry employs at least four alternative methods of providing cab heating, cooling and electrical supply without the use of idling the engine:

1. Direct fire heaters which route heating between the cab and the engine with a small combustion flame and heat exchanger
2. Auxiliary power units (APUs) mounted externally on the truck to provide heat, electricity and air conditioning
3. Automatic engine idling systems which start and stop truck engines automatically to maintain specified temperatures or minimum battery voltage
4. Electrification of truck stops which provide electricity to trucks without engine use or the use of auxiliary units

Truck idling can also be considerably reduced through route mapping that minimizes idling time. Support services are available to the industry, for example, which maps routes without left hand turns, reducing idling time and improving fuel efficiency. Emissions have been reduced in similar ways by automating toll booths for heavy duty trucks.

Industry concerns about anti-idling efforts include safety concerns, retrofitting costs and the unknown reliability of direct fire heaters. The last concern can be refuted by the evidence that 55% of European long-haul trucks are outfitted with direct fire heaters without increased safety hazards or equipment failure.

Another industry concern about anti-idling strategies is that automatic systems are disruptive to long-haul drivers when sleeping. Adoption of technologies unsuitable to trucking needs would not be widely accepted. Improvement to the engineering of automatic systems would be desirable.

It should be noted that the four methods of providing cab heating, cooling and electrical supply do not have cumulative emissions reductions; they are alternate choices. Extension of truck stop electrification would reduce the need for direct fire heaters, APUs and automatic idling systems. If truck stop electrification is not widely extended, firms could choose between direct fire heaters, APUs and automatic idling systems as alternate methods to meet AB32's provisions.

Current limitations on truck idling are enforced by the state's Air Resource Board's inspection teams. Participation of local enforcement agencies, including California Highway Patrol, police and local air district inspectors would improve AB32's effectiveness at reaching its proposed goals.

All technology based anti-idling strategies currently have a low market penetration, offering substantial opportunities to increase fuel efficiency and reduce greenhouse gas emissions with cost savings benefits to the industry.

Hydrofluorocarbon (HFC) Reductions

THE GOAL: In an overall effort to reduce the use of hydrofluorocarbons, require that the trucking industry:

1. use only low-Global Warming Potential (low GWP) refrigerants in new medium and heavy-duty vehicles not already covered by existing regulation by 2010
2. limit the use of GWP refrigerants in refrigerated trucks
3. be subjected to refrigerant use and leakage checks as part of existing smog-check inspections

INDUSTRY VIABILITY: Existing environmental regulations already cover most vehicles employed by the state's trucking industry and dictate the availability of vehicles

sold in the state. There are no known technological concerns to extend the reduction of HFCs to AB32's standards within the industry.

Alternative Fuels: Biodiesel Blends

THE GOAL: To change the composition of California diesel fuel to include 1 to 4% biodiesel.

INDUSTRY VIABILITY: Biodiesel blends of 1 to 4% can be used by existing technology stock without mechanical alterations. There is discussion, however, that fuel efficiency decreases with increased percentages of fuel from biomass sources. If this proves to be the case, price pressures on diesel fuel would be threefold: first, the price of diesel fuel has been increasing in recent years and is expected to continue to rise in the future. Second, the blending of diesel fuel with biofuel is forecasted to raise diesel fuel prices. Thirdly, reduced fuel efficiency due to the addition of biomass will increase fuel demand.

Regional implementation of biofuel blending in the state's neighboring economies would minimize leakage due to trucks fueling up at stations across state borders.

Heavy Duty Vehicle Emission Reduction

THE GOAL: To reduce vehicle emissions in the trucking industry through a variety of measures, including: improved vehicle aerodynamics, climate-engine based improvement efficiency, vehicle weight reductions, rolling and inertia resistance improvements and educational programs on optimal vehicle operation.

INDUSTRY VIABILITY: Significant opportunities exist for emission reductions in this category. Specifically:

- Improved vehicle aerodynamics increase fuel efficiency at highway speeds by reducing aerodynamic resistance. While efforts to improve cab aerodynamics are approaching saturation levels in the industry, improvements to trailer aerodynamics still offer substantial room for emissions reduction. Low-tech, modular solutions which, for example, reduce the gap between tractor and trailer improve fuel and emissions efficiency.
- Climate-engine based improved efficiency, such as the use of low friction engine lubrication and low friction drive train lubricants have low adoption rates in the industry, thereby offering considerable opportunities to reduce greenhouse gas emissions. Additionally, climate-engine efficiency can be improved without scrapping entire trucks by replacing existing engines with cleaner technologies.
- Vehicle weight reductions similarly have low adoption rates in the industry and offer considerable opportunities to reduce greenhouse gas emissions.
- Rolling and inertia resistance improvements, such as wireless tire pressure monitoring systems, tire inflation systems and the use of wide-based tires offer some of the greatest opportunities for the industry to maximize fuel efficiency and reduce greenhouse gases. All approaches currently have low market penetration rates, offering considerable opportunities to reduce emissions.
- Wide-based tires which replace the typical dual-tire configuration with singular, wide tires have thus far been received by the industry with skepticism. Trucking's concerns include that wide-based tires are not consistently legal throughout the continent and that they do not offer the same back up benefits that dual-tire configurations offer when tires blow out. Counterarguments claim that wide-based tires are now legal in all fifty

states and that the presence of tandem axels in heavy duty trucks prevent vehicles from being immobilized when wide-based tires fail.

- If paired with effective monitoring and enforcement systems, educational programs on optimal vehicle operation also offer substantial emissions reductions. Encouragement of speed reduction, for example, improves fuel efficiency and reduces greenhouse gas emissions. Truck fuel economy drops as highway speeds increase above 55 miles per hours (mph). An increase from 55 mph to 60 mph reduces fuel efficiency by 7.1 miles per gallon (mpg). An increase from 60 mph to 65 mph reduces fuel efficiency by 6.5 mpg. Further increasing speeds to 70 mph further diminishes fuel efficiency by an additional 6.1 mpg.

Fuel Efficient Replacement of Tires and Inflation

THE GOAL:To improve fuel efficiency by the development and adoption of more fuel-efficient tires and tire usage.

INDUSTRY VIABILITY: As highlighted in the above section, increased use of fuel-efficient tires and tire usage is well developed in the industry and low market penetration rates offer significant fuel and emission efficiency improvements.

Logistics Technology

A substantial area for emissions reductions unmentioned in AB32 is improvements in trucking logistics. Internally motivated by cost and service competitiveness, significant logistics gains have improved fuel and emissions efficiency in the industry. Continued logistics improvements that can be adopted include:

- Route efficiency technologies that optimize the location and status of trucks and trailers with fuel stops, distribution hubs and final destinations.
- Revenue potential technologies that maximize earnings per ton-mile

- Load maximizing technologies that balance inbound and outbound loads to ensure full loads on all trips. Though containerization in the later half of the twentieth century and the Motor Carrier Act of 1980 greatly reduced empty and out-of-route miles, long term contracts, shipment planner software and coordinating services offer further potential to minimize emittant per ton-mile by creating shorter, dedicated and non-random routes and minimizing empty, circuitous miles.

COSTS

While it is difficult to discern average and marginal costs for the typical trucking firm in California, it is insightful to consider cost effects of rising energy prices, cost effects of improved fuel efficiency and cost factors characteristic to the industry.

Cost Effects of Rising Energy Prices

A key contributor to the industry's average and marginal cost is the price of diesel fuel. In July 2006, the average diesel fuel price in representative Californian cities was \$3.175 per gallon. If the typical long haul truck has an annual mileage of 98,000 and a fuel economy of 6.1 mpg, the marginal cost of fuel per mile during this period was \$0.52, totaling fuel expenses per typical truck at \$51,008. Increases in fuel prices have a one to one correlation with marginal and total fuel costs; a one percent increase in fuel prices results in a 1% increase in both marginal and total fuel costs.

Cost Effects of Improved Fuel Efficiency

Improved fuel efficiency has a one to one correlation with marginal and total fuel costs as well, reducing costs as efficiency improves. A \$2000 investment in improved

fuel efficiency is covered by the first year of energy cost savings by a 5% minimum fuel efficiency improvement. A \$3800 investment is covered by the first year of energy cost savings with at least a 10% fuel efficiency improvement. Low interest rates and long lifespans of efficiency measures further finance improved fuel efficiency. Greenhouse gas emissions are reduced by the industry at a cost savings to firms.

Cost Factors Characteristic to the Industry

Fixed costs in the trucking industry are expenses incurred no matter how many miles are accumulated and variable costs are those attributed to mileage. Trucking fixed costs include: equipment costs, interest rates, license fees and taxes, insurance, management costs and overhead costs. Significant variable costs in the sector include maintenance and repair, fuel costs, labor and tires.

Between firms, fixed and variable costs vary significantly depending on the type of carrier the firm is, the geography of their routes and the type of products they carry. As an industry, the composition of fixed and variable costs are determined by the type of goods and routes the state's economy demands. In an industry as competitive and with as many firms as the trucking industry, as statewide demand varies, firms emerge to cover underserved markets and withdraw from saturated markets.

Among fixed and variable costs, it is important to consider the degree to which trucking firms and the industry have control over cost variables. Exogenous costs beyond decision makers' control include fuel, tire, maintenance and repair expenses, license fees and taxes, insurance costs and interest rates. Business decisions made by firms and the industry are related the decision-variable costs of equipment, overhead, management and labor expenses. Driving practices and equipment usage use decision-variable costs to manage exogenous costs. Both firm competitiveness and industry

viability is increased as decision-variable costs and performance practices minimize the effect of exogenous expenses.

Perspectives: Uncertainties, Pressures And Trends

Uncertainties and Pressures

Current pressures on the trucking industry include:

- Fluctuating diesel fuel costs
- Rising insurance costs
- Fluctuations in consumer demand
- High driver turn over rates, reported to be as high as 100% annually
- Driver shortages, especially for long haul routes
- Rising health and liability costs
- Price competition among firms
- Increasing competition from the rail freight industry in the shipment of manufactured goods and from double stacked railcars

Trends

Trucking is considered relatively immune to economic recession. Despite economic slowdowns which reduced manufacturing and consumer demand in the early 2000s, the trucking industry experienced national growth between 1995 and 2005. The lowest growth rate was 0.7% experienced between 2002 and 2003. The highest growth rate was 4.5%, experienced between 1996 and 1997. The average growth rate in the 10 year period was 2.44%. As California's economy experiences fluctuations in growth rates, the trucking industry is expected to experience commensurate changes in demand.

Due to an improved economy and rise in manufacturer's shipments, intercity national freight volume is expected to grow at a rate of 2.5% in ton-mileage through 2010. This is slightly higher than the expected demand increase of freight services in general (including railroad, pipeline, domestic water transport and air freight) of 1.9%. This indicates that trucking freight is expected to remain competitive in coming years. Intermodal rail and trucking collaboration is expected to continued growing while domestic water, pipeline and air freight shares of freight transport is expected to remain constant or decline.

Transborder trucking freight with Mexico as part of NAFTA trade is also expected to grow in coming years.

Increasing use of just in time inventory practices as manufactures and retailers move to "zero inventory" methods mean that:

- an increase in distribution hubs within two days distance between inputs and manufactures and between manufacturers and retailers.
- that firms able to offer the most inclusive package of logistics, storage services and customer accessible tracking systems are well positioned to absorb a good portion of industry growth. Larger firms tend to offer these services more frequently than smaller firms.
- Increased investment in logistics technologies industry wide.
- Shortened supply routes.

Continued route maximization practices are expected due to increasing fuel prices and competitive pressures.

Stable trucking rates due to price competition are expected in the industry in coming years.

Research and development in safety measures, including cab mounted computers that reduce accidents and improve communication between drivers with dispatchers.

Research and development in computerized systems that direct trucks to optimal speeds.

Research and development in shipment planner software that reduces empty trailer miles.

Increasing horizontal integration and alliances with railroad firms.

National Carriers Operating in California

National Carrier Industry Overview

The 6786 firms in the state's national carrier sector make up 60% of California's trucking industry. 60% of national carriers operating in California earn less than half a million dollars in annual state revenue; 90% of the state's national carriers earn less than \$5 million in annual state revenue. (Figures 3 and 4)

Due to the network characteristics inherent to the trucking industry, many national carriers operating in California are not owned in California. National carriers with parent companies outside of California are oftentimes operated by state subsidiaries. Leading firms earning more than \$50 million in annual revenue include FedEx, Roadway, UPS and Estes Way. Dominant, large national carriers are price competitive with the populous fringe of smaller, national carriers. Some overlap in the LTL and TL sectors occurs among national carriers.

National Carrier Production Factors

National carriers face the same general inputs and outputs characteristic to the overall industry, with heavier use of management, distribution hubs, logistics and marketing than regional carriers. National carriers benefit most in the industry from economies of scale and have improved capabilities for maximizing economies of utilization due to sophisticated management practices and logistics technologies.

Figure 3: 2006 Regional Carrier Firm Distribution by Revenue

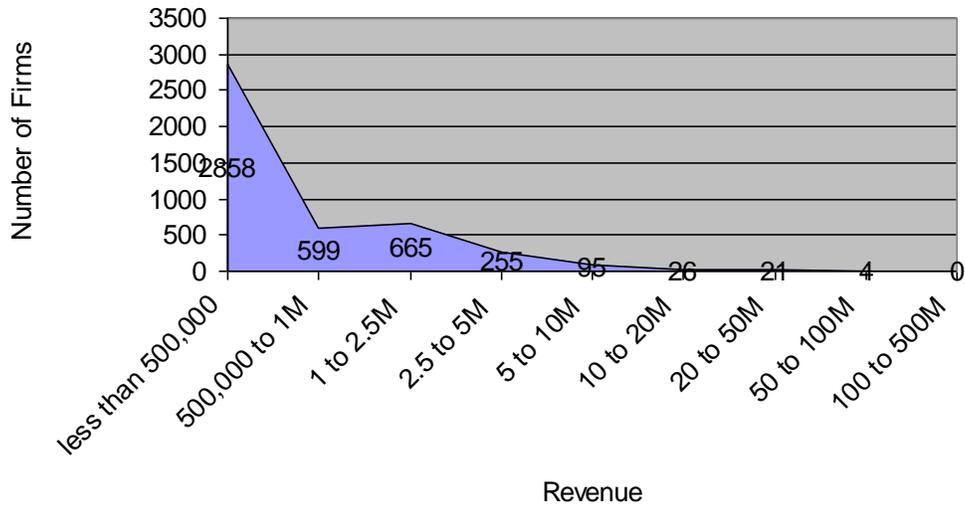
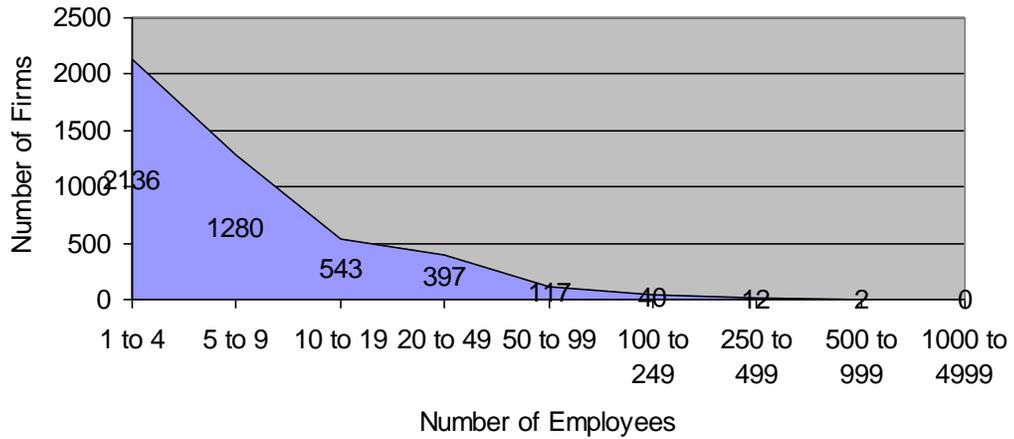


Figure 4: 2006 Regional Carrier Distribution of Firm Size in # of Employees



National Carrier Technology Factors

Large, national carriers have been a driver of fuel and emissions efficiency innovations in the industry. FedEx, for example, is in collaboration with environmental think tanks to design and adopt more efficient trucks that reduce fuel use and emission rates. Likewise, UPS has gained national attention for its collaboration with services that reduce engine idling through the minimization of left hand turns.

Larger firms in the national carrier sector are better positioned to coordinate and finance efficiency improvements to the characteristics of existing vehicles and improvements to vehicle use.

Zero national carriers have registered with the California Climate Action Registry.

National Carrier Cost Factors

National carriers generally face the same energy costs as regional carriers within California but have the advantage of fueling up in neighboring states with lower fuel costs. Depending on the carrier's route, this can amount to energy savings as much as 4 to 12%. Firms that have vertically integrated in the petroleum industry have the advantage of dedicated access to diesel fuel, but federal regulation of the industry ensures that vertical integration does not give firms a cost advantage.

National carriers may benefit less per mile in fuel efficiency gains because of its tendency to use newer, cleaner stock, the diminishing capabilities of fuel efficiency efforts already made and because national carriers run more highway miles, optimal operating conditions for heavy duty trucks.

National carriers have higher fixed costs than regional carriers due to their heavier use of management, distribution hubs, logistics technology and marketing, but face the same variable costs of maintenance and repair, fuel and tire expenses.

National Carrier Perspectives – Trends & Uncertainty

Regardless of AB32's measures, fierce competition in the national carrier sector will continue to drive fuel and emissions efficiency through technology innovation and maximization of economies of utilization.

Due to its dominance of long haul routes, the national carrier sector is more affected by hours of service regulations and high turn rates than regional carriers.

Regional Carriers Operationing In California

Regional Carrier Industry Overview

The 4529 regional carriers operating in California make up 40% of the state's overall trucking industry. Similar to the characteristics of the overall industry, the regional carrier sector is comprised of a few leading firms and a large competitive fringe. Leading firms in the industry with revenues greater than \$50 million include Adams Grain Company, Sunny Express and Unity Courier Services. More than 60% of the state's regional carriers earn less than half a million dollars; 90% of California's regional carriers earn less than \$2.5 million. Regional carriers tend to be privately owned firms. (Figures 5 and 6)

Regional Carrier Production Factors

Regional carriers have the same inputs and outputs of the overall industry with less of a need for sophisticated tracking logistics and management practices due to its dominance of shorter, dedicated routes. The dominance of short haul routes results in lower fuel and emissions efficiency than industry averages due to more stops per ton-mile, less highway miles and increased intercity miles in congested areas.

Figure 5: 2006 National Carrier Distribution of Firm Size by Revenue

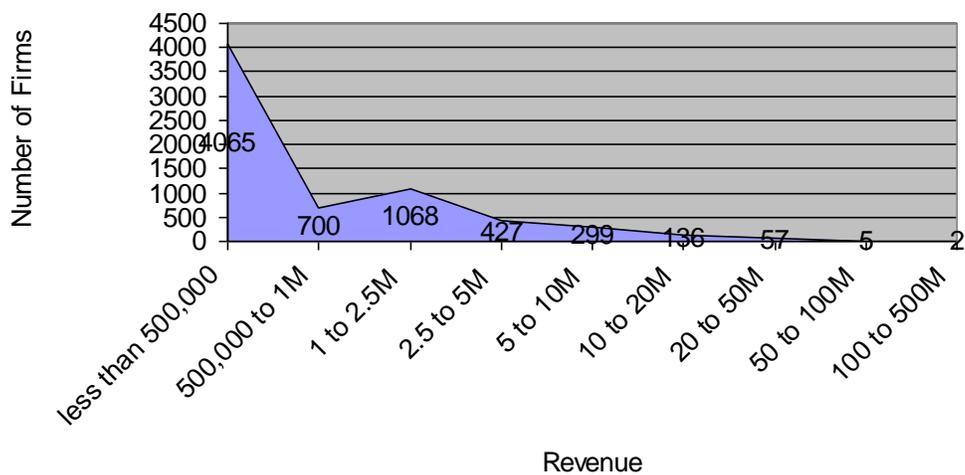
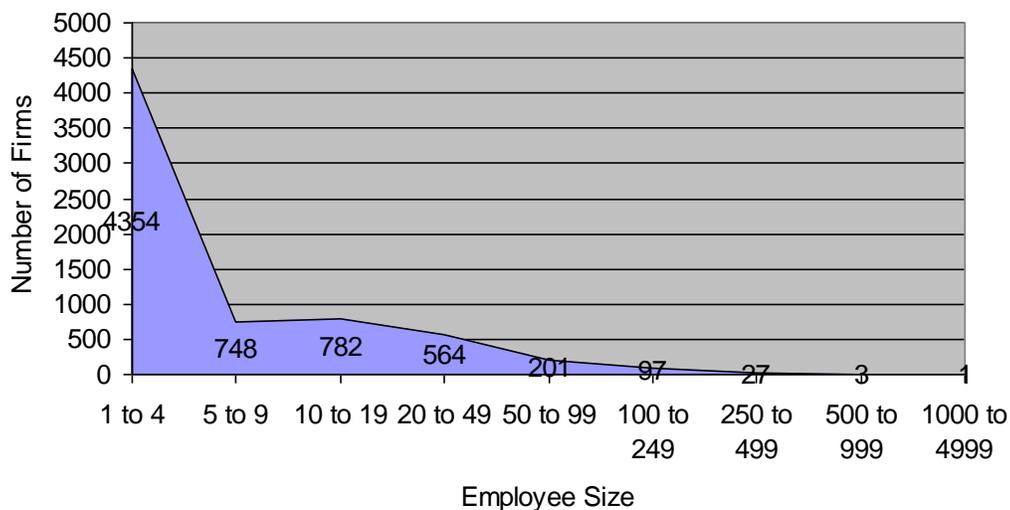


Figure 6: National Carrier Distribution by Employee Size



Regional Carrier Technology

Due to purchasing patterns in the overall industry, regional carriers have been historically slower to adopt cleaner technologies than national carriers. Regional carriers are positioned to gain the most from fuel efficiency measures as older stock is replaced and because of the room for efficiency improvement in intercity transport.

Only one regional carrier is registered with the California Climate Action Registry: Bill Signs Trucking of San Diego. Bill Signs Trucking is the the industry's sole firm on the Climate Action Registry.

Regional Carrier Cost Factors

Regional carriers face energy, fixed and variable costs standard to the industry. Regional carriers do not share national carrier advantages of fueling up at lower costs outside the state with the exception of those firms operating routes near state borders.

Regional Carrier Perspectives – Trends & Uncertainty

As a sector, regional carriers face less competition from the industry's rail, pipeline, domestic water and air freight competitors due to the flexibility trucks have in carrying more specified routes.

Between firms, regional carriers are price competitive due to the number of firms operating in the industry.

Conclusion: Prognosis For Policy

The success of the state's trucking industry is an indicator and result of California's economic well being. Participation of the industry's firms in meeting the goals of AB32 will greatly reduce greenhouse gas emissions in significant and needed ways. Fortunately, trucking is well positioned to implement AB32's measures due to innovative fuel and emission efficient technologies currently available to the industry. In addition to the incentives AB32 provides in reducing emissions, the industry's

competitive environment creates considerable internal motivation to improve fuel and emissions efficiency as a means of profit maximization. Gains made in fuel and emissions efficiency have the benefit of cost savings to firms and the industry as a whole. If AB32 regulation results in higher prices to trucking consumers, the make up of the industry dictates that costs will not simply be passed through to customers; any resulting price increases will not likely rise above commensurate cost increases to trucking firms. Due to the history of environmental regulation in the industry, trucking firms are more receptive to and have more support networks in place to implement AB32's provisions than industries unaccustomed to regulation.

The trucking industry is sufficiently armed with strategies relating to all its inputs in order to comply with AB32. The network characteristics of the industry make regional collaborations with California's neighboring economies ideal. In particular, West Coast collaborations to standardized biofuel blending with diesel fuel would minimize emission leakage. Additional collaboration with industry groups, such as the California Trucking Association, and industry leaders would help facilitate swift implementation of AB32 measures.

3.4 Cement Blending and Efficiency Measures

Sector Analysis

This sector is extensively reviewed in a companion study to the present one (Roland-Holst: 2007a).

Scenario Description:

The cement industry has levels of GHG emission that can be mitigated by a small set of policies with profit incentives for private initiative. These include increased use of limestone Portland cement and blended cement, which account for 70% of the cumulative 38 MMTCO₂ reduction from all measures examined costing less than \$10 per metric ton carbon equivalent (MTCE). The use of waste tires as fuel accounts for an additional 10% of the reduction.

Modeling Approach:

Fourteen measures used by CCAP to construct their MAC curves were examined:

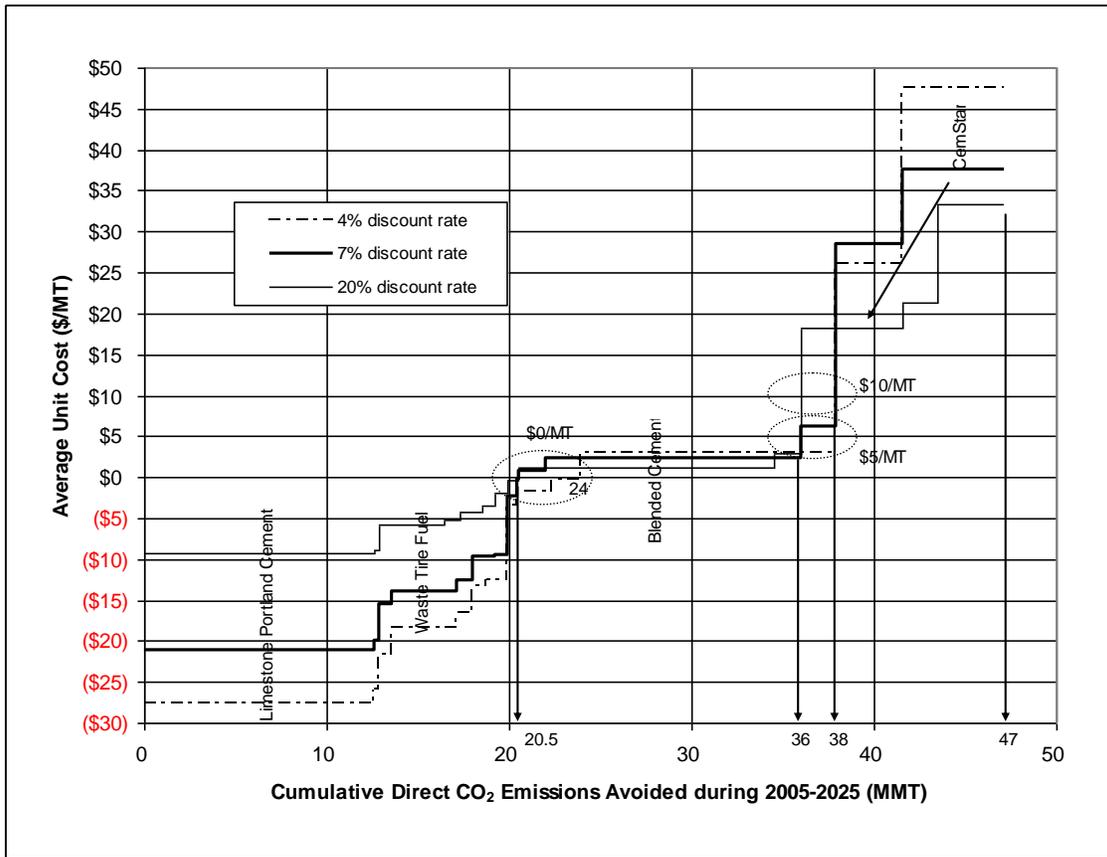
1. Limestone Blended Cement
2. Preventative Maintenance
3. Process Control & Management
4. Waste Tire Fuel
5. Clinker Cooler Control
6. On-line Kiln Feed Analyzer
7. Kiln Shell Heat Loss Reduction
8. Optimized Heat Recovery in Clinker Cooler
9. Precalciner on Dry Preheater Kiln
10. Planetary to Grate Cooler
11. Seal Maintenance
12. Blended Cements
13. Long Dry to Preheater, Precalciner Kilns
14. CemStar without License after 2014

For the moderate scenario, we consider the first nine measures, while all included in the ambitious scenario.

Data Sources and Description:

The primary data source is a report by the Center for Clean Air Policy (CCAP:2005a) and the spreadsheets that were used for their analysis (CCAP: 2005b), detailing Marginal Abatement Cost (MAC) estimates for over thirty measures in the cement sector. Costs were expressed in 2003 dollars, so no adjustment for BEAR was necessary. CCAP constructed three different MAC curves using discount rates of 4%, 7%, and 20%. To maintain consistency with the other types of measures used in BEAR, the 4% rate scenario was used as the basis for our analysis. An additional manipulation of the data was also necessary. The stream of GHG savings was discounted for purposes of recalculating the annualized abatement costs. Since only three of the fourteen measures exhibit positive costs at the 4% discount rate, this does not have much impact on the adoption of these measures by BEAR. Expenditures for equipment are mapped from the cement industry to the construction industry. Increased costs for improved maintenance procedures remain within the cement industry. In BEAR_Data.xls, the spreadsheet Cement contains the technical details derived from CCAP (2005a, b).

Figure 3.8.1: Marginal Abatement Curve Estimates for Cement



Source: CCAP:2005

3.5 Manure Management

Sector Analysis

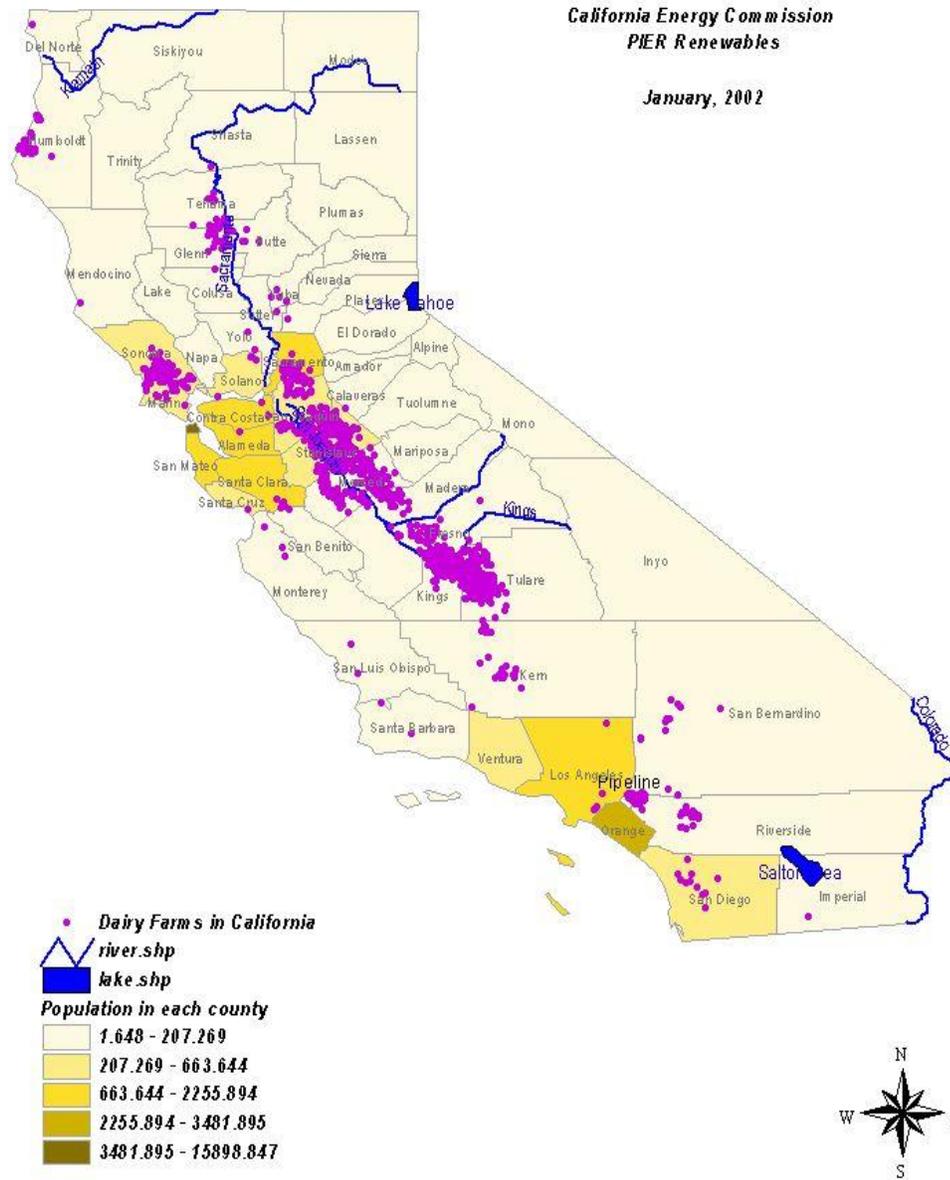
California's livestock population is a major contributor to the state's overall greenhouse gas (GHG) emissions. Of this population, dairy and beef confined animal feeding operations (CAFOs) are the most significant emitters and are also the best potential source of major reductions. As ruminants and large producers of manure, cows are responsible for the production of large quantities of methane, which is 21X more effective GHG than CO₂. While there are both dairy and beef cattle feedlots in California, the ratio of dairy to beef cattle in the state is over 2:1 (1,569,693 dairy cows and 707,000 feed cattle) and growing (Livestock 2006). Due to this trends of increasing dairy numbers and decreasing beef cattle numbers and to the generally greater attention that dairy has received as a source of GHG mitigation, this report will focus on the Dairy industry in California, yet much of it will apply to both.

The Industry

“Although beef cattle populations have declined over the last 12 years, the dairy cattle population has increased significantly. California is the leading dairy state in the nation and dairy products are the state’s number one agricultural commodity” (CEC emissions and sinks page 42). In 2006, California dairies accounted for about 21.2% of the nation's overall milk production, followed by only 12.9% from Wisconsin (Livestock 2006). Milk generated \$5.2 billion in cash receipts in 2005, and a study by J/D/G consulting attributed the dairy industry with the creation of 434,000 full time jobs and \$47.4 billion of economic activity in 2004 (Dryer 2005).

Figure 4.5.1:

Dairy Farms in California



Milk production in California is concentrated primarily in the San Joaquin Valley, where the state's top five dairy counties—Tulare, Merced, Stanislaus, Kings, and Kern—are all located (Figure 4.5.1). This region characterizes the recent trend, especially prevalent in the Western dairy regions, towards fewer and larger pastureless farms that achieve higher productivity and efficiency. In 2005 the average farm size in California was 890 head per farm compared to the national average of 140 and an average of 82 for the traditional dairy state of Wisconsin. Large farms dominate overall production in California (Table 4.5.1), with the farms of greater than 500 head producing 87% of the state's total milk in 2005 (Livestock 2006).

Table 4.5.1: Milk Cow Operations and Inventory by Size Groups

Milk Cow Operations and Inventory by Size Groups, 1996–2005													
Year	1–49 Head		50–99 Head		100–199 Head		200+ Head ¹		200–499 Head		500+ Head		
	Operations	Inventory	Operations	Inventory	Operations	Inventory	Operations	Inventory	Operations	Inventory	Operations	Inventory	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
1996	670	0.4	130	0.8	300	3.8	1,800	95.0	–	–	–	–	
1997	590	0.4	120	0.7	290	3.4	1,800	95.5	750	16.5	1,050	79.0	
1998	510	0.4	110	0.7	270	3.4	1,810	95.5	750	17.5	1,060	78.0	
1999	450	0.3	70	0.4	250	3.3	1,830	96.0	730	17.0	1,100	79.0	
2000	370	0.3	70	0.3	230	2.9	1,830	96.5	730	16.5	1,100	80.0	
2001	370	0.3	80	0.3	250	2.4	1,800	97.0	700	15.0	1,100	82.0	
2002	380	0.3	80	0.3	200	1.9	1,740	97.5	640	13.5	1,100	84.0	
2003	390	0.3	80	0.3	210	1.9	1,720	97.5	620	12.5	1,100	85.0	
2004	365	0.2	80	0.3	180	1.5	1,675	98.0	575	12.0	1,100	86.0	
2005	390	0.2	80	0.3	180	1.5	1,650	98.0	550	11.0	1,100	87.0	

¹ Starting in 1997, the 200+ Head class was broken out into 200+ Head, 200–499 Head, and 500+ Head classes.

(Livestock 2006)

Production

Dairy farmers produce milk, which is processed into a variety of dairy products or remains as fluid milk. Like cattle feedlots and other CAFOs, the dairy industry's primary inputs are feed, labor, and capital.

Dairy CAFOs in California include neither pasture land for grazing or cropland for growing feed and are thus reliant on purchased feed transported from distant regions like the Midwest. Traditionally, dairy cow feed includes protein sources such as: corn silage, alfalfa or grass silage, alfalfa hay, ground or high-moisture shelled corn, soybean meal, cottonseed, and perhaps commodity feeds (corn gluten, distillers grains, soybean hulls, citrus pulp, candy bars, etc.), yet also includes vitamin and mineral supplements, antibiotics and other medical additives (Feeding 2006).

Although dairy operations have become highly automated, dairying is still a highly labor intensive activity and the large capital-intensive dairies that dominate California's industry require skilled labor in order to run efficiently (Short 2004). According to a 2006 survey, hired dairy farm labor in the western US received an average hourly wage of \$10.28 in 2006 in addition to commonly provided monthly or annual incentive programs. The current percentage of foreign born labor in California is 94%, with the majority originating from Mexico and Central America (Encina 2006). In 2004 17,000 people worked directly on dairy farms, 2000 of which were owner-operators (Dryer 2005).

Unlike many other mostly agricultural ventures, dairy has many capital inputs that are specific to the production of milk, giving the dairy producer very little flexibility in switching operations. "On farm refrigerated bulk milk tanks, improved milking equipment, modern and efficient milking parlors,... animal housing, and improved feed-handling and waste-handling systems are examples of technological innovations widely adopted by dairy farmers" (Blaney 2002).

Another notable production input for dairy farms is energy and fuel. A study finds that 2/3 of the 9 trillion btu's of energy used on dairy farms was petroleum based fuel with the other 1/3 being electricity (Brown 2005). Methane digesters provide a potential for on-farm generation to offset this purchased electricity.

Costs / Balance Sheet

Variable Costs make up about 82% of the total production costs, and feed costs are the largest overall costs—making up 52% of total costs and 63% of variable costs in 2006. Hay and straw, complete feed mixes, and feed grains are the largest items in this category (Monthly 2005). As such a high proportion of total costs, feed prices are a major concern of milk producers. Recently, as corn feed prices have hit their highest prices in a decade, dairies have responded by lowering their rations of corn, with some central valley producers reportedly lowering them 20-30% (see table 2 on page 9). “The substitute feeds are varied and include mill run, bakery waste, hay and silage” (Merlo 2007).

Locational Considerations

While the number of Dairy cows in California is currently growing, the state is seeing a slowdown in growth and the relocation of dairies—especially those in the sky-high real estate areas of Southern California—to areas outside the state. Many factors affect locational decisions. The “California Agricultural Resource Directory” cites difficulty of obtaining permits, environmental regulations, and the dairy retirement program for the recent slowdown in California's dairy growth (livestock 2006). One econometric study found “that differences in state environmental regulations may have contributed to migrations of dairy farms across regional boundaries to locations with less stringent environmental regulation.” It also found “local economic conditions such as property taxes, land values, or feed costs, socioeconomic factors such as population, poverty level, or unemployment rate, and climate considerably impact dairy location and production levels” (Isik 2004).

Table 4.5.2: California Dairy Production Cost: 5-Year Comparison

Production Cost 5-Year Comparison ^{1/}	2001	2002	2003	2004	2005
	Average	Average	Average	Average	Average
Number of Herds	238	215	204	196	179
1. Feed Costs					
a. Dry Roughage	\$30.41	\$31.72	\$29.71	\$30.17	\$31.88
b. Wet Feed & Wet Roughage	\$15.30	\$15.06	\$15.85	\$17.64	\$20.18
c. Grain	\$49.49	\$50.48	\$51.97	\$55.91	\$58.53
d. Minerals & Supplements	\$4.99	\$5.85	\$5.91	\$6.47	\$6.38
e. Pasture	\$0.63	\$0.57	\$0.43	\$0.42	\$0.49
Total Feed Costs	\$100.82	\$103.68	\$103.88	\$110.62	\$117.24
Total Feed Costs (% of total Cost)	47.7%	47.3%	48.2%	49.5%	49.1%
2. Total Labor	\$23.85	\$24.88	\$26.10	\$26.84	\$27.46
Total Labor Costs (%of total cost)	11.3%	11.3%	12.1%	12.0%	11.5%
3. Herd Replacement	\$29.24	\$35.32	\$30.56	\$29.11	\$32.54
Total Replacement Costs (%of total cost)	13.8%	16.1%	14.2%	13.0%	13.6%
4. Operating Costs					
a. Utilities	\$4.68	\$4.68	\$4.56	\$4.33	\$4.45
b. Supplies	\$7.52	\$7.62	\$7.60	\$7.94	\$8.30
c. Veterinary & Medicine (incl. rBST)	\$6.78	\$6.78	\$6.82	\$6.38	\$7.37
d. Outside Services	\$3.25	\$3.19	\$3.12	\$3.18	\$3.41
e. Repairs & Maintenance	\$5.13	\$4.61	\$4.18	\$4.72	\$5.07
f. Bedding & Manure Haul	\$1.74	\$2.05	\$1.64	\$1.35	\$1.33
g. Tractors, Trucks, Fuel & Oil	\$3.10	\$3.04	\$3.00	\$3.31	\$3.52
h. Miscellaneous	\$0.41	\$0.36	\$0.69	\$1.13	\$1.20
i. Interest	\$7.72	\$5.88	\$5.65	\$6.09	\$6.88
j. Lease Expense	\$3.08	\$3.01	\$2.88	\$2.49	\$2.98
k. Depreciation	\$5.01	\$5.12	\$5.49	\$6.39	\$6.81
l. Taxes & Insurance	\$1.35	\$1.38	\$1.42	\$1.54	\$1.88
Total Operating Costs	\$49.73	\$47.72	\$47.05	\$48.85	\$52.99
Total Operating Costs (%of total costs)	23.5%	21.8%	21.8%	21.8%	22.2%
5. Milk Marketing Costs					
a. Hauling	\$4.60	\$4.66	\$4.77	\$4.88	\$5.28
b. State Assessments	\$2.32	\$2.18	\$2.24	\$2.35	\$2.35
c. Federal Assessments & Misc. Ded.	\$0.97	\$0.98	\$0.94	\$0.95	\$0.95
Total Milk Marketing Costs	\$7.89	\$7.83	\$7.96	\$8.16	\$8.55
Total Milk Marketing Costs (% of total costs)	3.7%	3.6%	3.7%	3.6%	3.6%
6. Total Milk Marketing Costs (\$/cwt.)	\$0.46	\$0.45	\$0.46	\$0.47	\$0.48
7. Total Cost (\$/Cow/Month)	\$211.53	\$219.43	\$215.55	\$223.57	\$238.77
8. Total Cost (\$/cwt)	\$12.24	\$12.61	\$12.44	\$12.75	\$13.43
9. Milk Production Data					
a. Adjusted Gross (\$/cwt.)	\$14.15	\$11.13	\$11.53	\$14.94	\$14.15
b. Milk Sold/Cow/Month (cwt.)	17.28	17.40	17.33	17.54	17.78
c. Gallons sold/Milk Cow/Day	7.72	7.76	7.70	7.78	7.87
d. Fat Test %	3.71%	3.71%	3.69%	3.70%	3.70%
e. SNF Test %	8.77%	8.77%	8.76%	8.80%	8.81%
f. Fat Sold/Milk Cow/Month (lb.)	74.98	75.40	74.25	75.09	76.05
g. SNF Sold/Milk Cow/Month (lb.)	177.11	178.08	176.36	179.71	181.27
10. Related Data					
a. Percent Dry Cows	14%	14%	14%	14%	14%
b. Yearly Cull Rate	33%	34%	36%	35%	35%
c. Avg. Value (\$/Drop Bull Calf)	\$79.79	\$50.89	\$62.20	\$102.78	\$135.28
d. Milk Cow Alfalfa Hay Price (\$/ton)	\$140.77	\$143.86	\$134.80	\$142.87	\$163.79
e. Grain, Mnrls & Splmnts (\$/ton)	\$141.48	\$145.38	\$152.71	\$161.65	\$163.57
f. Grain, Mnrls. & Splmnts. (lbs/mc/day)	29.12	29.17	28.46	28.89	29.59
g. Milkers (\$/hr with benefits & taxes)	\$11.93	\$12.54	\$13.28	\$13.19	\$13.33
h. Total Feed Costs (\$/Milk Cow/Day)	\$3.62	\$3.70	\$3.72	\$3.92	\$4.15
i. Milk Cow Feed Cost (\$/cwt.)	\$5.45	\$5.55	\$5.81	\$5.87	\$6.13
j. Milk Cows (average herd size)	751	780	884	817	868
k. Total Cows (average herd size)	827	865	963	946	1002
l. Mailbox Price (\$/cwt.)	\$13.89	\$10.99	\$11.49	\$14.79	\$13.95

^{1/} All costs: per cow per month, unless noted

(California's 2005)

In another study, a survey of dairy farmers finds that out of 110 listed factors, farmers in the Southwest consider the ten most important to be:

1. Average mailbox price of milk
2. Availability of adequate fresh water supplies
3. Quality of fresh water supply
4. Cost of feed
5. Cost of hauling milk
6. State and local income tax rate
7. Availability of land on which to incorporate animal waste
8. Proximity to milk processors and handlers
9. Proximity to large fluid milk markets
10. Complexity of state and local laws governing waste handling and odor management

Source: Stirm 2003

Emissions

Although methane is released in much lower quantities than CO₂, it is 21X as potent and is therefore a major source of California's total GHG emissions. Methane is also the main component of natural gas, making energy generation a major focus of its mitigation strategy. In 2002 methane made up a 6.4% share of California's GHGs, with landfills (2.0%), enteric fermentation (1.7%), and manure (1.4%) being its three largest contributors (Bemis 2005).

Enteric Fermentation

Enteric methane is produced in the stomachs of ruminant animal—such as cattle, sheep, and goats—during digestion. “Plant material consumed by ruminant livestock is fermented by approximately 200 species of microbes in the rumen, the first of a four-part stomach,” producing methane as a byproduct (Enteric 1999). This methane is mostly belched by the animal throughout the day, which makes capture and

utilization of the gas unrealistic. Instead, the mitigation of enteric methane will take place by reducing emissions through a number of possible strategies. Since large production of enteric methane is a signal of an inefficient use of energy by the cow, its reduction can be a source of increased milk productivity as well.

An emissions rate of around 290gCH₄/cow*day has been estimated from several studies, although this can vary with many different factors (McGinn 2006).

Currently a great deal of research is being done internationally to find ways to reduce the amount of methane produced per cow while another approach is to increase the productivity of dairy cows, recognizing that lowering methane/cwt is the ultimate goal. A study by Johnson et al. finds that for every 10% increase in milk/cow resulted in a 5-6% decrease in GHG/milk (McGinn 2006). Approaches that include diet and feed composition include:

1. **Intensification**

Feeding livestock high digestibility feed such as grain or high quality pasture increases milk production per cow and reduces methane emissions per unit of production (i.e. more efficient production).

2. **Dietary Fats**

Additions of unsaturated fatty acids to ruminant diets may reduce methane by up to 40% i.e. 7% linseed oil may result in a 37 % reduction in methane emission.

3. **Carbohydrate type**

The type of carbohydrate fermented in the rumen influences methane production. Dairy production systems based on temperate perennial rye grass/white clovers pasture will produce less methane than dairy cows fed sub-tropical pastures like Setaria or Kikuyu. The fermentation of brewers grain and distillery products containing relatively available fiber results in

methane production 33% to 50% of that seen with common feedstuffs of comparable digestibility.

4. **Forage Processing**

Grinding and pelleting of forages can markedly decrease methane production. At high intakes, methane loss/unit of diet can be reduced 20-40 %.

Other approaches focus on modifying the makeup of the animal's digestive system, such as:

1. **Defaunation**

In the absence of protozoa, rumen methane emissions are reduced by an average of 20 %, and it is likely that cows will produce up to 1 to 1.5 litres more milk per day at peak lactation. As animals refaunate rapidly by grazing, only dairy production systems offer the possibility of administering defaunating agents regularly during milking.

2. **Acetogens**

Acetogens are rumen microbes that convert carbon dioxide (CO₂) and hydrogen gas (H₂) to acetate, an energy source for the cow, while methanogens form methane, a waste product, from the same basic compounds. Research is underway in New Zealand to investigate the possibility of replacing methanogenic microbes with acetogenic microbes.

3. **Vaccination**

Methanogens are antigenetically distinct from other organisms in the rumen, allowing a vaccination approach to the reduction of methane production by rumen methanogens.

Source: Dairy Greenhouse Framework, 2006

Manure Management

Another source of dairy methane emissions results from the farms' manure management practices. When stored in oxygen poor environments, manure is broken down anaerobically and methane is produced. Although there are several ways to dispose of manure without producing large amounts of methane—such as spreading over a pasture—CAFOs generally do not have the land available for such disposal and instead practice wet storage systems, like liquid/slurry and anaerobic lagoons, that produce large amounts of methane. Currently in California, 57% of manure is managed by anaerobic lagoons, 21% by liquid slurry, 11% by daily spread, 9% by solid storage, and 1% by pasture (Emission 2006).

The reduction strategy for methane produced by manure disposal/storage focuses on the installation of methane or “biogas” digesters. A digester captures the methane and either burns it off through a flare or uses it to generate electricity. The most common systems are covered lagoon digesters, complete mix digesters, plug flow digesters, and centralized digesters.

In a report supported by the CEC PIER program, ICF Consulting produced estimates of each system's overall mitigation potential based on feasibility and costs as well as cost estimates for various digester options (Table 4.5.4). They estimate reduction costs per MTCO_{2e} as low as \$0.54 for centralized digesters, and \$0.61 for plug flow on medium sized dairies, and as high as \$8.81 and \$14.78 for covered lagoon systems on dairies with and without preexisting lagoons. Table 5 on page 13 also provides capital and operating costs for these systems based on ongoing projects in California (e.g. Straus Dairy, Joseph Gallo Dairy, CalPoly Dairy) (Emission 2006).

Since these systems enable farmers to replace electricity purchased from utilities with their own electricity production, the cost of these systems decrease with higher utility electricity rates. If policies are enacted that lead to an increased electricity rates, a possibility that seems rather likely, these systems will become increasingly attractive (Figure 4.5.3).

Table 4.5.4: Digester Reductions and Costs

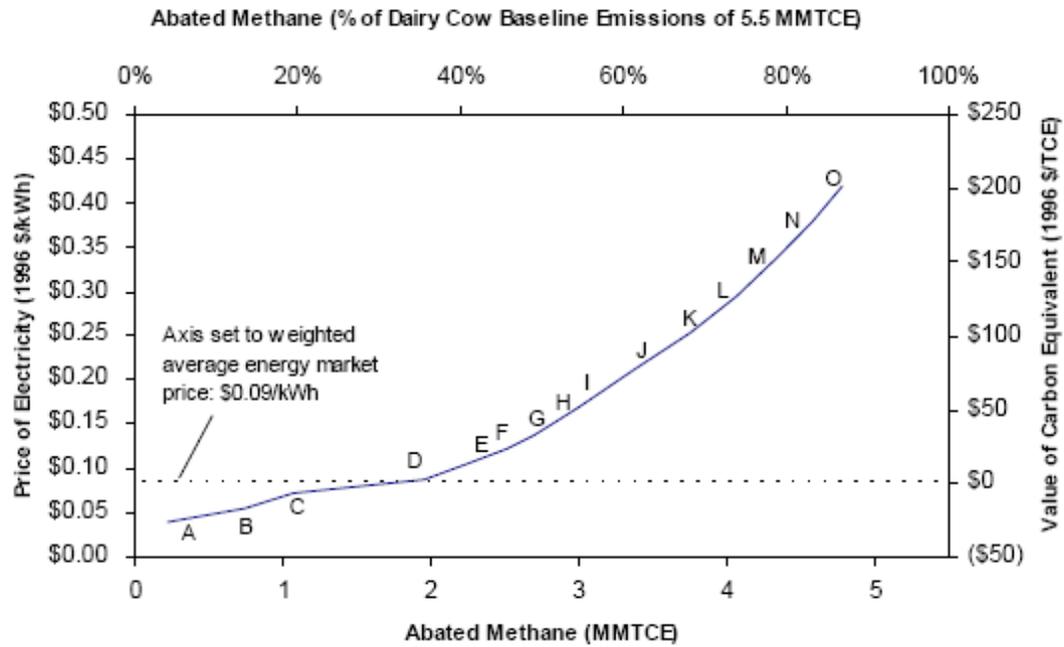
Option	Cost per MTCO ₂ e	2010		2020	
		Reductions (MMTCO ₂ e)	Cost (million \$)	Reductions (MMTCO ₂ e)	Cost (million \$)
Covered existing lagoon, large dairy	\$ (3.94)	1.73	\$ (6.82)	1.86	\$ (7.33)
Installed and covered lagoon, large dairy	\$ (2.21)	0.74	\$ (1.64)	0.80	\$ (1.77)
Plug flow, medium dairy	\$ (0.61)	0.31	\$ (0.19)	0.33	\$ (0.20)
Two-stage plug flow, large dairy	\$ 2.73	0.09	\$ 0.25	0.09	\$ 0.25
Complete mix, medium dairy	\$ 6.00	0.13	\$ 0.78	0.14	\$ 0.84
Covered existing lagoon, small dairy	\$ 8.81	1.73	\$ 15.24	1.86	\$ 16.39
Centralized digester	\$ 9.54	0.33	\$ 3.15	0.36	\$ 3.43
Installed and covered lagoon, small dairy	\$ 14.78	0.74	\$ 10.94	0.80	\$ 11.82
Totals		5.82	\$ 21.71	6.24	\$ 23.43

All costs in year 2000 dollars. Totals may not sum due to rounding.

(Ogonowski 2005)

Figure 3: Marginal Abatement Curve for Methane Emissions from Dairy Cow Manure Management in 2010

Exhibit 5-9: Marginal Abatement Curve for Methane Emissions from Dairy Cow Manure Management in 2010



(Manure Management 1999)

California has already enacted three programs that encourage the installation of digester projects, the first two providing partial funding and the third assuring proper recognition from electrical utilities.

1. The Dairy Power Production Program (DPPP) was established in 2001 under SB 5X
 - a) Project developers can choose between buy down grants covering up to 50% of the total capital costs of the system, or incentive payments based on a cost of 5.7 cents per kWh.
 - b) About 60 out of 2,300 farms applied. 14 projects (~3.5 MW capacity) were approved for grants totaling \$5.8 million. The program is now closed to new applications.
2. Self-Generation Incentive Program (SGIP)
 - a) The SGIP offers financial incentives (in the form of payments for a portion of capital costs) to customers who install certain types of distributed generation facilities.
 - b) Maximum generator system size allowed is 5 MW, with the total incentive payment limited to 1 MW.
 - c) As of January 2005, there were 11 dairy farm digester projects in the program totaling ~2.3 MW. For dairy farms, incentive payments have ranged from \$1 to \$9 per watt.
 - d) The SGIP has been extended through 2007.
3. A pilot program for net metering for digester projects was established under Assembly Bill 2228 in 2002
 - a) Law requires the state's three largest investor-owned utilities (PG&E, SCE, and SDG&E) to offer net metering to new dairy farms that install digesters with a capacity of 1 MW or less.
 - b) Each utility is required to offer net metering only up to a total of 5 MW, for an aggregate total of up to 15 MW.
 - c) Assembly Bill 728 would extend the existing program indefinitely; remove the 5 MW and 15 MW limits; and increase the capacity limit of eligible digesters to 10 MW. The bill's prospects are unclear.

Source: Ogonowski 2005

These programs are responsible for most of the current digesters that have thus been installed in California, and will likely remain part of future policy. The net metering program is crucial in realizing the potential electricity production that these systems can provide. A recent CEC sponsored survey project confirms this importance and suggests that utilities should provide even more favorable agreements with farmers who install digester systems. The survey found that many of the US dairy farmers who have installed these systems had trouble negotiating fair terms with their local utilities. Along with receiving much lower rates for their electricity than they paid for purchased electricity—which net metering can avoid—“they were dismayed by the high cost of electrical upgrades that were often required in order to interconnect with the electrical grid.... [This]infrastructure...was not located on their land and would become the property of the utility” (Tikalski 2007).

Concluding Remarks

Policies designed to mitigate methane produced from dairy and livestock will have to work around the difficulty of monitoring both enteric and manure sources. A possible solution for enteric methane could include mandates on the composition of or financial help for other of the dietary solutions. The current trend of higher cow productivity aids reduction, so this trend should be encouraged, or at least not discouraged. For manure management, fairly accurate emission estimates could be feasible, possibly allowing it to be worked into a cap and trade scheme. Continuing California's current digester programs will aid in mitigation, and furthering the cooperation that they have begun between utilities and dairies should be a very important piece of the final policy.

Scenario Description

Anaerobic decomposition of animal manure produces significant amounts of methane, a non-CO2 GHG with relatively high GWP. In highly concentrated livestock production systems, this gas can be captured with digester technologies and dissipated by burning in flares or power generation. The objective of this scenario is to assess the economic effects of promoting such capture and dissipation strategies.

For Manure Management, eight measures in the dairy sector are included:

1. Covered Lagoon, not Including Lagoon Cost – Large Dairy
2. Covered Lagoon, Including Lagoon Cost – Large Dairy
3. Plug Flow Digester – Medium Dairy
4. 2-Stage Plug Flow Digester – Large Dairy
5. Complete Mix Digester – Medium Dairy
6. Covered Lagoon, not Including Lagoon Cost – Small Dairy
7. Centralized Digester
8. Covered Lagoon, Including Lagoon Cost – Large Dairy

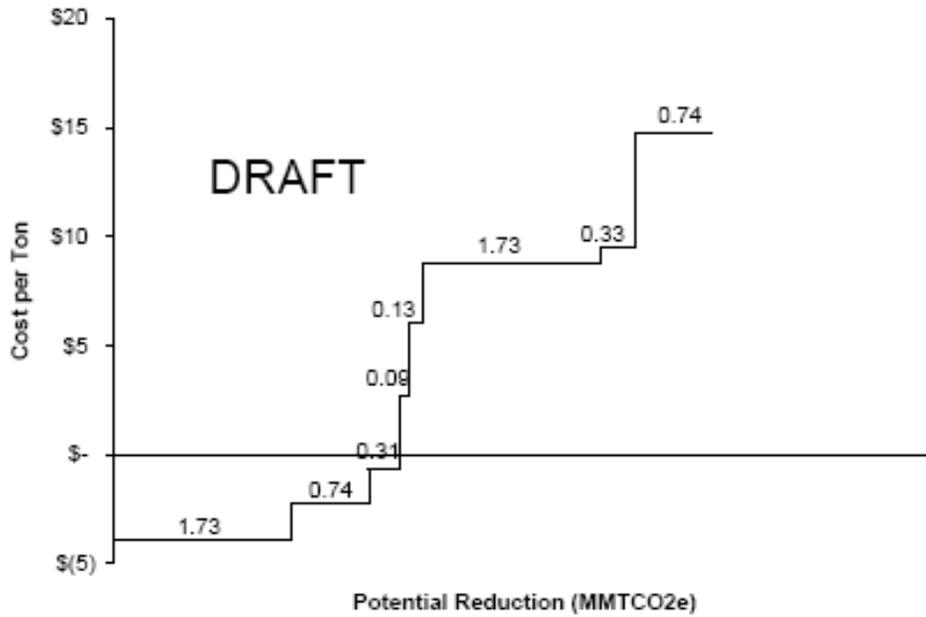
For the moderate scenario, we consider only the first measure, while all are included in the ambitious scenario below.

Data Sources

The ICF (2005a) report provides our baseline data for this scenario, with comparison reference to the international MAC data, and we calibrate abatement using the MAC framework.⁶ Methane emissions are measured in CO2 equivalents, the demand for abatement technology is directed at the construction sector, captured gas and is consumed in the dairy sector (resulting in savings on electricity expenditures), self-generated electricity is metered to utilities, and digestate by-products are sold to the agricultural sector.

⁶ Compare also EPA (1999).

Figure 2: Methane Cost Function for 2010



(Ogonowski 2005)

Modeling Approach

Modeling specification and calibration are analogous to Landfill management above, with the single exception of an additional revenue stream. This is the sale of processed manure digestate to the agriculture sector for use as fertilizer. Otherwise, the simulation proceeds as in Landfill, with a single consolidated mitigation scenario and corresponding assumptions about industry homogeneity.

3.6 Semiconductor Industry Targets

Sector Analysis

Through the release of a relatively small amount of certain green house gasses, or GHG's, the impact on the environment can be equal to vast amounts of carbon dioxide. One of the most robust greenhouse gases are perfluorocarbons, which are colorless, odorless, and unreactive man made chemicals that do not seem to do much regional harm, but have great potential to contribute to global warming. Unlike CO₂ which can be sequestered, perfluorocarbons have extremely long atmospheric lifetimes of 10,000 to 50,000 years (Aslam, et. al 2003). Between 1978 to 1997 the most abundant perfluorocarbons were CF₄, C₂F₆, and C₃F₈. C₂F₆ and C₃F₈ are present at only 2.9 and .2 pptv (parts per trillion by volume), respectively. CF₄ is present at 74 pptv with 40pptv from natural emissions, 33 pptv from aluminum manufacturing, and 1 pptv from the semiconductor industry. Though these initial measurements seem small the CO₂ global warming potential is great. These emissions have been gradually decreasing largely because of major reductions in emissions within the aluminum industry (Marks 2003), but increases in production with the semiconductor industry have offset some of these gains (Aslam, et. al.2003). This shows how the aluminum industry may contribute significantly to PFC emissions, but this does not mean the semiconductor industry should not be regulated since the contribution from the semiconductor industry is significant and PFC concentrations in the atmosphere will constantly accumulate in the future. (Figure 1)¹

The histories of tetrafluoromethane (CF₄) and hexafluoroethane (C₂F₆) have been reconstructed based on firn air measurements of compressed ice from both hemispheres (Worton 2007, Butler 2001). The research has shown that atmospheric ratios of both CF₄ and C₂F₆ have increased during the 20th century by factors of 2 and

10, respectively. Though it seems to closely coincide with aluminum production, a marked decrease in the rate of specifically CF₄ production in the 1990's confirms aluminum industry reports of reduced CF₄ emissions while highlighting the significant impact C₂F₆ which is probably caused by the semiconductor industry. Though atmospheric growth rates of PFCs may continue to decrease due to increased public awareness and agreements like the Kyoto Protocol, the overall concentration of PFCs in the atmosphere will continue to increase due to the long lifespan of PFCs (Worton 2007).

Overview of the U.S. Semiconductor Industry

The U.S. semiconductor industry had \$115 Billion in sales in 2006 and controls a 46 percent market share of a \$248 Billion market. 77 percent of sales are outside the U.S. market and R&D investment is high, averaging about 16% of sales (SIA 2007). The total number of firms was 6047 in the 2004 reporting period and 19 of these firms have over 50 percent of the market in net sales (Troy 2006) and continues to be a growing industry as demand for electronics increases worldwide (Malonis 2001).

Inputs, Outputs and the Role of PFCs in Production

Significant emissions

Currently the manufacturing of semiconductors require high global warming potential (GWP) gases that includes not only perfluorocarbons like CF₄, C₂F₆, C₃F₈, but also other compounds like trifluoromethane (CHF₃), nitrogen trifluoride (NF₃), and sulfur hexafluoride (SF₆). The weighted industry average impact of these gases upon global warming is 9000 times the GWP of CO₂. (Exhibit 6.1)ⁱⁱ

PFCs are both a production externality and an essential production input because they are extremely effective in plasma etching. They create intricate circuitry by shooting plasma streams to make connections that are only nanometers thick. This

technology is extremely precise and must use gases like PFCs to do plasma etchings and cleaning chemical vapor deposition (CVD) tool chambers. Current liquid cleaning technology is not very developed and too expensive to use and though substitutes are available the use of PFCs in production is critical to remain competitive in an international market (EPA 2007).

It has been assumed that PFCs were largely consumed during chip manufacturing, but now it is accepted that under normal operation from 10 to 80 percent of PFCs go through manufacturing tool chambers unreacted and into the air (EPA 2007). These emissions vary according to gas used, equipment, type of product, and abatement programs in place.

The Semiconductor Industry and the SIA

The best way to analyze and collaborate with the semiconductor industry in the United States is through the Semiconductor Industry Association. Since the SIA represents 85% of the U.S. semiconductor industry (SIA 2007) and only a handful of firms control most of semiconductor revenues (Troy 2006), it would be wise to work together with this one organization than individually regulate thousands of individual firms that all have different PFC outputs according to product as well as constantly changing technologies. Therefore, in 1996 the EPA launched the *PFC Emission Reduction Partnership for the Semiconductor Industry* in an effort to reduce emissions through a the voluntary collaboration between the EPA and the SIA. The manufacturers involved produced emissions equivalent to 4.6 million metric tons of carbon dioxide in 2002 which is a 37% improvement since 1999 (EPA 2007). The semiconductor industry is currently working to reduce emissions of PFCs proactively without government regulations. Since the big players in the semiconductor industry, such as AMD and Intel who control most of the market share for microprocessors (Malonis 2001), are both part of the SIA, this report will not focus on the reaction of individual companies to GHG

issues, but will mainly cover the relation of the semiconductor industry as a whole with regard to GHG emissions.

Technology Costs and PFC Reduction Options

Abatement and Mitigation Possibilities

A large portion of chip manufacturing is done in “clean rooms” that are usually associated with the semiconductor industry. This is to prevent dust from interfering with precise etching technology and usually results in enormous costs for new fabrication facilities (fabs) upwards of \$2 billion (O Huallachain 1997). These closed system fabs greatly increase the fixed costs involved for producing the latest chip, which can be a hindrance to this high tech industry with a high turnover rate. However these two hindrances become benefits in relation to emissions reductions because high turnover means new pollution policies can be tested and observed. Also, closed system fabs enable extremely efficient abatement and recycling technologies that are more than 90% efficient.

There are four major methods for reducing PFC emissions:

Process improvements and source reduction

Process optimization can be achieved by using point of use detectors and adjusting inputs to find the optimal level of PFCs to reduce excess use. One example is the optimization using C₂F₆ in the chamber cleaning processes which can reduce consumption by up to 50% and abate up to 85% of emissions (EPA 2001).

Alternative chemicals

There are some substitutes for the currently most popular high GWP gases with other fluorocarbons that perform comparably but have much less GWP, quicker atmospheric lifetimes, and/or have lower destruction costs. An example of this is by replacing C₃F₈ currently used in the etching process with C₅F₈. Although they both have

a GWP around 100, C5F8 has a lifetime in the atmosphere of only one year compared to the 3200 year lifespan of C4F8.

Capture and beneficial reuse

There is capture and reuse technology that is not yet widely adopted due to high costs, but is effective in removing PFCs from the whole fabrication facility. This technology also has the ability to separate unreacted PFCs for further processing. Current systems remove about 90 percent of emissions with even higher efficiencies for C2F6, CF4, and SF6. Destruction costs of collected gases are estimated to be \$3/kilogram and reprocessing costs are estimated to be so much more expensive that it is not feasible unless the fab emits high levels of PFCs (EPA 2001).

Destruction technologie.

The most efficient, but also one of the most expensive ways to reduce emissions is to use one of three available destruction technologies:

Point-of-Use Plasma Abatement (Litmas) technology. This technology is used in conjunction with the etch tool. (Figure 2)ⁱⁱⁱ It dissociates PFC molecules which later reactive with additive gases that make the residue heavier. Then wet scrubbers remove the remaining molecules. (SEMATECH, 1998)

Thermal Destruction This technology may be useful because it doesn't affect the manufacturing process and can abate emissions by over 95%. A downside is that this process uses combustion devices that require fuel and produce significant amount of wastewater.

Catalytic Decomposition System (Hitachi). This technology can reduce emissions by 98% by a method similar to Point-of-Use Abatement but require a minimum flow of PFCs and is very expensive.

Cost Analysis for Abatement and Mitigation Options

Of the available options, the alternative chemicals options seems to be most economically viable. IBM, a major player within the semi-conductor industry, has adopted the NF3 alternative chemical approach that replaced C2F6, reducing PFC emissions by 95% and avoiding \$3 million in capital and \$3 million in annual operating costs to a comparable recycling program (IBM 2007). The breakeven cost of \$/ Tons of Carbon Equivalent is cheapest for the alternative chemicals option at \$17.51 and thermal destruction is the most expensive at \$138.61 as seen in the figure (Exhibit 6.4). This shows increasing marginal costs across abatement technologies. Though thermal destruction technology has an efficiency rate of 97% it would not be feasible unless there is 17 Million Metric Tons of Carbon Equivalent (MMTCE) in emissions. For comparison, the 2010 baseline emissions prediction for “business as usual” semiconductor manufacturing is 17.5 MMTCE even though current use is a third that amount.

Predictions in Technology Adoption

The two most likely adoption choices for semiconductor industries is alternative chemicals and plasma abatement technology. 55% of the semiconductor manufacturing industry is expected to adopt plasma abatement technology while 45% of the industry is expected to adopt two different alternative chemical technologies (Exhibit 6.5). This is probably due to the high costs of alternative technologies. Capture and recycling technology cannot feasibly be used in conjunction with other technologies because the cost of extracting unreacted PFCs and reusing them are too high if there is too low of a PFC concentration in exhaust streams. Though the marginal cost for this technology is high, it may become popular if the value of PFCs increase due to some future technology.

Total GHG Emission Reductions Go Beyond PFC Emissions

The impact of the semiconductor industry on global warming is not limited to only PFC emissions. An manufacturer can have zero PFC emissions but use so much electricity to run abatement devices that it would cause much more environmental impact. According to the Green House Gas Protocol, there are three scopes that effectively account for the total environmental impact of an industry, which are direct GHG emissions, electricity indirect GHG emissions, and other indirect GHG emissions (WRI 2007).

Direct GHG Emissions

Some other GHG emissions other than PFCs could include fugitive gas leaks, and oxidation of organic waste.

Electricity Indirect GHG Emissions

The electricity involved in production may increase GHG emissions depending on the power plants in the area.

Other Indirect GHG Emissions

The production of specialized imported materials produces GHGs and the consumption of wastes as well. Production of purchased material and infrastructure would also contribute GHGs. The outsourced disposal of returned gases would be another source of GHGs as well as fugitive emissions of CO₂ and CH₄ in landfills. Due to the fast turnaround of the semiconductor industry, E-junk is accumulating at an ever increasing pace. This junk can in turn release fugitive emissions in landfills.

Emissions Reduction Potential in Products

Not only do total emissions need to be accounted for, but also emissions reduction from more efficient technology. Intel boasts of a chip technology that may reduce energy usage of computers by 71% (Intel.com). The EPA has estimated that between 2002-2008 this new technology would prevent 159 MTTC in emissions. This averages to about 13.25 MMTC per year

and combined with other advances in technology, could prevent CO₂ emissions that well exceed the CO₂ equivalent impact of PFCs.

Prognosis for the Future

The semiconductor manufacturing industry is a field that was growing at a healthy 15% per year in the 1990's (Malonis 2001) and still continues to grow at a healthy pace. One top of this, the industry continues to produce chips that are increasingly more complex and bigger in wafer size.

In terms of emissions behavior, the industry seems to be headed toward self-imposed reduction guidelines while working closely with the EPA. One reason for the semiconductor industry's proactive response to emissions could be because of public awareness of GHGs. The high visibility and the wide consumer base of the semiconductor industry may have prompted the industry to lower emissions. Other GHG producers like concrete production are not as visible and directly connected with the general public so may have less public pressure than the semiconductor industry to reduce GHGs.

International competition in the semiconductor industry is fierce. Asian semiconductor companies are increasingly gaining worldwide market share (Figure 2). This very well may be due to cheap skilled labor and more lax environmental and safety regulations in Asian fabrication facilities (Tenenbaum 2003). A 2002 report also revealed that demand is shifting toward Asian nations. Though 32.4% of shipments were directed at the Americas, Japan and other Asian nations had 20.4 and 25.9% distribution rate, respectively (Malonis 2001). Clearly this demand will continue to increase in the future with the fast growing populations in China. Demand for chips in China is growing at 29% per year and is providing a rebate if products are produced in China (Tenenbaum 2003). It is incentive like these that is increasing the outsourced production of semiconductors for U.S. companies.

Prognosis for Policy Response and Conclusion

Though the semiconductor manufacturing industry contributes a considerable portion of high GWP gases today, there are still many other industries that contribute much more GHGs, so relative costs must be taken into account in policy analysis. Reductions in emissions in the semiconductor industry is one of the simplest to do because of closed system fabs, but also one of the most expensive with an average of \$20/MTTC with current mitigation options and increasing marginal costs of abatement. (Figure 7)

Assuming the industry refuses to change emissions habits and the government chooses to regulate, reduction in emissions could be achieved through quotas, taxes or subsidies. Enacting strict quotas may be too restricting because the industry is still expanding and this could cause industry flight. This is because though the fixed costs for fabrication plants are extremely expensive, cheaper skilled labor, looser regulations, and lower taxes abroad is causing firms to produce overseas even now (Tenenbaum 2003). Reductions in emissions as a percentage of production may be more feasible because it would encourage new technology development and creative means of PFC reduction while remaining competitive internationally. The downside to this is that as the semiconductor industry continues to expand, net emissions of PFCs may actually increase even though efficiency rises. The option that is most favorable for the industry would be subsidies that would encourage reductions but may encourage slippage in light of current efficiency gains and emissions reduction efforts.

However, taking into account the current behavior of the SIA and their agreement to voluntarily reduce emissions by 2010, the current voluntary collaboration between the EPA and the semiconductor industry may remain as the best decision. Continued public awareness about the effects of PFCs would prompt the visible chip manufacturers to reach reduction goals and voluntarily invest in abatement technology.

Furthermore, seeing the high price per MMTC of reduction in comparison to other sources of GHGs indicates that the other sources should reduce emissions first until the increasing marginal cost of continued reduction necessitates the semiconductor industry reduces emissions more than it already is. A loosely regulated semiconductor industry would resist the current trend of outsourcing production and allows the industry to remain competitive. A competitive chip industry may also lead to more efficient chip design which would reduce GHG emissions when the end user uses the product.

Scenario Description:

This scenario covers the main mitigation measures to achieve voluntary targets negotiated between U.S. EPA and Semiconductor Industry Association.

Modeling Approach:

In each of the scenarios, bottom-up cost estimates were ascribed directly to the semi-conductor sector via intermediate flow adjustments in the input-output component of the new California SAM. Five reduction measures were examined:

1. Plasma Abatement
2. Remote Clean
3. Catalytic Abatement
4. Capture/Recovery using Membranes
5. Thermal Destruction

For the moderate scenario, we consider only the first two measures. All five are included in the ambitious scenario.

Data Sources and Description:

The ICF (2005a) report provides our baseline data for this scenario. This report notes that US semiconductor manufacturers (through an MOU between the Semiconductor

Industry Association and the EPA) have pledged to reduce PCF emissions to 10% below 1995 levels by 2010. That would entail reducing emissions to 0.72 MMTCO₂. Assuming that those emissions are held constant to 2020 means reducing emissions by 78% and 91% compared to ICF's 2010 and 2020 baseline projections.

For BEAR, this would mean that for 2010, the first three measures need to be calibrated into the Baseline and, for 2020 all semiconductor measures will be considered baseline. Increased costs for PFC abatement remain within the semiconductor manufacturing industry.

3.7 Landfill Management

Sector Analysis

Methane accounts for slightly over 6% of California's total climate change emissions taking into account both quantity produced and global warming potential (21xCo₂) (California Climate... A, 2006). Solid waste landfills are the principal source of these emissions, accounting for about 25% of the total(Basic...Program). Landfill's offer not only the greatest opportunity for reducing methane emissions, but additionally could provide the least cost venue in which to do so, one in which many methane emitters might achieve net savings (Choate et al, 2005).

Because of these characteristics, landfills are of special significance to California's fight against climate change, and are considered in the Cal Climate Action Team's and Air Resources Board's earliest reports that elucidate measures to reduce climate change emissions (Air... Agency, 2007; California Climate...A, 2006).

With this in mind, this report (segment) will summarize key features of the landfill industry and its environment, with the ultimate intent of contextualizing and analyzing the impact of regulation upon the California landfill industry's economy. Still, one cannot explore the significance of such regulation, which will in some way promote investments in methane capture or use equipment, for California landfills without first

recognizing their place in the municipal solid waste (MSW) industry. Treating landfill as an independent unit of analysis neglects some of its most essential features, and leads to inappropriate conclusions regarding the industry's response to regulation. Therefore, this investigation and analysis will proceed with a focus on landfill in the context of Solid Waste Management (SWM), which includes waste collection and related activities in addition to waste disposal (See Figure 1).

Understanding the Landfill Industry and its Market: A Framework for Analysis

Industry Overview

Municipal solid waste or solid waste consists of household and commercial garbage (Solid...Landfill). Organic materials in MSW Landfills decompose and produce methane gas, which may be harnessed to generate electricity. MSW landfills (hereafter referred to as landfills) are distinct from hazardous waste landfills, which mostly collect dangerous commercial and industrial wastes. Hazardous waste landfills are not considered for regulation in the Cal Climate Action Team's "Early Action Measures to Mitigate Climate Change in California," and are therefore not considered in this report (California Climate...B, 2007).

As noted, the SWM industry can be divided into the collection and disposal industries. The largest companies own collection, transfer facilities (transfer facilities collect and distribute solid waste, typically to remote locations), and disposal facilities. For instance, SWM's largest company, Waste Management Inc., operates around 430 collection outfits, 365 transfer stations, 290 active landfill disposal sites, 15 waste-to-energy plants, 140 recycling plants and 85 landfill-to-gas projects (Aseltine, McRea, Modi, Shukla, Sullivan, 2006). Because landfill is most frequently provided in conjunction with to a host of other waste services, landfill can be thought of as simply an input into

the production of waste services, reflecting the derived demand of the consumers who pay for the removal of their waste.

Despite such vertical integration, the US MSW industry is traditionally thought of as 'fragmented', served by local or national, private, government or quasi-governmental entities, under various competitive and institutional conditions. Since the 1980's, the number of active landfills has dropped precipitously due to local opposition to landfills, increased production costs from regulation, and saturation of existing landfills. Between 1991 and 2004 the number of landfills fell by half nationally, to around 3000, while the average disposal volume of US landfills tripled (Standard and Poor's, 2006). This was a function of both larger, newer facilities (where increased investment lead to greater economies of scale) replacing smaller, older ones, and advances in technology that dramatically increased the amount of waste that can be disposed in landfills. It also resulted in the irony of overproduction (excess capacity) under monopolistic conditions. Bioreactor technology can increase airspace by 10-15% by rapidly breaking down organic waste, and waste can also be packed more densely today than in the past (Standard and Poor's, 2006).

Waste production frequently mirrors growth in GDP (projected at 2.5% in 2007 by S&P) and, locally, housing markets, as construction industries can contribute a substantial percent of total waste production. Waste production is the most proximate cause of growth in the waste services and landfill industry, and has increased a modest 2% per year, with landfills projected to grow at .6% per year nationally until 2010 (Encyclopedia... Industries, 2005; Standard and Poor's, 2006). In 2005, total waste generation was estimated at 245.7 million tons (Basic...MSW). Over the last decade, the percentage of this waste disposed in landfills decreased from roughly 85% in 1989 to just over 60% in 1997, associated mostly with a coincident an increase in recycling from 10-30% (Kinnaman and Fullerton, 1999).

According to estimates from 2001, total revenue of the solid waste industry, net of intra-industry payments, was \$43.3 billion with near 76 percent generated by the

private sector (Beck, 2001). It employed approximately 367,800 people, with total industry compensation, including benefits, estimated at \$10.0 billion. SWM directly accounts for about one-half of one percent of US GDP, and, including all direct and indirect effects of industry activities, contributes just over one percent of U.S. GDP. Using multipliers of \$1.23 in additional revenue per solid waste revenue dollar and 1.58 estimated outside jobs generated per solid waste job, solid waste generates \$96 billion revenue and 948,000 jobs, as well as contributing “a total of \$14.1 billion in direct, indirect, and induced taxes to federal, state, and local governments” (Beck, 2001).

Waste Management Inc., the industry's largest firm, had \$822 million in profit on \$11.1 billion in revenue. Allied waste industries had profit of \$215 million on revenues of \$5.5 billion in 2002. (Encyclopedia... Industries, 2005; Standard and Poor's, 2006)

The Market: Demand, Supply, and Competition

Demand

Waste production is an undesirable product of consumption decisions, and the demand for waste services derives from the desire that this waste be removed in a legal manner (Directorate... Development, 2000). If the demand for landfill is understood to be the demand for an input into the production of waste service, a derived demand, the elasticity of demand for landfill may be approximated from knowledge of the elasticity of demand for the final product, waste services, and the availability of substitute inputs for landfill in the production of waste services. Elasticity of consumer demand for waste services is a function of the willingness to produce less trash (consume fewer products that generate trash) or to undertake self handling, such as burning refuse. Since consumers are rather unwilling to commit to either of these, it is typically estimated to be very low.

As an input in the production process, landfill's primary substitutes are commercial incinerators and recycling. These must have lower tipping fees (fee's paid for waste disposal or transfer) than landfill to incentivize collectors to use them. In the

case of incineration, high capital costs mean that incinerators rely on large flows of waste to achieve the low average costs which make them profitable. In the US, landfill is currently far too cheap for incinerators to achieve the economies of scale they would need to become commercially viable. Additionally, the fly ash which incinerators produce is considered a hazardous waste, further increasing incineration costs. Even though many European countries incinerate, private and full external costs are estimated to exceed those associated with landfill disposal in most European countries (Kinnaman and Fullerton, 1999). Likewise, though recycling is becoming increasingly important for the future viability of SWM firms, it is currently far less cost effective than landfilling from a firm's point of view. Tipping fees for recycling are \$100 per ton, versus \$35 per ton for landfilling, and revenues that can be garnered by reselling recycled materials do not compensate for this differential. Not only is consumer demand for waste services inelastic then, but there are few production inputs that could substitute for landfill.

The effect of price increases upon waste generation therefore appears to be small. Fullerton and Kinnaman (1997) find that a 10% increase in price cuts waste by only 0.3 percent. Illegal dumping may account for one-third of the reduction (Directorate... Development, 2000).

Supply: Costs, Revenues, and Competition

As mentioned, the supply of waste management services is fragmented, with various types of ownership and levels of competition existing within diverse institutional/legal environments. In general though, private firms are far larger and intake more waste than public ones, and are likely to operate in more profitable urban regions (Personal...Management, 2007). Additionally, the proportion of the SWM industry privately owned is increasing rapidly, as is industry consolidation (Segal and Moore, 2005; Personal... Management, 2007).

Currently, four leading companies (all publicly traded) control 40% of the US Solid Waste market, handle more than 50% of the solid waste generated, and account for nearly 70% of remaining US landfill capacity (Aseltine, McRea, Modi, Shukla, Sullivan, 2006; Standard and Poor's, 2006). With nearly 4000 small SWM firms having revenues of 2 million or less that remain for acquisition, S & P (2006) expects the three largest US MSW companies to expand.

Costs

Major costs in collection include tipping fees, fuel, equipment, type, volume or weight of waste, frequency of collection, distance to disposal facility, and labor (Standard and Poor's, 2006). "Depending on local conditions, disposal costs may range between 20 and 50 percent of the contractor's total cost of service delivery" (Scarlett and Sloan, 1996). Hedging fuel prices lower costs, and companies will often contract for up to a year of gasoline.

Costs in landfill includes landfill space, packing and disposal equipment including compactors and landfill liners, other capital necessary to comply with environmental regulations, and the volume and weight of MSW (Standard and Poor's, 2006). These costs include landfill liners at between \$100,000 to \$300,000 per acre; leachate treatment and disposal at between \$1 million to \$2.5 million as determined by applicable standards; groundwater monitoring with annual operating costs in the \$50,000 to \$90,000 range; methane control costs such as capital costs for systems ranging from \$500,000 to \$2 million; annual operating costs ranging from \$100,000 to \$200,000; and finally postclosure funding, total costs of which are in the range of \$10 million to \$12 million (Segal and Moore, 2000). Tipping fees must reflect all these costs for a landfill to be profitable. A typical balance sheet for a SWM firm is shown in Table 4.7.1.

Table 4.7.1: Sample Landfill Cost Worksheet

Sample Landfill-Cost Worksheet

The "Typical Costs" shown are based on the following assumptions:

- Population Served - 200,000
- Waste Stream - 550 tons per day
- Land Area - 150 acres
- Landfill - 100 acres
- Landfill capacity - 6.45 million cubic yards
- Landfill life span - 20 years
- Post-closure period - 30 years
- Liner - Composite, consisting of 60-mil synthetic

NOTE: All costs in 1992 dollars.

Landfill Development Costs

Pre-Development Costs

Land Options	\$ 20,000
Surveying, Geotechnical	\$ 30,000
Legal	\$ 5,000
Real Estate Fees	\$ 5,000
A. Total Pre-Devel. Cost	\$ 60,000

Permitting Costs

Geotechnical Investigations	\$ 300,000
Engineering & Design	\$ 400,000
Legal Fees	\$ 300,000
Public Hearing Fees	\$ 150,000
Environmental Impact Study	\$ 300,000
Contingency (15%)	\$ 215,000
Land (150 acres @ 3000/acre)	\$ 450,000
B. Total Permitting Cost	\$ 2,115,000

Construction Cost

Access Roads	\$ 200,000
Land Clearing	\$ 50,000
Excavation-Initial Cells	\$ 500,000
Fencing	\$ 100,000
Landscaping	\$ 50,000
Scalehouse	\$ 30,000
Scales	\$ 80,000
Office Building	\$ 150,000
Drainage	\$ 40,000
Sedimentation Ponds	\$ 30,000
Utilities	\$ 40,000
Monitoring Wells	\$ 80,000
Methane Flare, Blowers	\$ 500,000
C. Total Construction	\$ 1,850,000

Annual Operating Costs

Equipment Fuel, Maintenance	\$ 250,000
Labor	\$ 400,000
Engineering	\$ 40,000
Surveying	\$ 10,000
Utilities	\$ 15,000
Road Maintenance	\$ 30,000
Seeding	\$ 15,000
Operating Supplies	\$ 10,000
Water Monitoring	\$ 60,000
Gas Well Installation	\$ 60,000
Methane Flare, Blower Operation	\$ 150,000
Final Cover (Annual Closure Activity)	\$ 300,000
Leachate Treatment	\$ 60,000
Leachate Transportation	\$ 80,000
Post-Closure Bond	\$ 56,000
Insurance	\$ 150,000
G&A	\$ 50,000
Post-Closure Accrual	\$ 562,000

Total Annual Operating Costs	\$ 2,298,000
-------------------------------------	---------------------

Landfill Development Costs Continued

Liner Cost (100 Acres)

Excavation	\$ 2,726,000
Leachate Collection Gravel	\$ 2,000,000
Leachate Collection Pipes	\$ 800,000
Synthetic Liner	\$ 2,500,000
Clay Liner	\$ 3,900,000
Filter Fabric	\$ 796,000
QA/QC	\$ 1,000,000
D. Total Liner Cost	\$ 13,722,000

Capital Cost

A. Pre-Development	\$ 60,000
B. Permitting	\$ 2,115,000
C. Construction	\$ 1,850,000
D. Liner	\$ 13,722,000
Sub Total	\$ 17,747,000

E. Equipment	\$ 6,500,000
Total	\$ 24,397,000

Source: Calculating Landfill Costs: Background and Worksheet," Browning-Ferris Industries, Houston, Texas, 1992.

In practice, calculating landfill costs can be exceedingly difficult. The EPA provides an entire manual on its method of cost accounting, Full Cost Accounting (U.S.... Agency, 1997). Costs of operating a landfill vary dramatically between counties and between states, as well as over the lifetime of the landfill, with many of the major costs faced after closing (See Figure 4.7.2). Economies of scale also affect costs considerably, lowering average costs for larger firms (See Figure 4.7.3). A study by Hudson and Deese (1985), for instance, found that a 200-ton-per-day facility was 27% less expensive per ton than a 50-ton-per-day facility. Relatedly, significant monopoly power can dramatically influence the profit maximizing level of marginal cost. Still, though the market is far from competitive, marginal costs are frequently assumed for the purposes of analysis to equal tipping fees, but these vary by region and vary radically by state (See Tables 4.7.2 and 4.7.3).

Table 4.7.2: California Tipping Fees by Year

Year	Tipping Fees Compacted, \$/ton
1995	\$31.02
1996	\$34.57
1997	\$34.41
1998	\$33.07
1999	\$34.37
2000	\$37.72

(Summaries... Board)

Table 4.7.3: Average Tipping Fees by Region

Average Tipping Fees by Region	
Region	Price
Northeast	\$57.34
Southern	\$34.33
Midwest	\$31.79
Western	\$22.24
Pacific	\$34.78

Source: "Solid Waste Price Index," *Solid Waste Digest*, vol. 8, no. 11 (November 1998), p.1.

Revenues

Landfills generate revenues from tipping fees, and more recently from selling gas directly or electricity. Tipping fees across the states range from \$22.24 in the West to \$57.34 in the Northeast and averaged \$37.72 in California in 2000 (Solid...Index, 1998; Summaries... Board) (Tables 4.7.2 and 4.7.3). Choate et al (2005) estimate the benefits from selling gas and electricity at prices of .045/kwhr and \$4.5/mbtu, which are less than typical industrial prices. Benefits differed for firms of different sizes and technologies (Table 4.7.11). These benefits sometimes exceed the costs associated with landfill gas to energy projects, as will be discussed in greater detail later.

Collection agencies generate revenue from contracts with localities, or directly from consumers in the form of trash collection fees. In the US, both methods of collection, fees per household and payment from tax revenues, are used (Directorate... Development, 2000). Solid Waste collection contracts generally last from 1- 5 for residential services, are usually awarded by a municipality to the lowest bidder, and grant the right to serve a given area or district. Prices may or may not be regulated, depending on the locality. In recent years, as waste production has slowed, revenue growth has proceeded mostly from rate hikes in collection and tipping fees, responsible for 80% of revenue growth for SWM giant Allied Waste Management (Standard and Poor's, 2006).

Competition

Standard and Poor's (2006) contend that US MSW industries are in the middle stages of development along their business life cycles, as demonstrated by low, stable growth rates, moderate profit margins, and overcapacity. Slow growth rates, along with the increased importance of managing regulation and fuel costs, has meant that firms are focusing more on productivity and cost efficiency, in contrast with external growth and acquisition, as keys to economic success (Standard and Poor's, 2006). This is evidenced by Waste Management Inc.'s 26% percent increase in net income, to \$1.18

billion, which they claim was brought about by enhancing internal efficiencies (Aseltine, McRea, Modi, Shukla, Sullivan, 2006).

The MSW industry is pursuing cost efficiency in a variety of ways. As the number of landfills have declined, fuel costs have become increasingly important as employers must transport high density waste further. The push to optimize the tradeoff between transport costs and tipping fee's has increased the focus on internalization, or the percentage of garbage collected that can be disposed in company owned facilities (Callan and Thomas, 2001; Standard and Poor's, 2006). This has also become increasingly important as the industry has consolidated, as disposing in another firms landfills has sometimes meant facing discriminatory tipping fees. Other cost reductions have been achieved by cutting jobs, and improving employer safety to reduce insurance claims etc (Standard and Poor's, 2006). Firms also increasingly demand pricing flexibility to control for inflation and other costs. (Directorate... Development, 2000)

Many cost savings and efficiencies accrue to larger sized firms. In general, MSW is capital intensive, resulting in large economies of scale. In waste collection, economies of density imply that each area is served most efficiently by a single large firm, and studies on economies of scale in waste management have demonstrated that the size of the area best served by a single firm contains 50,000 people (Directorate...Development, 2000). Benefits from vertical integration follow from cost savings associated with internalization, and also due to the demonstrated existence of economies of scope in such areas as disposal and recycling. Landfills also require massive initial investments to acquire and modify disposal space and conform to regulations. Additionally, the permitting process for landfills is prolonged, expensive, and introduces levels of risk to investing which smaller investors cannot afford. Once these investments have been made, marginal costs are small. These features and other result in conditions that facilitate natural monopoly.

In the presence of these economies, competition for the waste of residences and small business is frequently unsustainable or inefficient in collection

(Directorate...Development, 2000). Stevens (1978) finds that costs are 26-48 percent higher when there is in-the-market competition in collection, contrasted against regulated private monopoly. The cost efficiencies achieved by larger landfills may be external in addition to internal. Communities often prefer to have a single, mega-landfill rather than many small landfills due to effects upon property values and other externalities. Also, once waste has been collected it is expensive to transport (except by bulk transport, like rail, which may not be mobile enough), so geographic markets for disposal are frequently "limited in scope, with limited competition between disposal facilities." (Directorate...Development, 2000).

As there are many cost benefits for incumbents which allow them to compete at a lower price, Standard and Poor's (2006) sees little incentives for waste companies to develop new landfills, and consolidation is expected to continue. Indeed, though small landfills are still a common feature of the market, they no longer view themselves as competition for larger firms, instead desiring to become viable candidates for acquisition (Anderson, 2000). Overcapacity, which has in the past alleviated monopoly pressures on prices, is expected to be less significant in this regards as it declines and the industry matures. This has already been reflected in increases in tipping fees, up 2% from 2004 and 6.5% from 2002 (Standard and Poor's, 2006). Antitrust enforcement actions in the US have interrupted "hard-cord cartel activity" which has resulted in price-fixing, market allocation, and bid rigging (Directorate...Development, 2000). Other actions include monopolization cases against large, national firms, and regulation of mergers.

Though "some parts of the industry will not sustain competition at all," competition in-the-market is frequent for industrial and commercial wastes, where the waste is generated at high levels at each location, and competition for-the-market in the form of competitive tendering may assuage monopolistic pressure on prices in waste collection (Directorate...Development, 2000).

Waste collection accounts for 55% of MSW revenues, landfill about 35%, recycling and WTE about 5% each (Standard and Poor's, 2006).

Emissions Regulation: Historical and Contemporary

Major historical legislation regulating waste disposal included the Solid Waste Disposal Act of 1965 and the Resource Conservation and Recovery Act (RCRA) of 1976, which by increasing sunk and fixed costs, enlarged cost-minimizing landfill size, and resulted in fewer landfills being built (Kinnaman and Fullerton, 1999). 1991's Subtitle D required installation of gas control equipment. The EPA's 1996 "Landfill Rule" mandated new emission capture systems for all landfills, requiring installation of gas control systems for landfills designed to hold 2.755 million tons and 2.5 million cubic meters or more of waste over their lifetime. This resulted in the collection of 75 percent of the gas produced by these landfills (Landfill Gas Rules, 2007).

With no consistent statewide standards for smaller and other uncontrolled landfills, California's ARB, having the primary responsibility for reducing Greenhouse gas emissions under the California Global Warming Solutions Act of 2006, has proposed measures addressing this issue (Air... Agency, 2007). The IWMB is working jointly with the ARB and plans to reduce emissions by 2-4 MMTCO₂E by 2020. (California Climate...B, 2007)

AB 32 requires that all GHG reduction measures adopted and implemented by the ARB be "technologically feasible and cost-effective." (Air... Agency, 2007). "The ARB interprets "cost-effectiveness"... as the number of dollars expended per metric ton of Co₂E.q gases reduced...each strategy is expected to meet a yet-to-be-determined cost-effectiveness threshold...that is equitable relative to the GHG reduction achieved" (Air... Agency, 2007).

California Landfills

The integrated waste management board counted 148 permitted active solid waste landfills in California today. This number has declined dramatically in recent years, from around 300 in the early 2000's, implying rapid consolidation of the industry (Personal...Management, 2007). The California Economic Census (2002) calculated receipts of \$6,427,257,000 for waste management services, and \$1,549,598,000 in annual payroll covering 38,905 paid employees (See Table 4). Of these, solid waste landfill establishments totaled receipts of \$494,830,000, and had an annual payroll of \$79,275,000 paid to 1,786 employees.

Like the nation as a whole, California SWM and Landfills in particular are 'fragmented', but general industry statistics and trends can be uncovered. California GDP growth is expected to total 2.4 percent in 2007 and 2.9 percent in 2008, as compared to 3.3 percent in 2006 (Economic Outlook... 2007-2008). Considering also the downturn that is projected to continue in housing markets, waste should grow relatively slowly, at near or below 2% per year (Choate et al., 2005). In 1990, Californians generated approximately 50.9 million tons of waste, and disposed of near 42.4 million tons (Solid... Data). Waste diversion in California has increased sevenfold since then, and California now diverts 52 percent of its waste, leaving 42 million tons of waste per year to be disposed (Total...Disposed) (See Table 4.7.5 and Figure 4.7.4).

A 2003 study contracted for by the IWMB surveyed 224 landfills of which 158 were active or partially active, 34 were inactive, 31 were closed, and 1 was partly inactive and partly closed (Landfill... Landfills, 2003). Most California specific data will be from this report.

Table 4.7.4: California Economic Census Data

Summary Statistics for the State: 2002—Con.

NAICS code	Geographic area and kind of business	Estab-lishments (number)	Receipts (\$1,000)	Annual payroll (\$1,000)	First-quarter payroll (\$1,000)	Paid employees for pay period including March 12 (number)	Percent of receipts—	
							From administrative records ¹	Estimated ²
CALIFORNIA—Con.								
56	Administrative and support and waste management and remediation services—Con.							
562	Waste management and remediation services	1 480	6 427 257	1 549 598	372 823	38 905	9.3	11.1
5621	Waste collection	689	4 289 963	990 461	237 268	23 509	5.8	8.8
56211	Waste collection	689	4 289 963	990 461	237 268	23 509	5.8	8.8
562111	Solid waste collection	552	4 008 740	909 834	218 814	21 428	5.2	8.6
562112	Hazardous waste collection	88	244 631	67 339	15 316	1 557	11.8	10.2
562119	Other waste collection	49	35 592	13 286	3 138	524	30.3	16.1
5622	Waste treatment and disposal	171	968 249	194 834	49 240	4 035	8.4	21.0
56221	Waste treatment and disposal	171	968 249	194 834	49 240	4 035	8.4	21.0
562211	Hazardous waste treatment and disposal	70	358 199	92 583	22 350	1 793	6.5	26.5
562212	Solid waste landfill	82	494 830	79 275	21 858	1 796	11.3	12.3
562213	Solid waste combustors and incinerators	4	64 407	9 488	2 084	953	2	64.2
562219	Other nonhazardous waste treatment and disposal	15	50 813	13 506	3 138	303	4.5	12.1
5629	Remediation and other waste management services	600	1 169 045	364 303	86 315	11 961	22.6	11.3
56291	Remediation services	229	592 349	197 973	45 908	5 926	22.3	11.2
562910	Remediation services	229	592 349	197 973	45 908	5 926	22.3	11.2
5629101	Remediation services (except asbestos abatement and lead paint removal)	119	243 611	69 030	16 765	1 703	20.3	15.3
5629102	Asbestos abatement and lead paint removal	110	348 738	128 943	29 143	4 223	29.7	8.4
56292	Materials recovery facilities	109	222 917	49 960	12 368	1 856	23.7	14.5
562920	Materials recovery facilities	109	222 917	49 960	12 368	1 856	23.7	14.5
56299	All other waste management services	262	355 779	116 370	28 839	3 579	22.4	9.4
562991	Septic tank and related services	196	259 161	80 618	18 810	2 474	26.6	8.7
5629911	Cesspool and septic tank cleaning services	129	113 134	31 223	7 839	1 088	46.1	18.8
5629912	Portable toilet rental	67	146 027	49 395	11 171	1 386	11.5	8
562998	All other miscellaneous waste management services	66	94 618	35 752	9 229	1 905	10.7	11.5

¹Includes receipts information obtained from administrative records of other federal agencies.

²Includes receipts information that was imputed based on historic data, administrative data, industry averages, or other statistical methods.

(California Economic Census, 2002)

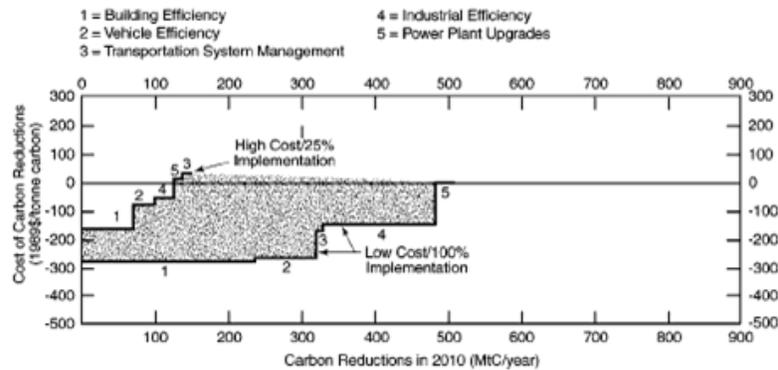
Table 4.7.5: Diversion Rates

Year	Percent Diverted
1995	28
1996	31
1997	32
1998	33
1999	37
2000	42
2001	44
2002	48
2003	47
2004	48
2005	53

In accord with national trends, the great majority of California Landfills were built in the 60's or 70's, with only 3.6% built in the 90's (See Figure 4.7.5) (Landfill... Landfills, 2003). 75% of these sites had public ownership and 25% had private (See Figure 4.7.6). 32% of landfills surveyed were located within an urban setting, 6% within a suburban, and 62% within a rural. 53% of landfills were classified as inland, and 26% desert.

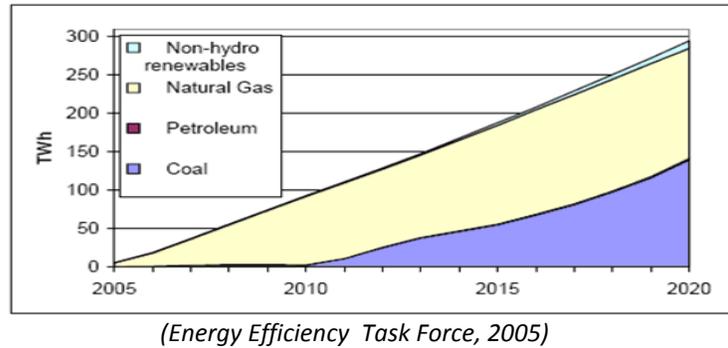
Landfill size can be measured in various ways. California landfills in the 2003 survey had a median permitted disposal area of 55.5 acres, with 66% of landfills between 10 and 160 acres, and 91% between 2 and 320 acres (Landfill... Landfills, 2003) (See Figure 4.7.7). Median permitted disposal volume was 2.7 million cubic yards (See Figure 4.7.8). For the state as a whole, permitted max daily tonnage was 195,500 tons (See Figure 4.7.9). The median was 395 tons, and 68% of landfills had permits for between 100 and 4,900 tons.

Figure 4.7.8: NAS Study



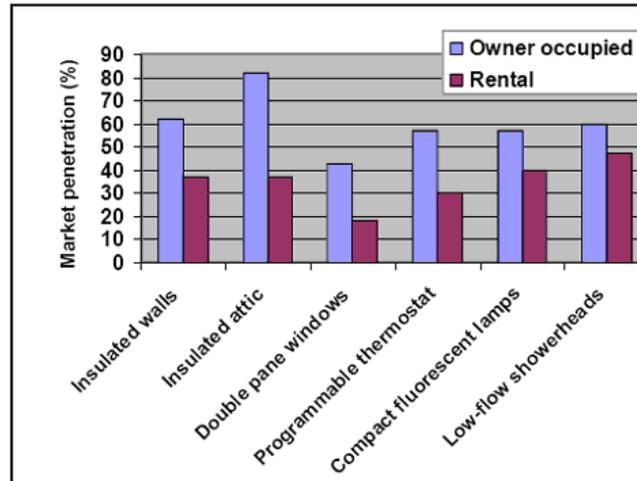
(Brown et al, 1998)

Figure 4.7.9: Avoided Generation by Source, 2005- 2020, Best Practices Scenario



Remaining capacity for California Landfills was estimated at 1.5 billion cubic yards (See Figures 4.7.10 and 4.7.11) (Landfill... Landfills, 2003). The median active California landfill had 2,153,800 cubic yards remaining disposal capacity. “Today, 21 of the state's 58 counties, having 41 percent of the population, will exhaust their disposal capacity within 15 years. Of these, 17 have 8 years or less capacity. It takes 7 to 10 years to plan, design, and permit a new landfill” (Beyond... Landfills, 1996). While excess capacity may endure for the nation, it will not in California. Remaining capacity clustered around the population centers of San Francisco, Los Angeles, Sacramento and San Diego (See Figure 12). Closure patterns “suggest that, increasingly, portions of primarily rural California cannot meet the landfill needs of their residents without hauling out of county or to neighboring states. Often, smaller, rural, county-owned landfills have closed and waste streams have been diverted to larger, centralized landfills” (Landfill....Landfills, 2005).

Figure 4.7.10: Role of Split Incentives in Efficiency investments in Housing



(Energy Efficiency Task Force, 2005)

Landfill characteristics are not independent of one another (See Tables 4.7.6 and 4.7.7). Urban sites were much more likely to be private than rural sites (Landfill... Landfills, 2003). While 61% of private sites were non rural, only 30% of public were. Also, urban sites are typically larger than rural sites, as most of the small landfills are in rural social settings. While 75% of non rural sites were over 122 acres, only 35% of rural sites were. Taken together, private firms appear much more likely to be over 122 acres than public entities. Moreover since private firms are more flexible in their location decisions than government waste entities and are attracted to the locations where waste streams are the highest, it is fair to speculate that this pattern persists throughout the distribution of landfill size, with private ownership clustering around the top. Evidence for this also comes from the IWMB survey's note that in 2003, sites with landfill gas systems were 4.7 times more likely to be private. The Landfill Gas Rule mandated that only the largest landfills, over 2.755 MMT, install gas collection systems.

Table 4.7.6: Dependence between Ownership and Social Setting

Site Characteristic	Social Setting	Number of Sites	Independent Variable Category	Number of Sites in Independent Variable Category	Percentage Within Independent Variable Category
Owner Type	Rural	139	Private	22	39.3
			Public	117	69.6
	Non-Rural	85	Private	34	60.7
			Public	51	30.4

(Landfill... Landfills, 2003)

Table 4.7.7: Dependence between Landfill Size and Social Setting

Landfill Size (Permitted Disposal Area)	Rural	139	>= 122 acres	49	43.4
			< 122 acres	89	80.9
	Non-Rural	85	>= 122 acres	64	56.6
			< 122 acres	21	19.1

(Landfill... Landfills, 2003)

The facts that smaller, rural landfills are increasingly being closed and find their waste streams diverted to larger urban landfills, combined with the information that urban sites are far more likely to be private, implies that the private sector is becoming increasingly dominant in the California landfill industry, and are handling ever greater portions of California's waste. This allows for the revealing insight that, as the private/urban sites are already dramatically larger than rural/public sites, the largest landfills are becoming increasingly large at the same time that they face decreasing

levels of competition. The industry is therefore consolidating in such a way that gives private landfills increasing degrees of monopoly control over larger vicinities. While Segal and Moore (2000) note that greater competition in the west has helped lower tipping fee's relative to the east, Anderson (2000) describes how it is only recently, with the two largest companies controlling nearly 40% of the national market, that corporations have finally been able to begin leveraging their market power in solid waste. Anderson finds evidence of this in such cases as trials by WMI, dramatically increasing tipping fees in the Northwest, and small firms no longer viewing themselves as threats so much as potential acquisition candidates.

Technology

The various technologies used in landfill are significant for determining landfill costs and revenues. The IWMB survey (2003) divides liners into four types. 1.8% of landfill were fully lined in accords with subtitle D in the CFR (40 CFR 258), 5% were classified as fully lined but only partially in accord with subtitle D, 31% were partially unlined, and 62% were fully unlined. 21% of landfill has a full cover, 14% were partially covered, and 65% were fully uncovered. 18% of landfills disposed of solid waste by filling a canyon, 32% by lying it across a flat area, 11% by filling an excavated trench, 2% by filling across a sloped area, 3% by filling a pit or quarry that was excavated by a purpose besides that of conducting landfill operations, and 34% disposed of their solid waste in some combination of these. The California climate action team notes that 94% of California landfills have gas collection systems in place (California Climate...B, 2007).

The EPA currently lists 74 active (88 total) operational landfill gas to energy projects in California, with 5 under construction, and another 38 listed as "candidates which present attractive opportunities for project development" (Landfill... Program). Both active and inactive landfills are candidates for gas to energy projects, but landfill age effects profitability. Nine of the landfills have direct use systems installed. Direct gas use projects capture gas from landfills and transport it directly to a nearby facility for

use as a fuel (Choate et al, 2005). 79 have electricity projects installed, which capture landfill gas and use it to generate electricity (Landfill... Program; Choate et al, 2005). Of these, two use alternative fuels, two use boilers, five use cogeneration, one uses a combined cycle, four use direct thermal, nine use gas turbine, one uses liquefied natural gas, 12 use microturbines, 47 use reciprocating engine, and five use a steam turbine (Landfill... Program).

California Reductions Opportunity and associated Costs/Savings

The ARB and IWMB strategies for reducing GHG emissions from MSW landfills include (1) the installation of emission control systems (early action measure), (2) increasing gas to energy projects, and (3) enhancing methane capture efficiency by such methods as earlier placement of final cover. According to the agency, strategies 1 and 3 should result in emissions reductions of 1 MMTCO₂E for 2010 and 3 MMTCO₂E for 2020 (California Climate...B, 2007). ARB staff are “proposing to expand the scope of strategy 1 to include efficiency controls resulting in 2 to 4 MMTCO₂E by 2020.” (Air... Agency, 2007).

Choate et al (2005) conducted a study to determine the savings/costs associated with energy generation from non-Co₂ gases in a variety of industries, including Landfills. Analysis was conducted for two scenarios: Scenario A with a 4 percent discount rate and a 0 percent tax rate, and Scenario B with a 20 percent discount rate and a 40 percent tax rate. Scenario A was designed to approximate costs from a societal perspective, while Scenario B was intended to estimate private costs. Costs were looked at in terms of the break-even price, which refers to the price that could be paid to an individual at which she/he would be indifferent with regards to whether to institute an option. With relevance to a carbon cap at \$50/MTCO₂ for instance, firms would purchase credits for emissions at which the breakeven price was over \$50/MTCO₂.

For Scenario A, measures suggested in the report had the capacity to reduce emissions of 20.7 MMTCO₂ Eq. in 2010, and 31.6 MMTCO₂ Eq. in 2020 at a breakeven

price of \$50/MTCO₂ or less (Choate et al 2005). Of all the industries considered, landfills represented the greatest opportunity for emission reductions, at 9.0 MMTCO₂ Eq. for 2010 and 9.7 MMTCO₂ Eq. in 2020. At a breakeven price of \$0/MTCO₂Eq. (net savings) or less, a total of 5.9 MMTCO₂ Eq. of potential reductions in 2010, and 8.7 MMTCO₂ Eq. in 2020 could be achieved, and together landfill and manure management accounted for 86% of these reductions.

Landfills were also the most important venue for reducing emissions in Scenario B (Choate et al 2005). At a breakeven price \$20/MTCO₂Eq. or less landfill emissions accounted for over 58 percent of the possible reductions in 2010 and 48 percent of those possible in 2020. Landfills further constituted 70% and 60%, respectively, of the 1.7 MMTCO₂E. of potential reductions in 2010 and the 2.1 MMTCO₂E. in 2020 that could be achieved at a breakeven price of \$0/MTCO₂Eq. (savings) or less.

Choate et al (2005) estimated the capital and operating costs of installing various technologies for different levels of Waste In Place (Costs of projects were driven primarily by size/economies of scale and age) (See Tables 4.7.8, 4.7.9, and 4.7.10). After predicting the technologies that would be used by the landfills for each size category based upon the technical applicability (the % of emissions that can be reduced by a given technology) and market penetration (the % of emissions that a given technology is expected to address given firms' preferences) of each technology, Choate and coauthors then calculated the costs and benefits per MTCO₂ Eq. for firms in each size category (See Table 4.7.11). Costs referred to the capital investment and operating costs of the various technologies, whereas benefits referred to revenues from selling the gas or electricity.

Table 4.7.8: Methane Emission Predicted Baseline Emissions for Landfills (MMTCO2E).

	2000	2005	2010	2015	2020
Landfills	9.87	10.25	10.64	11.07	11.43

(Choate et al, 2005)

Table 4.7.9 Landfill Size Category Characteristics

Landfill Category (short tons WIP)	Number of Landfills 2000 ^a	Average Landfill Age (yrs) ^b	Average Landfill Acreage (acres) ^b	Total WIP Contained in All Landfills in Size Category (short tons) ^a
< 100,001	87	33	2.1	8,700,000
100,001–200,000	13	24	3.8	2,390,000
200,001–300,000	10	22	5.6	2,795,000
300,001–400,000	7	26	7.6	2,545,000
400,001–500,000	10	28	10.3	5,000,000
500,001–1,000,000	20	28	17.8	14,960,000
> 1,000,000	12	38	38.6	27,400,000

(Choate et al, 2005)

Table 4.7.10: Landfill Capital and Operation and Maintenance Costs

Landfill Category (short tons WIP)	Capital Cost (2000 \$)	O&M Cost (2000 \$)
Electricity Projects		
< 100,001	475,632	18,495
100,001–200,000	605,249	36,519
200,001–300,000	721,361	53,518
300,001–400,000	808,623	66,567
400,001–500,000	902,779	81,049
500,001–1,000,000	1,379,242	152,853
> 1,000,000	2,562,683	334,659
Direct Gas Projects		
< 100,001	429,026	13,942
100,001–200,000	471,424	25,456
200,001–300,000	507,891	36,547
300,001–400,000	539,406	45,302
400,001–500,000	580,320	55,797
500,001–1,000,000	715,031	101,959
> 1,000,000	1,059,662	221,264

(Choate et al, 2005)

Table 4.7.11: Mitigation Options for Landfills

Name	Description	MP (%)	TA (%)	RE (%)	Capital Cost ^a	Annual Cost ^a	Benefits ^a
Direct Gas Use, WIP < 100,001 short tons	Installation of a direct gas project at landfills with a WIP up to 100,000 short tons	0	14	85	152.91	4.97	9.25
Direct Gas Use, WIP 100,001–200,000 short tons	Installation of a direct gas project at landfills with a WIP between 100,001 and 200,000 short tons	0	4	85	68.57	3.70	9.18
Direct Gas Use, WIP 200,001–300,000 short tons	Installation of a direct gas project at landfills with a WIP between 200,001 and 300,000 short tons	0	4	85	47.44	3.41	9.07
Direct Gas Use, WIP 300,001–400,000 short tons	Installation of a direct gas project at landfills with a WIP between 300,001 and 400,000 short tons	33	4	85	41.74	3.51	9.36
Direct Gas Use, WIP 400,001–500,000 short tons	Installation of a direct gas project at landfills with a WIP between 400,001 and 500,000 short tons	50	8	85	37.73	3.63	9.34
Direct Gas Use, WIP 500,001–1,000,000 short tons	Installation of a direct gas project at landfills with a WIP between 500,001 and 1,000,000 short tons	29	23	85	23.09	3.29	9.34
Direct Gas Use, WIP 1,000,000+ short tons	Installation of a direct gas project at landfills with a WIP greater than 1,000,000 short tons	31	43	85	15.00	3.13	9.16
Electricity, WIP < 100,001 short tons	Installation of an electricity project at landfills with a WIP up to 100,000 short tons	100	14	85	169.53	6.59	7.81
Electricity, WIP 100,001–200,000 short tons	Installation of an electricity project at landfills with a WIP between 100,001 and 200,000 short tons	100	4	85	88.04	5.31	7.76
Electricity, WIP 200,001–300,000 short tons	Installation of an electricity project at landfills with a WIP between 200,001 and 300,000 short tons	100	4	85	67.39	5.00	7.67
Electricity, WIP 300,001–400,000 short tons	Installation of an electricity project at landfills with a WIP between 300,001 and 400,000 short tons	67	4	85	62.57	5.15	7.91
Electricity, WIP 400,001–500,000 short tons	Installation of an electricity project at landfills with a WIP between 400,001 and 500,000 short tons	50	8	85	58.70	5.27	7.89
Electricity, WIP 500,001–1,000,000 short tons	Installation of an electricity project at landfills with a WIP between 500,001 and 1,000,000 short tons	71	23	85	44.54	4.94	7.90
Electricity, WIP 1,000,000+ short tons	Installation of an electricity project at landfills with a WIP greater than 1,000,000 short tons	69	43	85	36.27	4.74	7.74

MP = Market Penetration; TA = Technical Applicability; RE = Reduction Efficiency

^a All costs and benefits are expressed in year 2000 \$ per MTCO₂ Eq.

(Choate et al, 2005)

Finally, Choate and coauthors calculated the breakeven prices associated with the various emissions reductions under each scenario (See Tables 4.7.12-15). Using a marginal abatement cost curve that was calculated from the data in their report, one can easily identify the measures for which there are net cost savings (breakeven price of \$0 or less) and points before which there is a dramatic increase in the break-even price (See Figures 13 and 14). It is important to remember that this curve applies to marginal abatement at the industry level, that each breakeven price is associated with firms from a given size and technology group who reduce emissions by a certain amount at that price. Cumulative emissions reductions are found by summing the emissions reductions of each of these size/technology groups at escalating breakeven prices.

That said, under Scenario A with a discount rate of 4% and tax rate of 0%, landfills could reduce up to 2.28 MMTCO₂E. with net cost savings in 2010, and up to 2.44 MMTCO₂E. with net cost savings in 2020. Furthermore, at a breakeven price of \$1.04/MTCO₂Eq or less, landfills could reduce up to 6.48 MMTCO₂E. in 2010 and up to 6.96 MMTCO₂ in 2020. At a breakeven price of \$3.39/MTCO₂Eq or less, landfills could reduce up to 7.47 MMTCO₂E. in 2010 and up to 8.02 MMTCO₂E. in 2020. Finally, they could achieve the full amount of reductions of up to 9.04 MMTCO₂E. in 2010 and up to 9.71 MMTCO₂ in 2020Eq. at a breakeven price of \$14.03/MTCO₂Eq or less.

Under Scenario B with a discount rate of 20% and tax rate of 40%, landfills could reduce up to 1.19 MMTCO₂E. with net cost savings in 2010, and up to 1.28 MMTCO₂ with net cost savings in 2020. Furthermore, at a breakeven price of \$10.94/MTCO₂Eq or less, landfills could reduce up to 6.48 MMTCO₂E. in 2010 and up to 6.96 MMTCO₂E. in 2020. At a breakeven price of \$18.36/MTCO₂Eq or less, landfills could reduce up to 7.47 MMTCO₂E. in 2010 and up to 8.02 MMTCO₂E. in 2020. Finally, they could achieve the full amount of reductions of up to 9.04 MMTCO₂E in 2010 and up to 9.71 MMTCO₂E. in 2020 at a breakeven price of \$51.68/MTCO₂Eq or less.

Table 4.7.12: Emissions Reductions and Breakeven Prices (Scenario A, 2010) Year- 2010,

DR 4% TR 0%

Option	Break-Even Price (\$/MTCO ₂ Eq.)	Incremental Reductions		Sum of Reductions	
		MMTCO ₂ Eq.	% of Baseline	MMTCO ₂ Eq.	% of Baseline
Direct Gas Use, WIP 1,000,000+ short tons	(4.68)	1.19	11	1.19	11
Direct Gas Use, WIP 500,001–1,000,000 short tons	(3.98)	0.61	6	1.80	17
Direct Gas Use, WIP 400,001–500,000 short tons	(2.32)	0.35	3	2.15	20
Direct Gas Use, WIP 300,001–400,000 short tons	(2.10)	0.12	1	2.28	21
Direct Gas Use, WIP 200,001–300,000 short tons	(1.39)	-	0	2.28	21
Electricity, WIP 1,000,000+ short tons	0.26	2.69	25	4.96	47
Direct Gas Use, WIP 100,001–200,000 short tons	0.69	-	0	4.96	47
Electricity, WIP 500,001– 1,000,000 short tons	1.04	1.51	14	6.48	61
Electricity, WIP 400,001– 500,000 short tons	2.66	0.35	3	6.83	64
Electricity, WIP 300,001– 400,000 short tons	2.87	0.24	2	7.07	66
Electricity, WIP 200,001– 300,000 short tons	3.39	0.40	4	7.47	70
Electricity, WIP 100,001– 200,000 short tons	5.47	0.34	3	7.81	73
Direct Gas Use, WIP < 100,001 short tons	9.48	-	0	7.81	73
Electricity, WIP < 100,001 short tons	14.03	1.23	12	9.04	85

(Choate et al, 2005)

Table 4.7.13: Emissions Reductions and Breakeven Prices (Scenario A, 2020) Year- 2020,

DR 4% TR 0%

Option	Break-Even Price (\$/MTCO ₂ Eq.)	Incremental Reductions		Sum of Reductions	
		MMTCO ₂ Eq.	% of Baseline	MMTCO ₂ Eq.	% of Baseline
Direct Gas Use, WIP 1,000,000+ short tons	(4.68)	1.28	11	1.28	11
Direct Gas Use, WIP 500,001–1,000,000 short tons	(3.98)	0.65	6	1.93	17
Direct Gas Use, WIP 400,001–500,000 short tons	(2.32)	0.38	3	2.32	20
Direct Gas Use, WIP 300,001–400,000 short tons	(2.10)	0.13	1	2.44	21
Direct Gas Use, WIP 200,001–300,000 short tons	(1.39)	-	0	2.44	21
Electricity, WIP 1,000,000+ short tons	0.26	2.89	25	5.33	47
Direct Gas Use, WIP 100,001–200,000 short tons	0.69	-	0	5.33	47
Electricity, WIP 500,001–1,000,000 short tons	1.04	1.63	14	6.96	61
Electricity, WIP 400,001–500,000 short tons	2.66	0.38	3	7.34	64
Electricity, WIP 300,001–400,000 short tons	2.87	0.26	2	7.60	66
Electricity, WIP 200,001–300,000 short tons	3.39	0.43	4	8.02	70
Electricity, WIP 100,001–200,000 short tons	5.47	0.36	3	8.39	73
Direct Gas Use, WIP < 100,001 short tons	9.48	-	0	8.39	73
Electricity, WIP < 100,001 short tons	14.03	1.32	12	9.71	85

(Choate et al, 2005)

Table 4.7.14: Emissions Reductions and Breakeven Prices (Scenario B, 2010) Year- 2010, DR

20% TR 40%

Option	Break-Even Price (\$/MTCO ₂ Eq.)	Incremental Reductions		Sum of Reductions	
		MMTCO ₂ Eq.	% of Baseline	MMTCO ₂ Eq.	% of Baseline
Direct Gas Use, WIP 1,000,000+ short tons	(1.35)	1.19	11	1.19	11
Direct Gas Use, WIP 500,001–1,000,000 short tons	1.15	0.61	6	1.80	17
Direct Gas Use, WIP 400,001–500,000 short tons	6.06	0.35	3	2.15	20
Direct Gas Use, WIP 300,001–400,000 short tons	7.17	0.12	1	2.28	21
Electricity, WIP 1,000,000+ short tons	8.31	2.69	25	4.96	47
Direct Gas Use, WIP 200,001–300,000 short tons	9.15	-	0	4.96	47
Electricity, WIP 500,001–1,000,000 short tons	10.94	1.51	14	6.48	61
Electricity, WIP 400,001–500,000 short tons	15.69	0.35	3	6.83	64
Direct Gas Use, WIP 100,001–200,000 short tons	15.91	-	0	6.83	64
Electricity, WIP 300,001–400,000 short tons	16.77	0.24	2	7.07	66
Electricity, WIP 200,001–300,000 short tons	18.36	0.40	4	7.47	70
Electricity, WIP 100,001–200,000 short tons	25.02	0.34	3	7.81	73
Direct Gas Use, WIP < 100,001 short tons	43.44	-	0	7.81	73
Electricity, WIP < 100,001 short tons	51.68	1.23	12	9.04	85

(Choate et al, 2005)

Table 4.7.15: Emissions Reductions and Breakeven Prices (Scenario B, 2020) Year- 2020, DR

20% TR 40%

Option	Break-Even Price (\$/MTCO ₂ Eq.)	Incremental Reductions		Sum of Reductions	
		MMTCO ₂ Eq.	% of Baseline	MMTCO ₂ Eq.	% of Baseline
Direct Gas Use, WIP 1,000,000+ short tons	(1.35)	1.28	11	1.28	11
Direct Gas Use, WIP 500,001–1,000,000 short tons	1.15	0.65	6	1.93	17
Direct Gas Use, WIP 400,001–500,000 short tons	6.06	0.38	3	2.32	20
Direct Gas Use, WIP 300,001–400,000 short tons	7.17	0.13	1	2.44	21
Electricity, WIP 1,000,000+ short tons	8.31	2.89	25	5.33	47
Direct Gas Use, WIP 200,001–300,000 short tons	9.15	-	0	5.33	47
Electricity, WIP 500,001–1,000,000 short tons	10.94	1.63	14	6.96	61
Electricity, WIP 400,001–500,000 short tons	15.69	0.38	3	7.34	64
Direct Gas Use, WIP 100,001–200,000 short tons	15.91	-	0	7.34	64
Electricity, WIP 300,001–400,000 short tons	16.77	0.26	2	7.60	66
Electricity, WIP 200,001–300,000 short tons	18.36	0.43	4	8.02	70
Electricity, WIP 100,001–200,000 short tons	25.02	0.36	3	8.39	73
Direct Gas Use, WIP < 100,001 short tons	43.44	-	0	8.39	73
Electricity, WIP < 100,001 short tons	51.68	1.32	12	9.71	85

(Choate et al, 2005)

Regulatory Impact

Landfill may be the best situated of any of the industry groups that emit non-Co2 greenhouse gases to respond favorably to regulation, or in such a way that regulation does not dramatically decrease profitability or distort profit maximizing production decisions. This is true for all strategies being considered by the ARB and IWMB, including strategy 1 to install emissions control systems, strategy 2 to promote use of gas to energy projects, and strategy 3 to enhance methane capture efficiencies, and regardless of whether these strategies are achieved through carbon caps or legal imperatives.

This expected vitality can be attributed to four features of solid waste industries, and landfills in particular. The first feature relates to the direct impact of regulation upon industry cost and revenue structure. The second two features relate to firms' ability to transfer costs to consumers, and the fourth to industry culture and firms' preferences in cost minimization.

Currently ARB and IWMB intend for strategies 1 and 3 to reduce emissions by 2-4 MMTCO₂ by 2020. The extent to which reductions from these strategies will impose costs upon firms is something of an unknown. Still, if there are costs, one can presume they will not be dramatic. Since AB-32 has the mandate to implement only cost effective measures, measures that threaten financial viability will not likely be considered. As noted in the Climate Action Team report, 94% of California's landfills have gas collection systems in place, proving that the landfills can flourish under these conditions. Moreover, given the intensiveness of capital in landfill, capital upgrades to best capture practices can only constitute a tiny fraction of total investment costs.

While the reductions from strategy 2 were not calculated by the ARB or IWMB, their magnitude can be estimated from the study by Choate and colleagues (2005) to dwarf the expected reductions from strategies 1 and 3. In fact, if current reduction goals from strategies 1 and 3 were targeted by strategy 2, most of the reductions could be achieved with net savings for each affected firm, and all 4MMTCO₂ reductions could

likely be achieved while still having net savings at the industry level (summing costs and benefits of all affected landfills).

Finally, other benefits from the regulation, such as tax breaks, will further alleviate cost burdens or enhance benefits. On-site recovery systems can lower energy and treatment costs and can reduce liability and insurance costs (Aseltine, McRea, Modi, Shukla, Sullivan, 2006). Safety measures, once seen as onerous, are now being undertaken willingly by SWM giants (Standard and Poor's, 2006). As internal cost effectiveness becomes increasingly critical, these previously neglected resources become more important to profitability, growth, and competitive advantage.

Assuming that strategies 1- 3 result in some net costs, a second issue relates to firms' ability to manage costs. If these costs can be easily transferred, with little reduction in the quantity of waste services and landfill demanded, than they are of little threat to the industry. Ability to pass on costs is a function of consumer preferences and competition. Demand will be more inelastic when preferences are unresponsive to price and when there are few substitutes for a good or service. As seen earlier in the report, this is certainly the case for landfill and SWM in general. Demand for waste services is inelastic due to inflexibility of waste production and limited waste service substitutes. Moreover, due to a lack of viable disposal substitutes for landfill as an input into the production of waste services, waste companies' derived demand for landfill is very inelastic.

The restricted nature of competition within the landfill industry should also enhance the ability to pass on costs, as firms for whom regulation has less of an impact on cost structure will not necessarily be in intense competition with those for whom regulation is more impactful.

Trends towards industry consolidation continue even as overcapacity disappears. Interestingly, regulation should only accelerate consolidation. The Resources Conservation and Recovery Act of 1976 required installation of gas control equipment, and resulted in a tripling of US average landfill capacity as large landfills replaced small

(Standard and Poor's, 2006). Though nothing near so dramatic will occur in this case, one would expect at least a slight to moderate effect. This effect could be mitigated through carbon caps, as smaller firms who faced dramatically higher costs and lower revenues could acquire carbon permits instead of upgrading technologies.

Finally, even if firms could not avoid internalizing a portion of costs, this would not likely significantly alter production decisions. California's landfills remain clustered around urban centers despite the fact that regulation costs have been higher in much of California than in neighboring states for some time. Today's focus on fuel cost efficiency as key to long run profitability only reinforces the attraction to locate near markets. Finally, it is relevant that even if landfills became less profitable, they would still be an essential input into the very profitable SWM industry.

In summary, whether revenues for any given firm increase more than costs will be a function of the technology used, scale of operations, indirect cost savings, and government incentives. If there are net costs it is likely that firms will be able to share these costs with consumers, if not transfer the burden to them completely. This is due to inflexible demand and monopolistic conditions. Regulation will enhance economies of scale, having a greater affect on average than marginal costs. Larger firms should have lower average costs and higher revenues, which should lead to a less competitive environment as smaller firms operating closer to the margins, with less disposable income, will struggle to manage costs. Finally, the attachment to markets should keep most waste in California. It is essential to qualify these general conclusions by noting again the "fragmentation" of waste services, where various contexts of SWM could lead to diametric outcomes in any given case.

As California's primary methane producer, landfills are not only significant in the fight against global warming in general, but are the critical component of any policy attempting to regulate non-Co2 greenhouse gases, especially due to associated low costs and even savings.

Scenario Description:

Anaerobic decomposition of buried refuse and other solid waste produces methane, a GHG with relatively high Global Warming Potential (GWP). In landfill systems where these materials are concentrated, this gas can be captured with digester technologies and dissipated by burning in flares or power generation. The objective of this scenario is to assess the economic effects of promoting such capture and gas recycling strategies (e.g. for sale or on-site electricity generation).

Modeling Approach:

For Landfill Management, we have data on eleven scenarios, depending on the scale of operation covered and the retention strategy:

Retention for gas recycling only – four scenarios

Scale by Landfill Capacity in Short Tons (WIP)

- | | |
|---------------|------------|
| 1. >1,000,000 | Direct Gas |
| 2. <1,000,001 | Direct Gas |
| 3. <500,001 | Direct Gas |
| 4. <400,001 | Direct Gas |

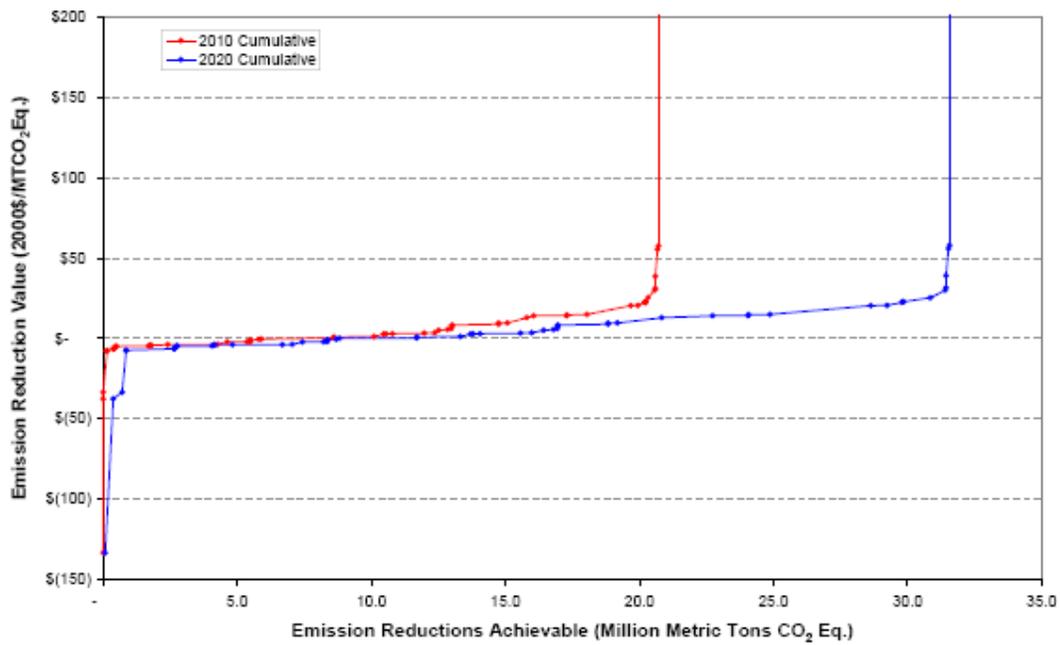
Gas capture and electricity generation – seven scenarios

Scale by Landfill Capacity in Short Tons (WIP)

- | | |
|---------------|-------------|
| 5. >1,000,000 | Electricity |
| 6. <1,000,001 | Electricity |
| 7. <500,001 | Electricity |
| 8. <400,001 | Electricity |
| 9. <300,001 | Electricity |
| 10. <200,001 | Electricity |
| 11. <100,001 | Electricity |

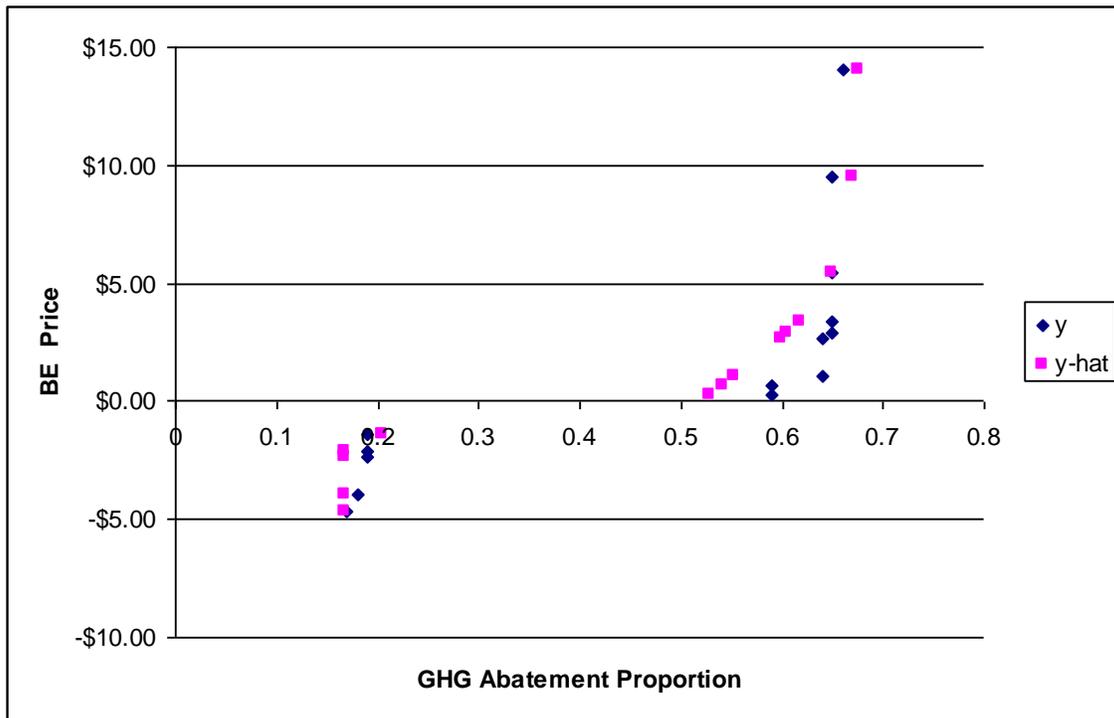
The moderate scenario includes the first five measures above, while the ambitious scenario includes all eleven.

Figure 4.3.1: Marginal Abatement Curve Estimates for Measures to Reduce Non-CO2 Gases



Source: ICF:2005.

Figure 4.3.2: Estimated Discrete and Continuous MACs for Landfill Management



Source: ICF:2005 and author's estimates.

The model simulates these adoption strategies with three component adjustments: Landfill firms incur costs in the form of Construction services to adapt their operations.

Landfill firms who generate electricity deliver this to the electricity grid. For simplicity, we also assume they continue meeting their own electricity needs from the same grid.

Landfill firms who retain gas use this to offset their demand from natural gas utilities.

These three components represent one cost, one revenue source, and one operational savings. From the data we have available, the balance between these varies between individual operations, but is positive across the industry. In the present

simulations, we have chosen to combine the different scale scenarios to represent an industry-wide strategy. In this case, costs and benefits that might be incident on individual firms are aggregated, and the result is a positive adoption incentive for the industry. Implicit in such a scenario is the assumption that within industry compensation schemes can be devised, either by private industry participants or policy makers using fees and subsidies, that permit the net social benefits of the policy to be realized by redistributing plant-level costs and benefits. In practice, such incentive pooling can arise from a combination of redistribution schemes and industry consolidation.

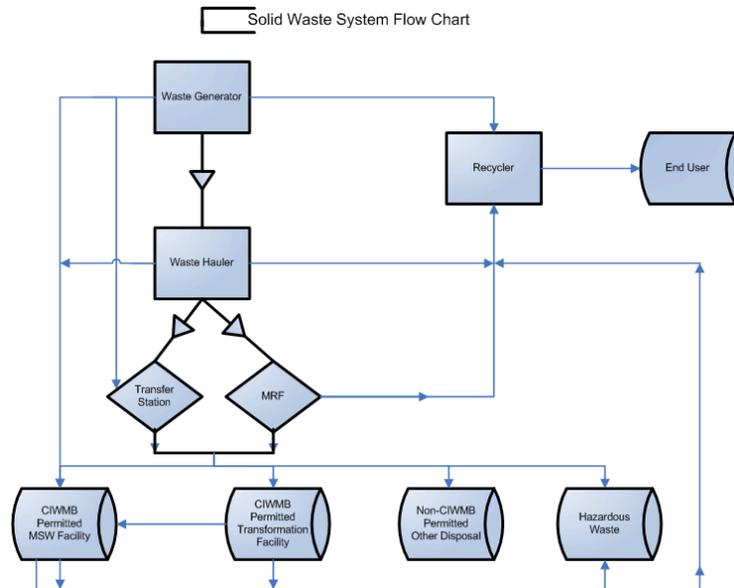
Data Sources and Description:

The ICF (2005a) report provides our baseline data for this scenario, with comparison reference to the international MAC data, and we calibrate abatement using the MAC framework.⁷ Methane emissions are measured in CO₂ equivalents, the demand for abatement technology is directed at the construction sector, captured gas is consumed in the sector (resulting in savings on electricity expenditures) and self-generated electricity is metered out to utilities.

⁷ Compare also EPA (1999).

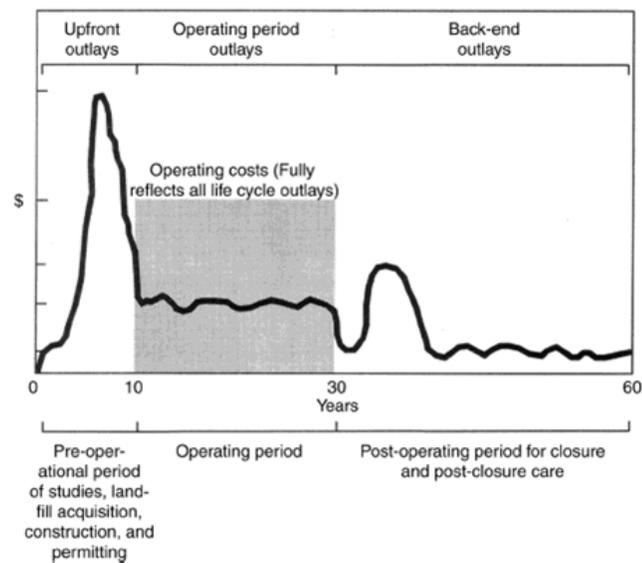
Appendix: Figures

Figure A4.7..1: Solid Waste System Flow Chart



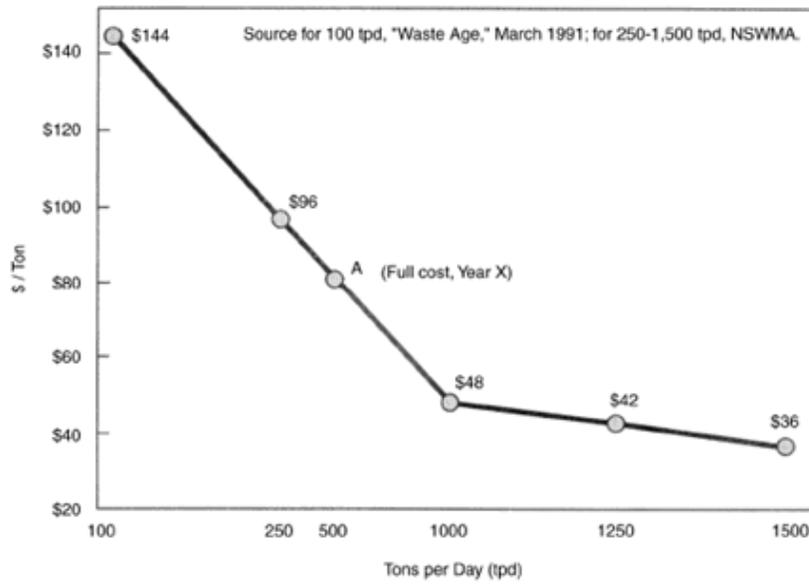
(Solid... Chart)

Figure A4.7.2: Landfill Life-cycle Outlays and Costs



Source: U.S. Environmental Protection Agency, *Full Cost Accounting for Municipal Solid Waste Management: A Handbook* (530-R-95-041), 1997, exhibit 4-1, p. 29.

Figure A4.7.3: Economies of Scale at Landfills



Source: U.S. Environmental Protection Agency, *Full Cost Accounting for Municipal Solid Waste Management: A Handbook* (530-R-95-041), 1997, exhibit 4-1, p. 29.

Figure A4.7.4: Disposal and Diversion

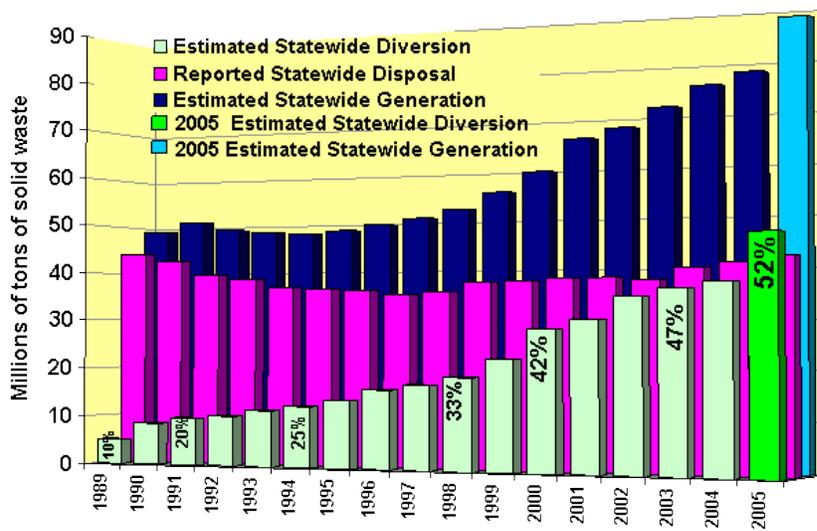
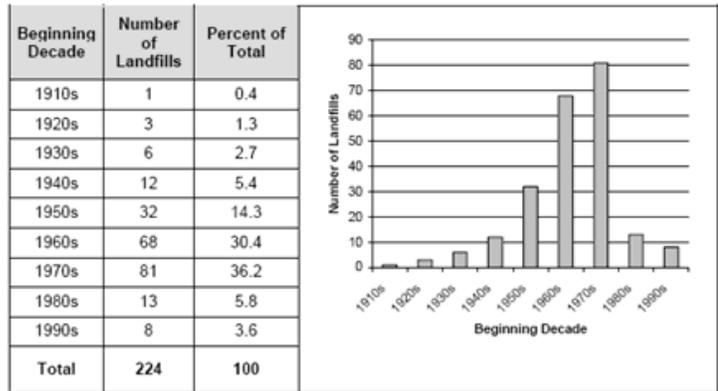
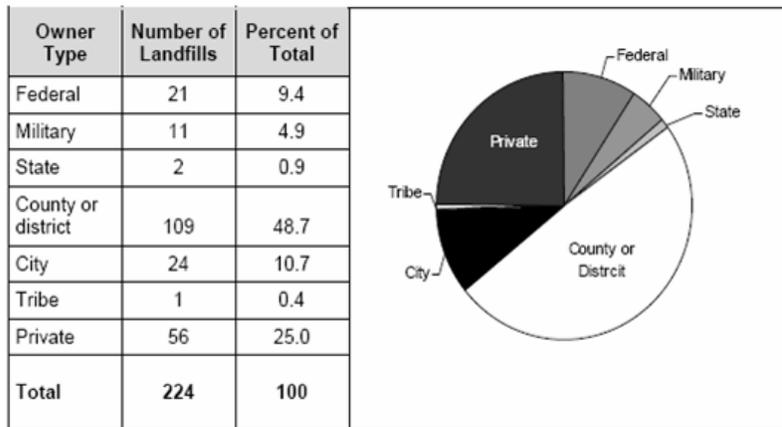


Figure A4.7.5: Distribution of Landfill Age



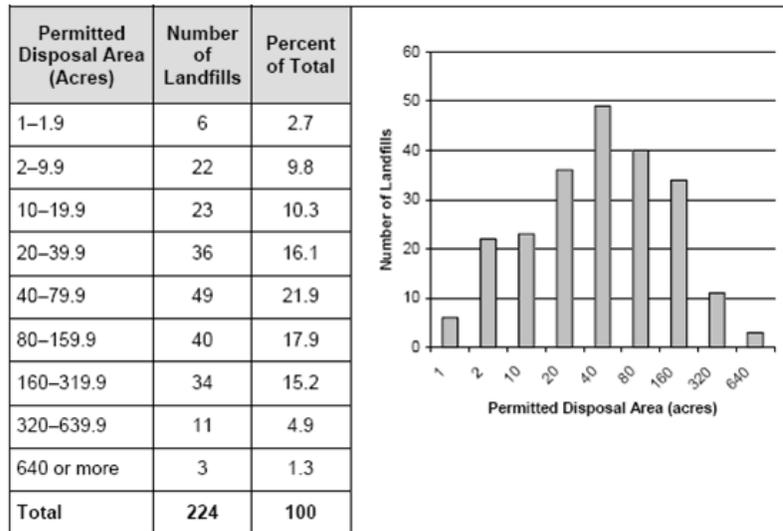
(Landfill... Landfills, 2003)

Figure A4.7.6: Distribution of Owner Type



(Landfill... Landfills, 2003)

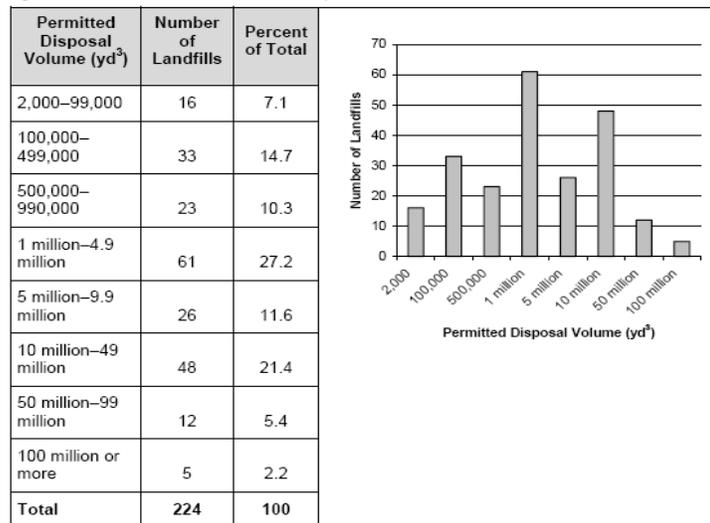
Figure A4.7.7: Distribution of Permitted Disposal Area



(Landfill... Landfills, 2003)

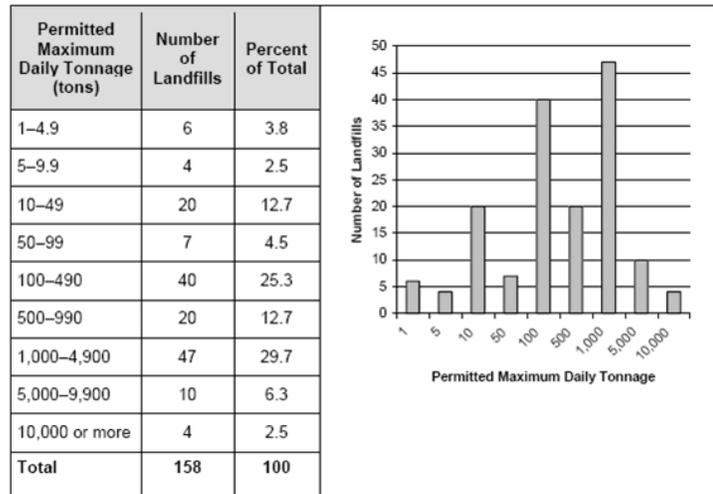
Figure A4.7.8: Permitted Disposal Volume

Figure 2.4: Distribution of Permitted Disposal Volume



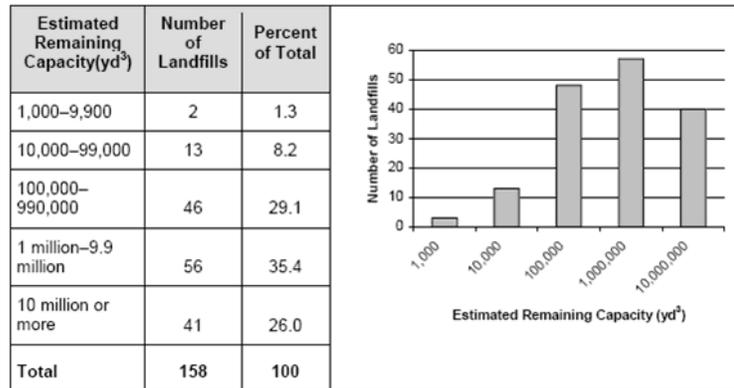
(Landfill... Landfills, 2003)

Figure A4.7.9: Distribution of Permitted Maximum Daily Tonnage



(Landfill... Landfills, 2003)

Figure A4.7.10: Distribution of Estimated Remaining Capacity



(Landfill... Landfills, 2003)

Figure A4.7.11: Average Landfill Life by Region

Average Landfill Life by Region	
Region	Remaining Landfill Years
Northeast	4
Midwest	12
Southeast Central	14.5
Mid-Atlantic	15
South Atlantic	15.6
Pacific West	16
Mountain West	54

Source: Lynn Scarlett, *Solid Waste Recycling Costs: Issues and Answers*, Reason Public Policy Institute Policy Study No. 193 (Los Angeles: Reason Public Policy Institute, August 1995), p. 2.

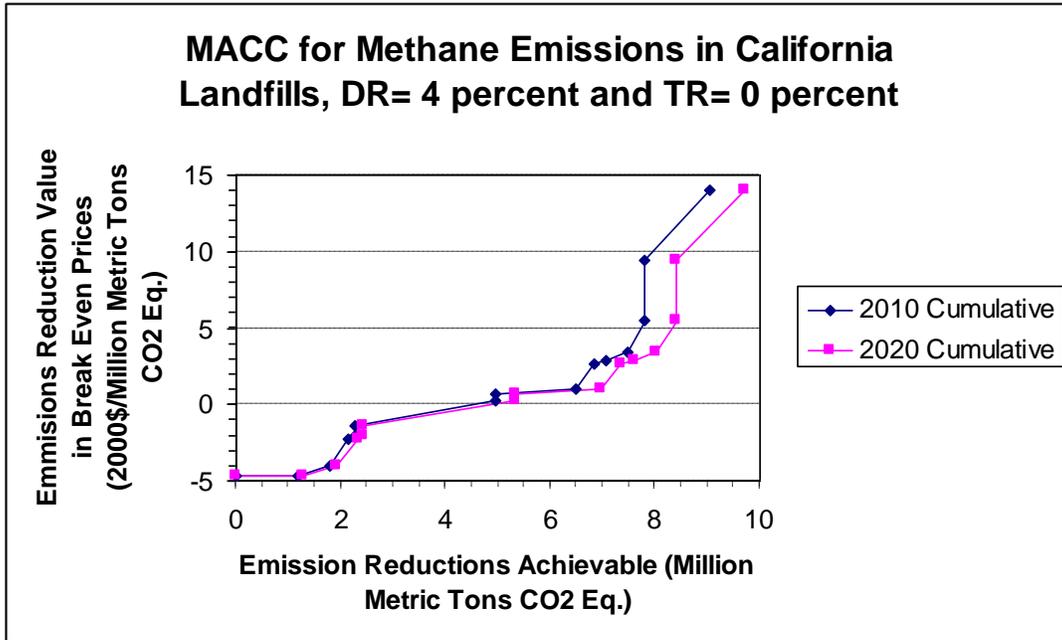
(Landfill... Landfills, 2003)

Figure A4.7.12 Geographic Distribution of Estimated Remaining Capacity

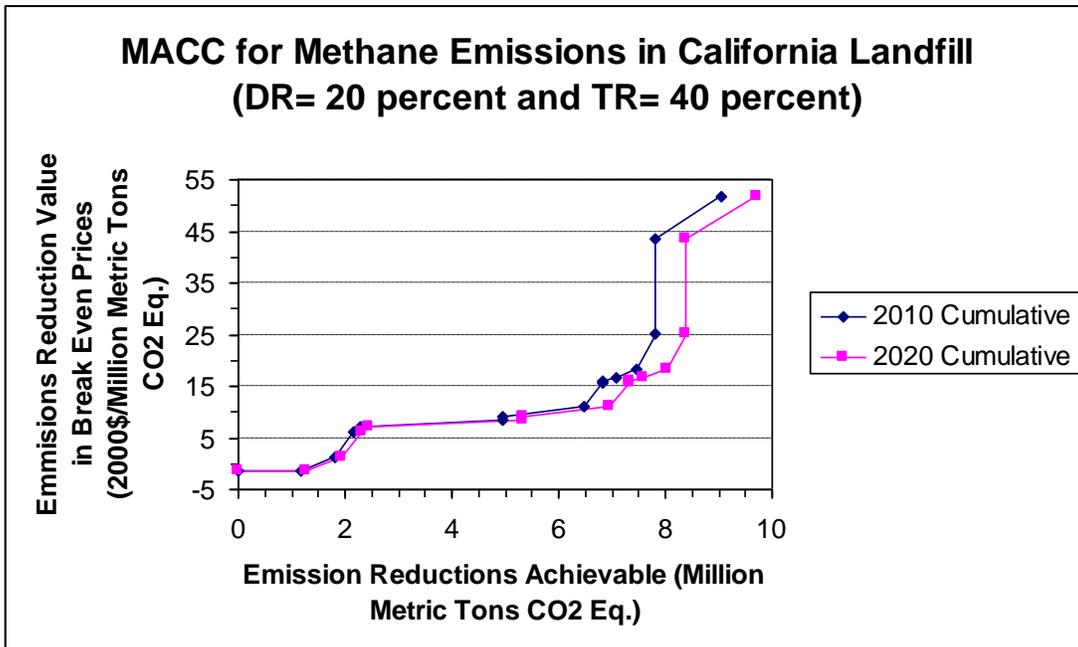


(Landfill... Landfills, 2003)

Figure A4.7.13: MACC for Methane Emissions in California Landfills, DR= 4 percent and TR= 0 percent



FigureA 4.7.14: MACC for Methane Emissions in California Landfills, DR= 20 percent and TR= 40 percent



3.8 Afforestation

Sector Analysis

Approximately 60 percent of carbon stored in the terrestrial ecosystems is contained by forest ecosystems (Streck 2006). Another source estimates that 80 percent of global carbon is sequestered in soils or forests (Schneider 2006). This carbon is accounted in four basic pools: soil, ecosystem, standing trees, and products after harvest (Lee 2005). One form of carbon sequestration as suggested by the CAT policies is afforestation of marginal rangelands. In California, Winrock estimates that up to 13.34 million acres of rangeland are potentially available for afforestation throughout the state. In addition, it is estimated that for every ton of carbon sequestered in forest biomass, 3.667 tons of CO₂ is removed from the atmosphere (Cornelis 1999). In this report, I focus on the afforestation potential in California and its implications for the CAT policy.

Production Statistics

Input costs associated with Afforestation:

The costs associated with afforestation/reforestation are many: opportunity costs, planting and conversion costs, measuring and monitoring costs, and maintenance costs. Due to the fact that lands potentially viable for afforestation are rangelands, the profitability per hectare of cattle ranching in CA represents the opportunity cost of afforestation. The profit of any given acre of rangeland is proportional to the forage production which determines its carrying capacity. According to Winrock (2004), low-producing rangeland (~100 lbs. of forage DM per acre, requires 95 acres to support one head of cattle per year): the annual per acre profitability is estimated to be \$0.71 (i.e., \$67.50/ 95); and High-producing rangeland (~2,000 lbs. of forage DM per acre, requires 4.75 acres to support one head of cattle per year) the annual per acre profitability of high-producing rangeland is estimated to be \$14.22 (i.e., \$67.50/ 4.75, Table 4.8.1)

Table 4.8.1: Revenue and costs associated with cattle ranching in California. ⁸

Economics of California Ranching			
Revenue			
	<u>Total</u>	<u>\$/cow</u>	<u>Assumptions</u>
Calf	\$500.00	\$425.00	85% wean rate
Cull cows	\$450.00	<u>\$67.50</u>	15% cull rate
Total Revenue			\$492.50
Costs in \$/cow			
Pasture		\$111.00	(Including cost for bulls - 5% of herd)
Supplemental feed		\$145.00	(Including replacement heifers - 15%)
Other operating and fixed costs			<u>\$169.00</u>
Total Costs			\$425.00
Mean Annual Profit per Cow (Revenue – Costs)			\$67.50

Planting and conversion costs are the estimated cost for establishing tree planting on rangelands in California and are on average \$450 per acre. These costs vary from \$300 to \$600 per acre, and are determinate upon factors such as moisture, soil texture, and slope of the site.

Measuring and monitoring costs are the costs of measuring the carbon production over the life of the activity. These costs are on average at an estimated \$2.5 per hectare per year. The factor affecting cost include which pools are measured and monitored, frequency of monitoring, area, and whether the lands are contiguous or dispersed.

⁸ Winrock (2004). Carbon Supply from Changes in Management of Forest, Range, and Agricultural Lands of California. Winrock International, for the California Energy Commission, PIER Energy-Related Environmental Research. CEC-500-04-068F

Economics of scale exist for these measurement and monitoring costs, where the costs are higher for smaller activities.

Maintenance costs are incurred for a five year period from the beginning of the activities. They ensure that enough tree seedlings survive to generate a well-stocked stand and are estimated to be approximately \$20/ha.yr during the first five years. These costs include the ones of replanting seedlings that have died, weeding or herbicide application, fertilizing, adequate fencing to control livestock incursion, and fire prevention. Fire prevention is estimated to be from \$40 to \$100 per acre, dependent on the average slope and proximity to roads at a given site. Fire prevention costs include the costs of burning the land prior to tree planting activities to reduce the fuel load.

Another cost that is often ignored is transaction costs—these are the costs of capturing and protecting property rights and transferring them from one agent to another (Cornelis 2002). Pejovich (1995, 84) states that these are “the costs of discovering exchange opportunities, negotiating contracts, monitoring and enforcing implementation, and maintaining and protecting institutional structure”

Output:

The main output of concern with afforestation/reforestation is the potential for carbon sequestration. The total amount of carbon that could be sequestered by afforesting grazing lands and changing forest management over a 20 year period is about 894 MMT CO₂, at a price of \$13.6/ MT CO₂ (Table 4.8.2). Approximating this total amount to an annual rate, results in about 45 MMT CO₂/ yr (Winrock 2004).

Outside of carbon sequestration, the benefits to society include food, fiber, shelter, watershed services, biodiversity, recreation, and aesthetic qualities, climate mitigation (carbon sequestration) (Murray 2004).

Table 4.8.2: Summary of the quantity of carbon (million metric tons CO₂ [MMT CO₂]) and area (million acres) available at selected price points

Activity	Quantity of C – MMT CO ₂			Area available – million acres		
	20 years	40 years	80 years	20 years	40 years	80 years
Forest management						
Lengthen rotation						
≤\$13.6 (discounted C)	3.47	--	--	0.31	--	--
≤\$13.6 (undiscounted C)	2.16	--	--	0.30	--	--
Increase riparian buffer-width						
≤\$13.6	3.91 (permanent)			0.044		
Grazing lands						
Afforestation						
≤\$13.6	887	3,256	5,639	12.03	17.79	20.76
≤\$5.5	345	3,017	5,504	2.72	14.83	19.03
≤\$2.7	33	1,610	4,569	0.20	5.68	13.34

Notes: Carbon tradeoffs are given for several classes of activities on existing rangelands and forestlands over 20-year, 40-year, 80-year, and permanent (forest management—riparian buffer) durations.⁹

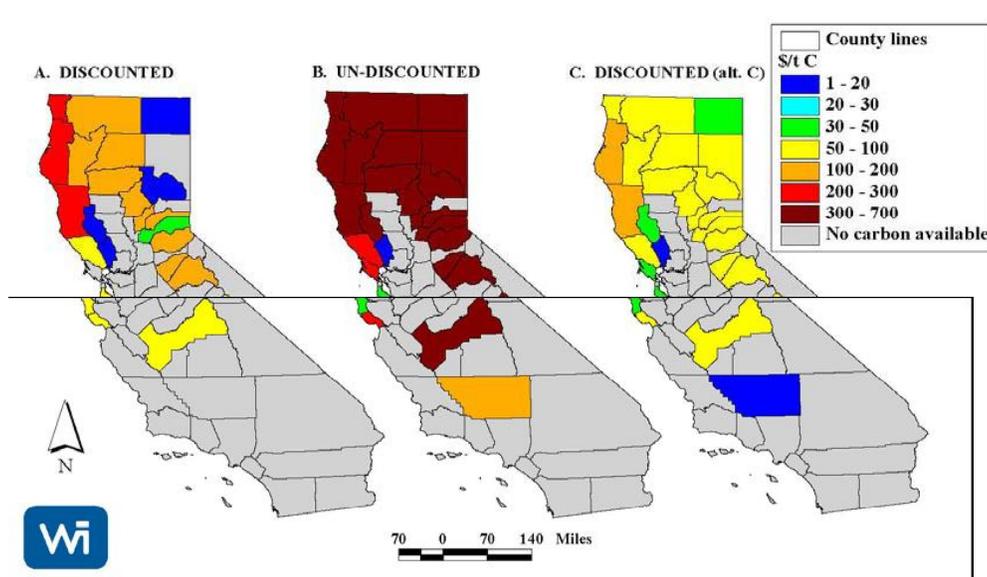
Technology

There exists potential to increase rotation ages to enhance carbon sequestration because many tree species are still growing when harvested. Winrock states that the largest potential source of carbon from forest management is for lengthening rotation

⁹ Winrock (2004). Carbon Supply from Changes in Management of Forest, Range, and Agricultural Lands of California. Winrock International, for the California Energy Commission, PIER Energy-Related Environmental Research. CEC-500-04-068F

by five years. This would cost less than \$13.60/MTCO₂ and provide 2.61 to 3.91 MMTCO₂ (dependent on whether the carbon is discounted or not). Although, by increasing the rotation ages, there are financial implications for landowners when delaying the next rotation.

Figure 4.8.1: Distribution, at the county scale, of the cost to sequester carbon (in \$/metric t C) via lengthening the forest rotation time by 5 years for two methods of discounting carbon (A. and C.) and for undiscounted carbon (B.).¹⁰

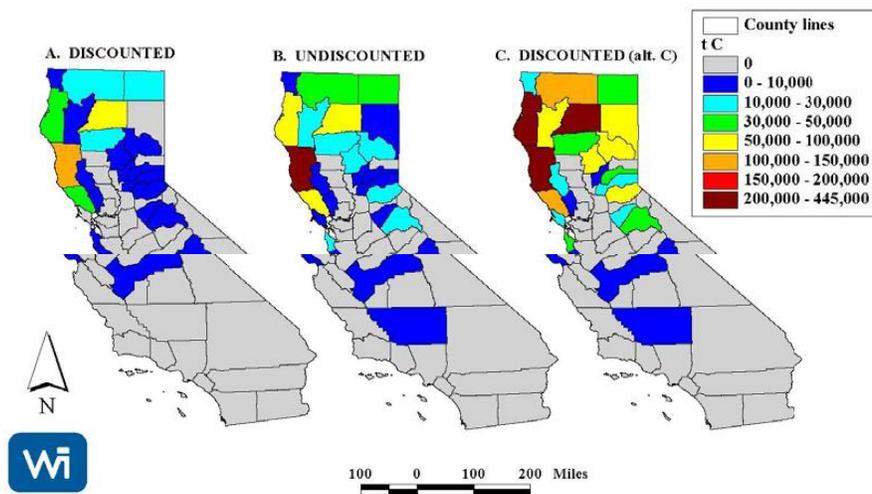


When lengthening the forest rotation by five years, counties in California with the cheapest carbon do not produce the highest quantities of carbon. The highest quantities of potential carbon sequestration by rotation lengthening are located in the north coast counties, although these places also have the most expensive carbon. By

¹⁰ Winrock (2004). Carbon Supply from Changes in Management of Forest, Range, and Agricultural Lands of California. Winrock International, for the California Energy Commission, PIER Energy-Related Environmental Research. CEC-500-04-068F

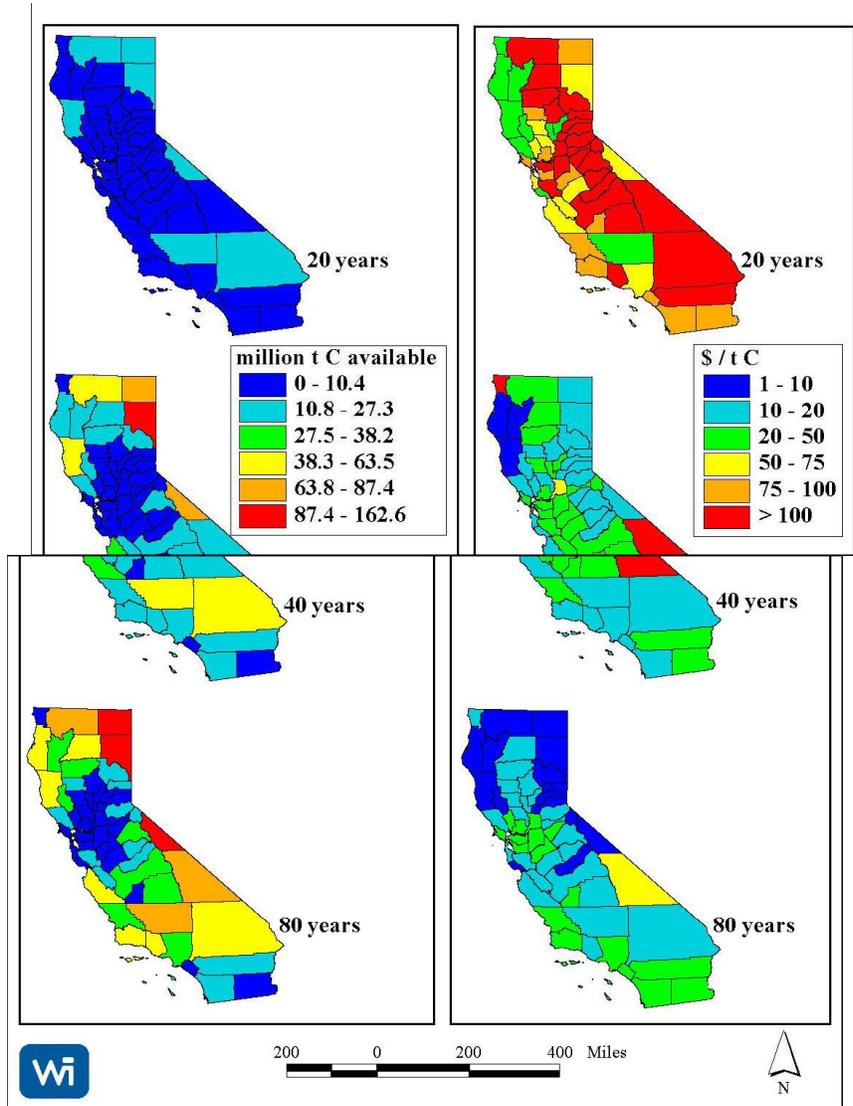
lengthening rotation, the costs tend to be lower when the emissions from the initial harvest are held off to future periods, because it creates additional carbon benefits in early periods (Figures 4.8.1 and 4.8.2).

Figure 2: Distribution, at the county scale of resolution, of the potential amount of carbon (metric t C) that could be sequestered on all forest lands by lengthening the forest rotation time by 5 years for two methods of discounting carbon (A. and C.) and for undiscounted carb



For afforestation of rangelands, longer rotation period lowers carbon costs, but also landowners may be more hesitant to commit to land projects that are lengthier. Afforestation of rangelands provides the most carbon at the least cost at less than \$2.7/MT CO₂. This equates to around 33 MMTCO₂ at 20 years or 4.57 billion MTCO₂ at 80 years. The counties with the least expensive carbon from afforesting rangelands would be the same counties that could potentially sequester the most (Figure 4.8.3) (Winrock 2004).

Figure 4.8.3: Total carbon sequestered by afforestation of rangelands (metric tons; left) and area-weighted average cost per metric ton of carbon (to convert to \$/ metric t CO₂, divide by 3.6) and after 20, 40, and 80 years.



From Stavins, 2000

Perspectives

Carbon sequestration in the agricultural and forest sector is estimated to potentially offset about 3-15% of US projected green house gas emissions (or 8,000 and 10,200 MMT of CO₂ equivalent) (Lee 2005).

Sources of uncertainty that currently exist include the effects of global warming, discount rates, permanence, and leakage. Global warming may affect forests, perhaps changing location of land viable for afforestation or even productivity. Discount rates will affect the present value of carbon. Also permanence, or the question of how long will the carbon be sequestered, produces uncertainty. Finally, leakage, or the change in activities or behavior outside of the project area that partially or totally offsets the climate gains of the project, has implications for the affects of afforestation beyond the local scope.

Prognosis for Policy Response and Adjustment

The CAT policies suggest the following strategies to encourage afforestation and the

- establishing a new statewide goal of reforesting 250,000 acres on federal lands; seeing \$30 million annually, or \$300 million in bond funds to meet these targets
- establishing a long-term loan program to fund private land reforestation
- establishing a multi-sector market-based program where reforestation projects can be included as offsets in a broader, multi-sector climate change market-based program
- establishing a state-owned carbon bank, modeled after Oregon's Climate Trust, as part of a market-based program

It is in my belief that implementing these strategies will be a cost-effective way of reducing carbon emissions. Throughout the state of California, Winrock estimates that up to 13.34 million acres of rangeland are potentially available for afforestation, making it plausible goal on behalf of the CAT policies to reforest 250,000 acres on federal lands establishing a new statewide goal of reforestation. Most all studies, such as in Plantinga et. al., 1999 and Lee et. al. 2005, suggest that the costs of afforestation programs compare favorably to costs of alternative mitigation approaches are are a cost-effectivte strategy for offsetting CO₂ emissions.

The latter CAT policies suggest setting up a market-based program where reforestation projects can be included as offsets in a broader, multi-sector climate change market-based program. Streck suggests that crediting countries for sinks would allow them to implement cost-efficient compensation measures that would let them off the hook in respect of more complicated energy projects. Permanence of temporary credits and leakage may arise as problems to carbon banking.

The transition to a market-based system will most likely be a relatively smooth transition. In van Kooton's study on carbon sequestration market in Canada, it was found that 75% of survey respondents indicated a willingness to create carbon offsets if they could somehow sell carbon credits or if they were adequately compensated. Landowners expressed preference for tree-planting contracts over a pure market mechanism that would enable them to sell offsets without interference. They were reluctant to enter into contracts with environmental NGO's and prefer to work with government or even large companies that need to purchase carbon offsets. The size of the credits is determined by the increases in tree biomass, crop residues and soil organic matter brought about by the action. For smooth transition and implementation of the policies, the government must adequately compensate farmers for the switch to afforestation in California.

Scenario Description:

Restoration of native tree cover in California. The basic objective is to create a large carbon sink inside the state by converting rangeland to long term forest resources. In the present scenario, we consider only the cost of establishing the forests and their benefit in terms of carbon capture. The time horizon used in this study is too short to consider GHG effects and revenues from timber harvest and sale.

Modeling Approach:

Conversion of rangeland is assumed to be the result of investment decisions by the Cattle sector, purchasing services from the Forestry sector in an amount equal to independent estimates of annualized investment and O&M costs (see below). Mitigation of GHG is assumed to be phased into a steady state (based in independent estimates) over a 15 year time horizon. In addition to this basic framework, we add the following assumptions:

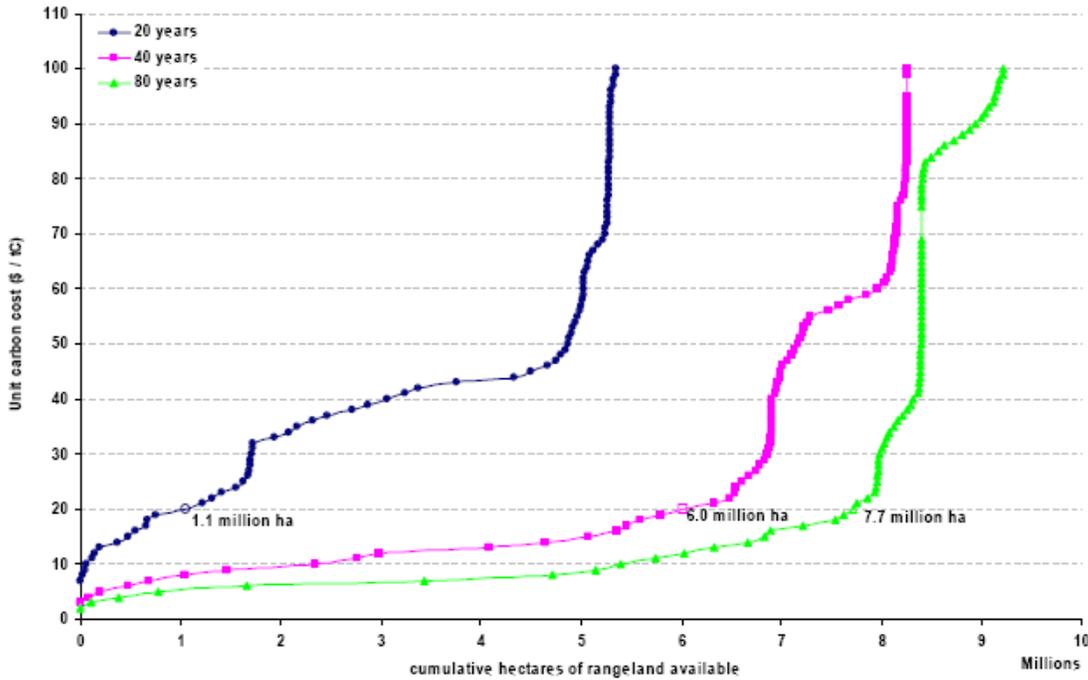
1. Capital markets efficiently annualize all costs and benefits at steady state levels
2. No timber revenue inside the current time horizon (2020)

Data Sources

The primary data include Marginal Abatement Cost (MAC) curves estimated by independent consultancies for the California Energy Commission.¹¹ The main resource for our current estimation is a report by Winrock International (Winrock:2004b), who produce extensive bottom-up data on sequestration potential from afforestation.

¹¹ MACs are surveyed in many sources in the economic literature. See, e.g. Baumol and Oates (1992) or McKittrick (1999).

Figure 4.4.1: Marginal Abatement Curve Estimates for Afforestation



Source: Winrock:2004b.

Generally speaking, we applied these technologies in two cumulative scenarios, aggregating individual MACs across the industry.¹² As in other sectoral policies, the first was a Moderate scenario with aggregate GHG mitigation approximating CAT (2005) estimates. The more Ambitious scenario incorporated all three afforestation approaches. The costs given in the Winrock report are shown in Figure 4.4.1 in year 2000 dollars. In order to make these costs compatible with the core economic data used by BEAR, we converted results from the 20 year scenario (leftmost MAC curve in the figure) to 2003 dollars using a GSP deflator series compiled by the California Department of Finance (2005) from U.S. Bureau of Economic Analysis data. This deflator

¹² The break-even carbon price is the value per unit of avoided GHG emissions (generally per metric ton of CO₂ equivalent) at which present value lifetime benefits of GHG mitigation measure equal the present value of lifetime costs. Often this is calculated as the difference of the present value of costs and benefits divided by lifetime GHG savings.

was applied to the costs for conversion, maintenance, measurement and monitoring. Note that the longer term scenarios in Figure 4.4.1 indicate much higher mitigation potential. We believe these deserve further examination, but have chosen a time horizon conforming to our economic scenarios for the present analysis.

Annual opportunity costs, meaning the annual foregone profits from cattle grazing, are discussed in the report but are not shown for the specific break-even levels for which other data are given. These values were derived by balancing the equation for the break-even prices with the other parameters provided in the report. Expenditures for land conversion, maintenance, measurement, and monitoring are assumed to flow from the livestock cattle sector to the forestry sector.

Finally, we have assumed the mitigation benefits of afforestation phase in linearly over the first ten years (2005-2015). In reality, implementation will depend on public and private actions and the biology of carbon uptake may not be linear from time of planting.

3.9 HFC Reduction Strategies

An important category of GHG emissions, hydroflourcarbon (HFC) gases are emitted in association with fabrication and use of refrigeration and air conditioning systems. Many of these gases have relatively high global warming potential, and they constitute an important target group for mitigation policy.

The scenarios considered here cover refrigerant and cooling technologies in motor vehicle air conditioning systems (MVACs), with the overall objective of assessing economic effects of reducing HFC gas emissions. These emissions may not be large in volumetric terms, but the high global warming potential (GWP) values of HFC makes their mitigation a priority and a source of substantial CO₂ equivalent mitigation. In the present analysis we consider eight HFC scenarios:

- Improved HFC-134a in MVACs
- HFC-152a in MVACs
- CO₂ for New MVACs
- Replace DX w/ Distributed System
- Secondary Loop
- Ammonia Secondary Loop
- Leak Repair
- Recovery (Refrig)

Data Sources and Description

The HFC scenarios are calibrated to bottom-up data produced for the California Energy Commission by ICF Consulting (ICF:2005a, b). This report assessed the cost and mitigation potentials of seven different categories of abatement measures related to

the reduction of non-CO2 GHGs. Data for several other measures incorporated in BEAR, as described below, were also drawn from this report. The measures shown here were examined for the Pavley analysis (CARB: 2004), a report prepared in response to Assembly Bill 1493. This bill adopted GHG mitigation targets for automobiles sold in California. However, the CARB report does not provide individual cost information on the three measures in this set. ICF used the most current industry data available, which may differ from the Pavley analysis. ICF projects very little penetration of these technologies by 2010 but some appreciable impact by 2020. Expenditures are assumed to be borne by the automobile manufacturing industry for increased cost of equipment from air conditioning equipment providers. Detailing estimates of adoption costs and mitigation potential are given in the Refrigeration-AC spreadsheet of BEAR_Data.xls.

The information provided in the ICF report readily enabled the estimation of key data points needed for the BEAR model. Each section in the report, covering a different category of measures, includes a table of capital costs, annual costs, and annual benefits (where applicable) expressed in real 2000 dollars per annual metric ton of CO2 equivalent avoided. Four additional tables display the annual reductions and break-even prices (calculated using the discounted abatement stream) for each measure. The four tables show the results using two sets of financial parameters (private cost, with a 20% discount rate and 40% tax rate, and social, with a 4% discount rate and 0% tax rate) for two different years (2010 and 2020). For BEAR, the social cost tables were used. The product of expected annual reductions and the costs and benefits per ton yields the total capital outlay and total annual costs and benefits for each measure. As with the Winrock report, all costs and benefit figures in the ICF study were scaled from year 2000 dollars to real 2003 dollars.

Cost and reduction potential for large stationary cold storage applications were also examined: distributed system coolers that use many compressors connected to a single cooling unit, secondary loop systems with a short coolant loop that exchanges heat to a secondary loop with cooling fluid, and a secondary loop with ammonia as the coolant.

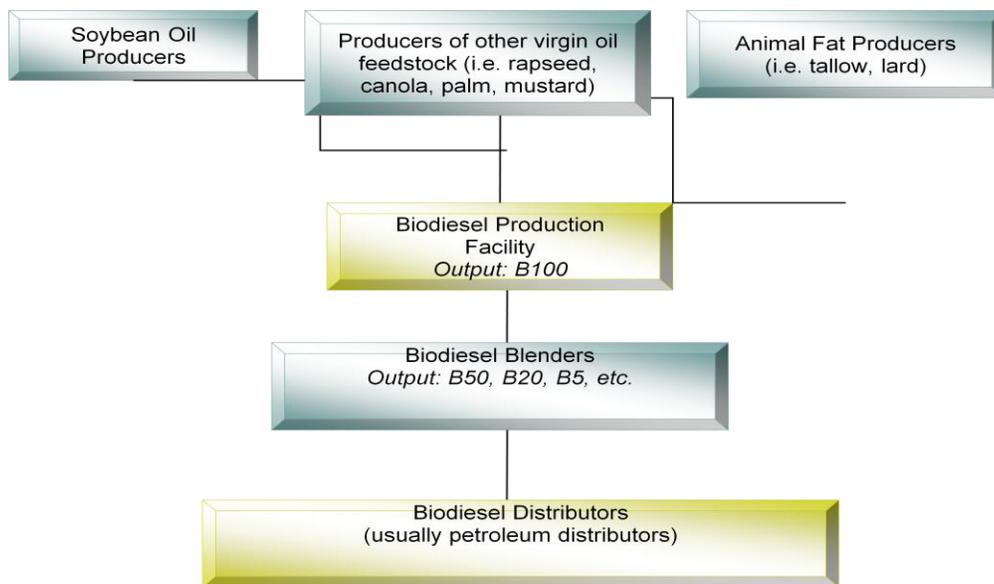
Two better practice measures were also analyzed: leak reduction in large stationary systems and greater recovery of refrigerant during servicing and disposal of small equipment. Costs for this measure are assigned to the wholesale trade sector and equipment revenues flow to the air conditioning equipment manufacturers.

3.10 Alternative Fuels - Biodiesel Blends

Sector Analysis

The biodiesel industry has emerged in the last two decades as a legitimate participant in the fuel provider sector. Since the establishment of the first industrial-scale plant in 1989, the industry has benefited from technology gains and fossil fuel reduction schemes in order to compete with the petroleum-based fuels. The product itself is biodegradable and non-toxic, and requires the use of a biological feedstock such as soybean oil. The following flowchart summarizes the primary players in the industry.

Figure 4.10.1: Biodiesel Industry Flowchart

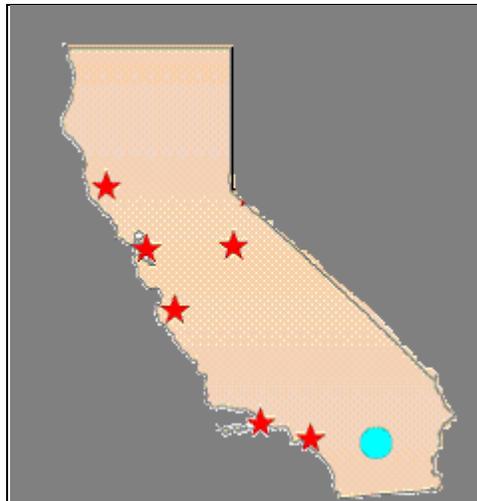


At the initial level are the producers of the feedstock, although it is important to note that 91.5% of biodiesel comes from soybean oil (Urbanchuk 2006,2). The production of soybean oil is a two-step process – the soybean farmers grow and harvest the crop and soybean oil producers convert it to usable oil. The feedstock is subsequently sent to the biodiesel production facility, where alcohol and a catalyst is added to the oil to chemically produce pure biodiesel (B100) and glycerol. In the third

stage, B100 is transported to the biodiesel blenders, where different diesel-biodiesel blends are created according to the demands of the clients, the biodiesel distributors.

The state of California currently has seven biodiesel production facilities. The eighth facility run by American Biofuels in Bakersfield, California burned down and has not been rebuilt. The most recent production plant, Blue Sky, began operating in February 2007. The primary consumers of California biodiesel include the federal government at national parks, cooperative units, fueling stations, and a few private companies.

Figure 4.10.2: Biodiesel Production Facilities in California



PRODUCTION FACILITY	LOCATION
Biodiesel Industries of Port Hueneme	Port Hueneme
Blue Sky Bio-Fuels, Inc.	Oakland
Energy Alternative Solutions, Inc.	Gonzales
Evergreen Biodiesel	Big Oak Flat
Imperial Western Products	Coachella
So Cal Biofuel	Anaheim
Yokayo Biofuels, Inc.	Ukiah

Source: National Biodiesel Board (2007)

Outline of Inputs

Inputs for Production of B100

The general reaction that produces biodiesel is an input of 100 pounds of oil and 10 pounds of methanol, producing 100 pounds of pure biodiesel and 10 pounds of the byproduct, glycerol (Howell 2006). The 10 pound of alcohol can be methanol or ethanol, but methanol is generally the more economical option. Furthermore, traces of alcohol are still left in the outputs, and therefore, the processing costs include equipment to remove the remaining alcohol from the glycerol.

Table 4.10.3: Variable Costs

Item	Cost (US\$)
Soy oil (crude, degummed)	0.52/kg (0.236/lb)
Methanol	0.286/kg (0.130/lb)
Sodium hydroxide	0.617/kg (0.280/lb)
Electricity	0.05/kW h
Natural gas	4.80/thousand cubic feet
Plant operating labor	2 Persons/shift at \$12.50/hour

Source: Haas (2004)

At a value of \$0.236 per pound for feedstock soybean oil, the marginal cost of biodiesel was about \$2.00 per gallon (Haas 2004). The single greatest contributor to this value was the cost of the oil feedstock, which accounted for 88% of total estimated production costs.

Table 4.10.4: Fixed Costs of a production plant:

Item	Cost (US\$, thousands)
Maintenance supplies	1% of capital costs, annually
General and administrative	0.50% of capital costs, annually
Wastewater treatment	50,000/year
Storage facilities (Oil storage tank, Biodiesel storage tank, glycerol storage tank)	1,200
Process equipment (reactor, wash tank, mixer, glycerol biodiesel separator)	2166
Utility equipment (cooling tower system, Steam generation system, electrical distribution system)	403

Source: Haas (2004)

The largest contributors to the equipment cost, accounting for nearly one third of expenditures, were storage tanks to contain a 25 day capacity of feedstock and product. The storage tanks for the storage of glycerol were also substantial, meaning that some firms may forgo the option of storing the byproduct.

To provide another perspective, the National Renewable Energy Laboratory performed its own study of the cost of biodiesel production in 2006, and found the costs to be significantly higher, at \$2.69/gallon for biodiesel produced from soybean oil.

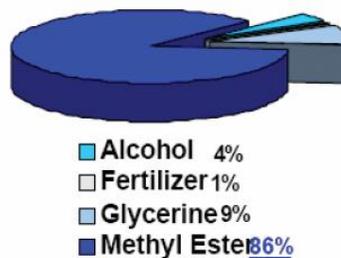
Table 4.10.5: Costs of Production

	Soybean Oil	Recycled Grease
Cost of Feedstock	\$2.22	\$1.09
Cost of Processing	\$0.47	\$0.47
Estimated Production Costs	\$2.69	\$2.69

Source: NREL (2006)

Outputs

Figure 4.10.6: Process Output Levels



Source: University of Illinois (2006)

Product Analysis

As depicted in the pie chart, 86% of the output from the chemical reaction is methyl ester, the chemical name for biodiesel. The fuel source is a light to dark yellow liquid, and the processed biodiesel in its pure form is denoted as B100.

Although the output of the reaction is B100, the purified form of biodiesel is rarely sold. This is due to the fact that most diesel engine manufacturers do not recommend the use of B100 on most of their engines (see section 12). Instead, B100 is blended with diesel to form different combinations of the two fuels. Additionally, the tax credit benefit, discussed in section 11, extends only to mixed forms of biodiesel, including B99.9. This creates a disincentive for producers to sell B100.

Analysis of the Byproduct

Glycerol is a byproduct in the transesterification process, and also has key implications in the production of biodiesel, because it can assuage the production costs by \$0.15/gallon (ARB 2005). Glycerol is a colorless, odorless [chemical compound](#) with a number of pharmaceutical applications including: in medical preparations as a means of improving smoothness and providing [lubrication](#), as a [laxative](#) when introduced into the rectum, and as a substitute for alcohol, as a solvent that will create a therapeutic herbal extraction. Synthetic glycerol used to be manufactured from [epichlorohydrin](#), but since the arrival of biodiesel, there has been a surplus of crude glycerol, and the price of glycerol has fallen (Pachauri 2006).

Production Statistics for a Representative Firm

Imperial Western Products, headquartered in Coachella, California, has recently integrated a biodiesel division to complement their primary services of manufacturing livestock feeds. They are the second largest production facility in California (behind

BlueSky Biofuels in Oakland¹³), with a capacity of 8 million gallons per year (MMgy). The following data is from a phone interview with Curtis Wright, Operations Manager of IWP.

Inputs:

IWP calculates its marginal cost per gallon of biodiesel by breaking the costs into two groups: operating costs and oil costs. They estimate that each gallon of biodiesel requires about \$0.50 to cover the labor and fixed costs. Imperial Western Products produces biodiesel from both soybean oil and recycled vegetable oil. "Soybean oil is selling for around 38 cents per pound delivered to Coachella. Used cooking oil is selling for 25 cents per pound delivered to Coachella. Both weigh about 7.6 pounds per gallon" (Wright 2007). Therefore, given that it takes 1.03 gallons of used cooking oil to make one gallon of biodiesel and 1 gallon of soy oil to make one gallon of biodiesel, IWP spends about \$2.89/gallon on biodiesel from soybean oil and \$1.96/gallon on biodiesel. If you include the overhead costs (+\$0.50) and the biodiesel tax (-\$1 for soybean oil or - \$0.50 for used cooking oil), then the final marginal costs are \$2.39/gallon and \$1.96/gallon.

Outputs:

IWP produces B100, but also provides blended mixtures of any combination, as requested by the petroleum distributors.

Clients:

Almost 90% of the company's clients are petroleum distributors. The rest are centrally fueled fleet users (construction companies, mines, cement companies, etc.) and cooperatives.

¹³ BlueSky Biofuels did not start producing until February 2007)

Greenhouse Gas Emissions

The purest form of B100 contains 10 percent oxygen by weight. Even after B100 is blended with diesel to form mixed blends used in diesel engines, the presence of oxygen in the fuel leads to a reduction in emissions of hydrocarbons (HC), carbon monoxide (CO), and particulate matter (PM) (McCormick 2006, iii). Despite these environmental benefits of biodiesel, a study by the EPA (2002) showed a 2% increase in Nitrous Oxide emissions (NO_x), and many states have subsequently considered banning the use of biodiesel in fear of the increase of NO_x .

In an attempt to set straight the nebulous effects of biodiesel on NO_x emissions, the National Renewable Energy Laboratory (2006) headed a study to evaluate the claims of the EPA. First, they found that post-2002 published engine testing studies “found an average change in NO_x from B20 to be 0.6%+- 2.0%” (NREL 2006), meaning that the results are statistically insignificant. In their own study, the researchers tested eight heavy-duty diesel vehicles, including three transit buses, two school buses, two Class 8 trucks, and one motor coach. On average, they reported that B20 caused PM and CO emission reductions of 16 and 17% respectively, and a reduction in HC emissions of 12% (relative to petroleum-derived diesel fuel). The most important finding was that NO_x emissions on average did not change (0.6% +- 1.8%), suggesting that the EPA’s report of increases in NO_x emissions should be reconsidered.

A definitive conclusion about the relationship between NO_x and biodiesel has not been reached, but the most recent studies on the impact of biodiesel on emissions have all shown that the changes in NO_x due to biodiesel are not statistically significant. This uncertainty, nonetheless, is still an important factor considered in biodiesel policy debates, and serves an obstacle in the passage of pro-biodiesel initiatives.

Analysis of Current Technologies

If we simplify the production model to only include two input costs, the costs of oil and operating costs¹⁴, then we can evaluate the potential efficiency gains from innovation that can drive down each of the two components of the costs of production.

The cost of oil ($\text{Price}_{\text{oil}} \times \text{Quantity}_{\text{oil}}$) depends on the quantity demanded of biodiesel, and the only available avenue by which biodiesel producers could achieve efficiency gains is producing more biodiesel with less oil. However, given the laws of thermodynamics, the outputs of the reaction are proportional to the inputs, and therefore, little can be done to produce more with a set quantity of inputs. The price of oil is determined by the market value, but technology gains in the soybean harvesting sector could lower prices.

The better part of innovative technologies in the industry aim at lowering the operating costs attributed to processing biodiesel (i.e. electricity, water, energy). The differences in choice of processing unit technologies can lead to differences in operating costs of about \$0.10/gallon (Wright 2007). For example, American Biofuels in Bakersfield, California utilized the “continuous flow process technology,” stating that it reduces the footprint needed for production, while also reducing maintenance and operational costs, capital construction costs and construction time” (Bryan 2004). The continuous flow process has displaced the batch fermentation method in California biodiesel plants, and does not require the separation of single batches of biodiesel and glycerin.

Greenline, a California-based technology firm, has successfully propagated this continuous flow technology to many of the biodiesel production facilities in California (i.e. American Bio-fuels). Their MK-series processing units remove all water content in the first stage of processing, which allows it to work without excessive water and energy consumption. It also allows a producer to avoid the financial burden of water-regenerating hardware (Bryan 2005).

¹⁴ Operating costs include the price of energy, natural gas, labor, alcohol, catalyst, and storage facilities.

Production Capacity

Although widely utilized in Western Europe, total biodiesel use in the United States amounts to about 250 million gallons (National Biodiesel Board 2007), as compared to the nationwide on-highway diesel consumption of 39 billion gallons (Energy Information Administration 2007). However, given the fact that biodiesel can be utilized in any diesel-engine, the transition from diesel to biodiesel requires little change in infrastructure. Therefore, it follows that the potential for growth in the biodiesel industry depends on the level of diesel consumption in a particular region. California is the second-largest consumer (after Texas) of petroleum diesel (Rougle 2005), and could expand into more diesel-engine using sectors (i.e. ships, fleets) if it could expand its production capacity. Before the February 2007 addition of the Blue Sky Bio-Fuels facility, the state's 2005 biodiesel production capacity was only 16 million gallons/year, representing 1/2 percent of CA diesel production (Cal EPA 2005, 15)

Following construction of the Oakland production facility, California is now capable of producing over 32 MMgy, but this number still dwarfs the CA diesel demands¹⁵

¹⁵ 2004 diesel consumption in CA was \$2.9 billion, or approximately 1,036 million gallons, meaning that even if each production facility were to produce to its maximum capacity, the amount would only cover about 3% of biodiesel needs.

Table 4.10.7: California Production Capacity

PRODUCTION FACILITY	PRODUCTION CAPACITY (GALLONS PER YEAR)	TYPE OF FEEDSTOCK
Biodiesel Industries of Port Hueneme	3,000,000	Multi Feedstock
Blue Sky Bio-Fuels, Inc.	20,000,000	Multi Feedstock
Energy Alternative Solutions, Inc.	500,000	Multi Feedstock
Evergreen Biodiesel	50,000	Recycled Cooking Oil
Imperial Western Products	8,000,000	Multi Feedstock
So Cal Biofuel	1,100,000	Yellow Grease
Yokayo Biofuels, Inc.	200,000	Recycled Cooking Oil
	Total: 32,850,000	

Source: National Biodiesel Board (2007)

One optimistic note is that the availability of feedstock in the United States is not a limiting factor on the growth of the biodiesel industry. With a one-to-one input-output ratio (one gallon soybean oil → one gallon biodiesel), the 18.340 billion pounds of annual soybean oil has the potential to produce 2.413 billion gallons of biodiesel.¹⁶ Moreover, recycled cooking oils, animal fats, and other types of vegetable oils can be used to produce biodiesel, and a table of the annual production of other US vegetable oils is listed below. Of course, the biodiesel industry could not approach this potential of 2.413 billion until the aggregate capacity of the production facilities nears this number (currently around 750 MMgy).

¹⁶ One gallon of soybean oil weighs 7.6 pounds; (1 gallon/7.6 pounds) * (18.340 pounds) = 2.413 billion potential gallons of biodiesel

Expected Trends

Table 4.10.8: Total Annual Production of US Oils

Vegetable Oil Production (Billion pounds/yr)	
Sunflower	1.000
Cottonseed	1.010
Corn	2.420
Others	0.669

Source: Pearl (2002)

In short, a maximum production capacity of 32 MMgy only meets about 3% of California’s diesel needs, and the actual biodiesel/diesel consumption ratio in California is even less.

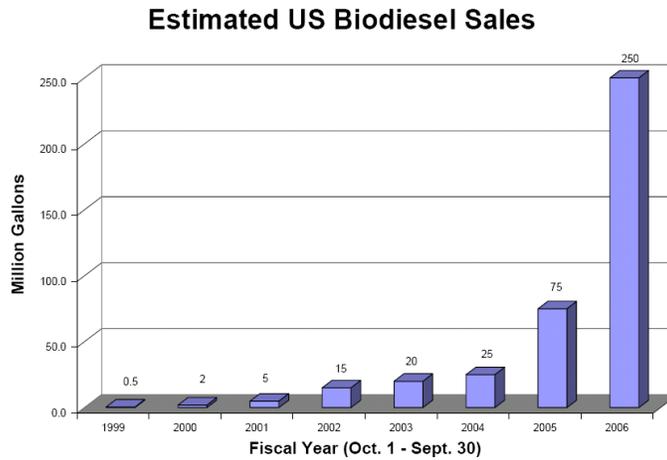
The previous section exposed the minimal presence of biodiesel in the California diesel-provider sector, but does this imply extensive room for growth, or an early death of an infant industry? Part of the outcome will depend on the success of the pioneer biodiesel firms in California. American Bio-fuels, one of the earlier production plants, suffered from a fire and has decided to not rebuild another plant (a *de facto* exit from the industry). Also, the new trend in the California industry appears to be building smaller production facilities. The technology section introduced Greenline’s MK-series units, and the company says that with this technology, a 1 MMgy processing unit can be had for as little as \$150,000 (Bryan 2005). In fact, Greenline, at this moment, is under contract to build small-scale “containerized” plants for an undisclosed client (Bryan 2005).

Despite these valiant efforts, it does not seem logical to take the small-scale approach when trying to meet the 1.4 billion diesel demand in California. The biodiesel industry will not flourish unless it can build large-scale, efficient plants that can bring the

cost of biodiesel in line with petroleum-derived diesel. This is an interesting form of competition, because the most commonly used form of biodiesel is B20, with 80% diesel.

The issues of supply and demand for biodiesel will be addressed in the last section, but we can see in the following graph that biodiesel demand has risen sharply in the last two years, mostly due its increased availability.

Figure 4.10..4: Biodiesel Market Size



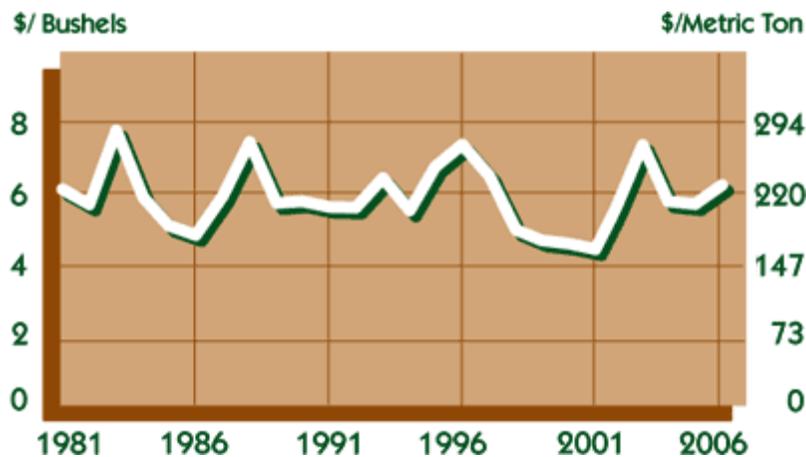
US Biodiesel Consumption

Year	Million Gallons
1999	0.5
2000	2.0
2001	5.0
2002	15.0
2003	20.0
2004	25.0
2005	75.0
2006	225.0

Source: National Biodiesel Board (2007)

Meanwhile, the price of the principal input of biodiesel, soybeans, has been relatively stable in the last few decades. If the price stability were to hold true, then we can return to the technological innovations argument that with stable soybean oil prices, decreases in overhead/processing costs from improved technology can reduce the overall price of biodiesel. The last two years have shown price decreases (see next section) in B99-100 and B20, but the price of B20 were only lower than petroleum-derived diesel twice in the five reports.

Figure 4.10.9: U.S. Soybean Prices Paid to Farmers 1981-2006



Source: USDA

Relationship with the Diesel Industry

Based on the commentary by various diesel-related firms in response to the ARB biodiesel policy, one can construe that the diesel producers do not see the biodiesel industry as legitimate threat, and some diesel-engine makers see the opportunity to work in conjunction with biodiesel producers (i.e. making B100I-compatible engines). Biodiesel in its infant stage represents a minimal fraction of diesel consumption

(estimated at 0.5% in 2005 and at most 3% for 2007). Furthermore, the nature of the blended products points to collaboration rather than competition.

In order to determine if biodiesel and diesel are complementary or substitute goods, we would have to assess the cross-price elasticity between the goods. Unfortunately, an appropriate statistic is not readily available, but one should consider the following:

- 1) Since B100 is not priced competitively with diesel, is not viewed as compatible with all diesel engines, and does not reduce GHG emissions as sharply as lower blends, then overall, B100 should not have a strong relationship with a diesel (i.e. changes in diesel price do not drastically change the quantity demanded of biodiesel).
- 2) The increase in the price of diesel often results in an increase in the quantity demanded of biodiesel, because diesel producers often sell low biodiesel blends (<B5) rather than pure diesel.¹⁷ Moreover, Imperial Western Products, Inc. has noted rises in sales after price increases in diesel. This would imply that the products are substitutes, but in an unorthodox way (partial substitution of less than 5% rather than full substitution)
- 3) The case for complementary goods stems from the fact that the biodiesel blends (i.e. B20) and diesel would be complementary, since a decrease in the price of diesel would mean a decrease in the price of the inputs of B20 (80% is diesel), thereby increasing quantity demanded. Despite this, diesel and B20 are usually seen as competitors, and for most petroleum distributors, the retail price of B20 and diesel is what determines the product that they choose.

Table 4.10.10: Biodiesel and Diesel Prices

PRICE REPORT DATE	BIODIESEL (B99-100) NATIONAL AVERAGE	BIODIESEL (B20) NATIONAL AVERAGE	DIESEL NATIONAL AVERAGE
Mar-07	\$3.31	\$2.53	\$2.63
Oct-06	\$3.31	\$2.66	\$2.62
Jun-06	\$3.71	\$2.92	\$2.98
Feb-06	\$3.76	\$2.64	\$2.56
Sep-05	\$3.40	\$2.91	\$2.81

Source: US Department of Energy: Energy Efficiency and Renewable Energy

¹⁷ Biodiesel blends less than B5 are considered to be diesel, and the diesel producers simply label biodiesel as a lubricant additive.

It can be assumed that since B100 and other biodiesel blends are not consumed in large quantities, diesel producers do not view the industry as a competitor, and therefore, do not have an incentive to stagnate the growth of the biodiesel industry in California.

Summary of Relevant CAT/ARB Policies

The California Air and Resource Board first presented their “Suggested ARB Biodiesel Policy” in May 2006, and clarified some ambiguously defined terms in their second copy, released in November 2006. The following is a summary of the standards established in the first edition:

- Blends B20 and below must comply with California diesel standards.
- The policy would not address potential No_x increase
- The policy would not address higher blends of biodiesel
- Blended biodiesel used in on/off road diesel vehicles must meet the American Society of Testing and Materials (ASTM) 6751 requirements [15ppm maximum of sulfur], AND be under 20% biodiesel by volume
- Only vehicles using CARB verified retrofit devices can use blends > B20

In Executive Order S-06-06, Governor Schwarzenegger established the target to produce a minimum of 20 percent of the state’s biofuels (ethanol and biodiesel) within California by 2010, 40 percent by 2020, and 75 percent by 2050.

Since September 1, 2006, California has redefined ultra-low sulfur diesel (ULSD) to mean less than 15 ppm, an allowance much lower than the previous standard of 500 part per million.¹⁸

¹⁸ The EPA also proposed this standard in [October 15, 2006](#).

Biodiesel Tax Credit

Terms and Conditions

The volumetric biodiesel tax credit was passed as part of the JOBS Act of 2004, and became effective on January 1, 2005. The excise tax credit may be claimed by either the producer, importer (distributor), or blender. The majority of operating California biodiesel facilities function as both producers and blenders, and these firms must make this apparent in the IRS Form 637 (National Biodiesel Board 2007). Furthermore, since the process to declare oneself as an importer is both lengthy and meticulous, most California distributors require that the price of the biodiesel already reflect the excise tax credit (Wright 2007). This tax incentive equates to one penny per percent of biodiesel in a fuel blend made from agricultural products like vegetable oils (i.e. soybean oil), and one-half penny per percent for recycled oils.

An important caveat to the tax credit legislation is that unblended B100 does not qualify for the excise tax credit. However, the definition of a “biodiesel mixture” is a mixture of biodiesel and diesel fuel containing at least 0.1% of diesel fuel. Therefore, producers of B100 will often sell a mixture of 999 gallons of biodiesel and 1 gallon of diesel fuel to make a B99.9 blend. In this case, B99.9 from soybean oil would receive \$1/gallon tax credit whereas B99.9 from recycled cooking oil would receive \$0.50/gallon.

Implications

Although the tax credit means heavier use of soybean oil (91.5% of biodiesel) under the status quo conditions, the tax credit will expire at the end of 2008. Assuming that the prices of inputs stay constant and that no act of legislation replaces the tax incentive, then the marginal cost of producing biodiesel from soybean oil should exceed the MC from using recycled cooking oil. Thus, we may see a shift in inputs away from soybean oil, particularly in facilities using multi feedstock.

Economic Implications of the Biodiesel Policies

Supply-side factors: competitiveness and barriers to entry

The California biodiesel industry is comprised of seven firms, ranging from very small (50,000 gallons) to large scale (20 MMpy). Although technology companies like Greenline have been working to allow for small-scale plants to enter the industry, the fixed costs, similar to most renewable energy/natural resources industries, are extremely high. For example, the cost of storage facilities for an average plant is already over one million dollars. Based on the steep input prices, the biodiesel industry is not particularly profitable. Consequently, there is a fear among biodiesel executives that it will be difficult to maintain financial stability without the tax excise credit, which is due to expire in a half year.

At this early stage of the industry, the firms are not competitive amongst each other, but rather jointly working together to propagate the industry as a whole. In example, the individual biodiesel companies focus on research and development that support the safe usage of biodiesel.

Demand-side Factors: Consumer Analysis

Although petroleum distributors are the direct consumers of the biodiesel produced in California plants, the focus of the consumer analysis should be on the eventual users of biodiesel, namely the users of diesel-engines. Major diesel-engine users include those involved in on-road transportation, farming, rail transportation, marine shipping, off-road uses (mainly mining, construction, and logging), electric power generation, and military transportation.

In California, the main consumers of biodiesel can be separated into five categories: the federal government, utilities, municipalities, private companies, and individuals. For example, in 2002, Fetzer Vineyards began using biodiesel blends in all of its 15 field tractors to help lower greenhouse gas emissions. By 2003, they were using biodiesel in half of their 12 big rig trucks that haul wine and glass (Fetzer Vineyards 2005).

Table 4.10.11: Biodiesel Users in California

FEDERAL GOVERNMENT	UTILITIES	MUNICIPALITIES	PRIVATE COMPANIES	INDIVIDUALS
29 Palms	PG&E	City of Berkeley	Fetzer Winery	Fuel Cooperatives
Travis AFB	SoCal Edison	Alameda County	Thanksgiving Coffee	Card lock stations
Channel Islands Nat'l Park	SDG&E		JR Cardenas Construction	
Marine Corps Station				
Vandenberg AFB				
Port Hueneme Naval Base				

Short-run/Long-run predictions: pricing fluctuations

The ARB Biodiesel policy does not play favorably into the hands of most biodiesel firms, since it requires that all blends B20 and below meet California diesel fuel standards. The standards for diesel have become stricter in previous years, specifically the stipulation that diesel have less than 15ppm sulfur. Therefore, biodiesel producers could attempt to produce B20.1 (201 gallons of biodiesel, 799 gallons of diesel), but the primary issue is that they need to work in conjunction with the diesel-engine manufacturers. Currently, the major manufacturers have released statements about their recommendations for biodiesel, including:

- EMA: up to B5
- Caterpillar: some engines approved for B100, others limited to B5
- Cummins: Engines approved for B5
- Detroit Diesel Corporation: Approve up to 20% biodiesel if produced from virgin soybeans
- John Deere: Engines approved for B5
- Bosch: Engines approved for B5 and meet ASTM D6751
- Delphi: Engines approved for B5 and meet ASTM D6751
- Stanadyne: Engines approved for B5 and meet ASTM D6751

Source: NREL (2003)

Caterpillar is the only company that has approved the use of B100 in their engines, and Detroit Diesel Corporation allows up to B20. The rest of the engine manufacturers only approve blends of B5 or less, which can be viewed as a severe problem in promoting the use of biodiesel. Given the suggested ARB biodiesel policy, anything less than B20 will need to meet all diesel standards, meaning that the increasingly stringent diesel standards will hinder the production of biodiesel. Given these circumstances, it seems unlikely that biodiesel blenders, also without the tax credit, will be able to competitively price B20.

A possible option that biodiesel firms may pursue is to collaborate with diesel manufacturers to jointly create biodiesel-compatible engines for higher blends (>B20). The successful marketing of these engines will undoubtedly increase the demand for biodiesel. Another option of biodiesel firms is to lobby for the renewal of another tax credit program, either at the federal or state level.

3.11 California Solar Initiative

Sector Analysis

With only about 10% of California's energy being renewable, there is high growth potential for the solar-cell production and photovoltaics installation industries. The solar technology industry is mainly located in the Silicon Valley, where high-tech companies are scrambling to create more efficient, low cost solar-cells from silicon. Major PV system installers are located throughout California. To further promote the consumption of solar energy, the California Energy Commission and the California public Utilities Commission are giving incentives for Californians to install solar electricity systems in existing and new residential and commercial buildings through the California Solar Initiative,. With increasing consumer interest in solar energy, new technologies, and incentives, capital and installation costs will continue to decrease, which will allow more people to adopt this type of energy and reduce carbon dioxide emissions.

Production Statistics

A photovoltaic system consists of photovoltaic module, which is an assembly of solar cells on a panel that is used to absorb sunlight and then converted into electricity. A group of these PV modules is called an array.

The ability for solar energy to expand, the price of solar energy must be reduced. This has increased the research and development in "thin film" solar cells, which use little or no silicon and may significantly reduce costs. Because thin-film cells are very efficient at absorbing light, they require less than 1% of the semiconductor material needed by the common solar-cell. Currently, about 40% of the cost of a conventional module goes on silicon. Making a thin-film module will reduce most of the costs.

America's National Renewable Energy Laboratory. Thin-film technology also offers the potential for faster manufacturing processes and higher levels of automation, which cut costs (the Economist 2007).

Technology

There are two types of solar cells that are manufactured to absorb sunlight. Crystalline Silicon Solar Cells, which make up 93% of the market share and Thin Film Solar Cells, which make up the remaining 7%. Crystalline Silicon Solar Cells are made of two types of crystalline silicon (monocrystalline and multicrystalline silicon wafers). Thin Film Solar Cells are made of amorphous silicon, which is much more malleable, but efficiencies deteriorate once it is worn out. The technology that is most successful in achieving low manufacturing costs in the long run is likely to be the one that can deliver the highest stable efficiencies (probably at least 10%) with the highest process yields.

Average residential rooftop PV power system installed in Sacramento, CA will produce 2,890 kWh of electricity per year, and eliminate 3,583 pounds of carbon dioxide and one pound of nitrous oxide emissions in the first year (Fourer 2001). Although the costs of producing solar cells is very expensive, decades of research have improved the efficiency of silicon-based solar cells from 6% to an average of 15% today. Improvements in manufacturing have reduced the price of modules from about \$200 per watt in the 1950s to \$2.70 in 2004. Most speculate that the expected price of solar energy will be cost-competitive with grid electricity.

Industrial Applications

Solar Energy has been the power supply of choice for Industrial applications, where power is required at remote locations. At remote locations, these applications of solar power are economic, even without subsidies or incentives (solarbuzz.com).

Central Power Stations

Central Power applications use solar energy in the same configuration that a Utility would utilize a major power station. This is distinctly different from the other applications on this page, which are known as “distributed power” or power distributed in small aggregate amounts of power, usually close to the point of use of the electricity. This is less efficient than individual generations of solar, where extra generated solar electricity is credited by either PG&E, SDG&E, or SCE.

Central solar power generation plants have been installed in Italy, US and Spain, for example. However, all these plants are “pilot” in nature. Central solar plants may be attractive under certain conditions, but they do not capitalize on the competitive strengths of solar PV in terms of its flexibility of location (i.e. being located close to the customer) and its ability to be installed incrementally (solarbuzz.com).

Commercial Buildings

There are many feasible ways to include solar energy in commercial buildings. For example, on an office building, atria can be covered with glass/glass PV modules, which can be semi-transparent to provide shaded light and to absorb sunlight. On a factory, large roof areas have been the best location for solar modules. If they are flat, then arrays can be mounted using techniques that do not breach the weatherproof roof membrane. Also, skylights can be covered partially with PV modules.

The vertical walls of office buildings provide several opportunities for PV incorporation. The first is as a “curtain wall system” that constitutes the weather barrier of the building. The second, as a “rainscreen overcladding system” where there is an underlying weather barrier that provides the insulation and sealing of the building.

The third option is to create sunshades or balconies incorporating a PV System.

Sunshades may have the PV System mounted externally to the building or have PV cells specially mounted between glass sheets comprising the window (Solarbuzz.com).

A study was done by the energy Technical Support Unit (ETSU) in the United Kingdom on low-energy office buildings. Results show that the average reduction in energy consumption between the low-energy design and the reference solar office building was 52%, giving energy cost reduction of 49%. The capital costs for construction were similar to the conventional building, and the carbon dioxide emissions were reduced by 15% (Prasad & Snow, 2005).

Cost & Industry

The San Jose solar-cell manufacturer, SunPower Corp. more than tripled its sales to \$236.5 million for 2006 from \$78.6 million in 2005. Like most solar-cell manufacturers, SunPower Corp. is hoping to reduce costs by 50 percent in 2012. SunPower's quarterly research-and-development spending rose 29 percent during 2006, and much of the \$2.6 million the company spent on R&D during the final quarter of 2006 is focused on reducing production costs and improving efficiency (Tribble, 2007). However, despite early breakthroughs in solar-cell production, solar energy costs are still two to three times higher than the electricity grid at about 20 to 40 cents/kilowatt-hour (LaPedus, 2007). However, the exact cost of solar electricity depends on the location and the cost of finance available to the installer of the system. Estimates portray that in order for "the solar industry to make a systematic penetration in to the electricity segment, installed solar system costs will need to drop from around \$8-10/Wp to \$3/Wp. This would continue the trend shown above of falling solar electricity costs over the last twenty-five years. A push to \$3/Wp would bring solar energy costs from the present 30 cents per kilowatt-hour to around 10 cents per kilowatt-hour, which would allow it to compete more strongly with other renewables and capture a significant share of the electricity market" (solarbuzz.com). See Figure 2.

For typical home, a 3-kW grid-tied solar system costs about \$17,500 to install after California's rebate before tax breaks are deducted, which will take an average home three to seven years to breakeven with the installation cost (LaPedus 2007). Industry officials expect *California's* solar program to influence the PV market globally, "I believe *California* will become an aggressive solar market much like Germany and Japan, two countries widely known as solar energy users," says George Douglas of the National Renewable Energy Laboratory in Colorado. Material and installation can cost \$9 to \$10 per kilowatt. PowerLight Corp., Berkeley, Calif., reports that the payback period for a 140-kW system it installed for a Napa, Calif., vineyard was four years (ENR).

Homes not located on the grid system, should install solar electricity systems. According to SolarBuzz.com. if a house is further than 1km from the nearest grid line then it is likely to be cheaper to install a PV system.

For commercial projects, developer and mechanical engineer jointly involved in making energy source decisions.

About 59% of the world solar product sales installed within the last 7 years were used in applications that were connected to the electricity grid. Photo-voltaic systems can be very cost competitive in off-grid industrial locations. See figure 1. (SolarBuzz.com).

Perspectives & Conclusion

The solar energy and solar-cell industry in California is very welcoming of the California Solar Initiative, because it makes the high cost of installing a PV system for consumers and businesses less expensive through incentives. With higher demand and adoption of solar energy, firms can generate more profits and receive investments to fund further research to reduce costs, making it more widely available and affordable for households and businesses. In Figure 6, the improvements in the thin-cell solar cell will cause solar energy to grow exponentially.

Anyone is eligible for solar rebates given by the CPU or CEC, but low income families will be given extra incentives. The New Solar Homes Partnership will be directed with the CEC to work with builders and developers to incorporate high levels of energy efficiency and high-performing solar systems to create a self-sustaining solar market. This program is specifically targeted towards single family, low-income, and multi-family housing markets. In order to qualify for the rebates, homes must also be energy efficient. Currently, low-income families get 25% more rebates to install solar energy systems in their new homes. Some low-income families may be unable to qualify for loans to finance their solar energy systems or afford to spend an initial high cost before the system pays for itself. Apart from these deterrents, buyers may need to increase performance by installing other housing fixtures such as new windows, shades, and shutters.

If firms continue to find breakthroughs in cutting down solar-cell production costs, and consumers become more aware of the benefits of solar energy systems, the prices will go down and more people will adopt the technologies. This will bring California into the forefront, if it isn't already of solar technology in the United States and in the world.

Figure 4.11.1. Solar Energy: Competitive Positioning by each Market Segment of world solar product

	Solar markets (av of large 5 years)	Solar Price/Competing Energy source
Remote Industrial	17%	0.1-0.5 times
Remote Habitational	22%	0.2-0.8 times
Grid Connected	59%	2-5 times
Consumer Indoor	2%	n/a

Source: PV Technology Roadmap Workshop 1999, modified by Solarbuzz

Figure 4.11.2. Guideline Electricity Generation Costs Today (cents/kWh)

Combined cycle gas turbine	3-5
Wind	4-7
Biomass gasification	7-9
Remote diesel generation	20-40
Solar PV central station	20-30
Solar PV distributed	20-50

Source: PV Technology Roadmap Workshop 1999, modified by Solarbuzz

Figure 4.11.3:

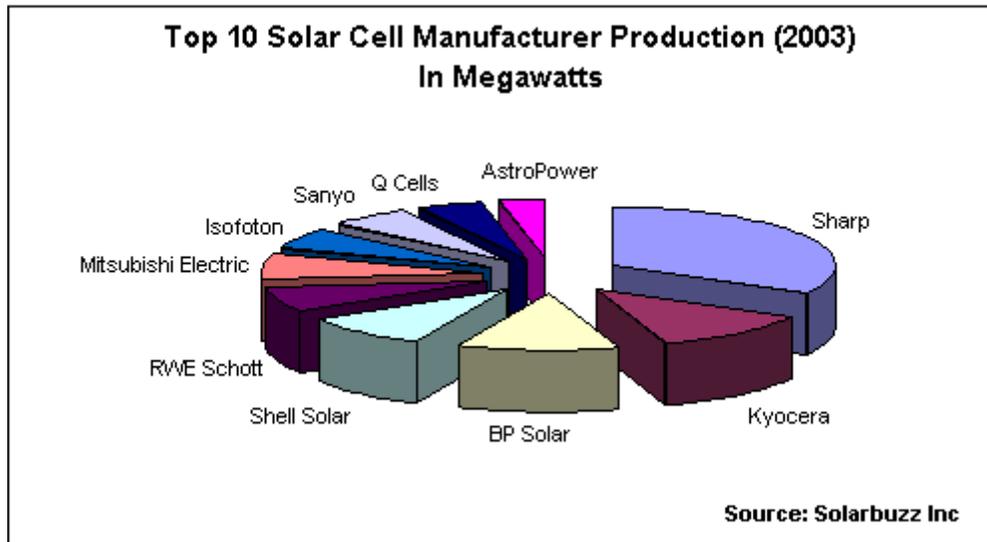
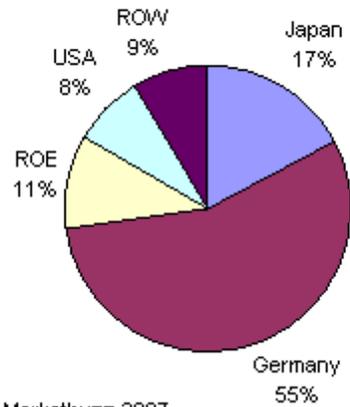


Figure 4.11.4:

2006 PV Installations By Market

Total: 1744 MW



Source: Marketbuzz 2007

Figure 5: Photovoltaic Supply Chain



Figure 4 - A wide variety of manufacturers, businesses, regulatory boards, and educational organizations help bring high-quality solar-electric power to consumers.

Source: Sandia. http://www.sandia.gov/pv/docs/PDF/PV_Road_Map.pdf

Figure 6: PV Industry Output Projections

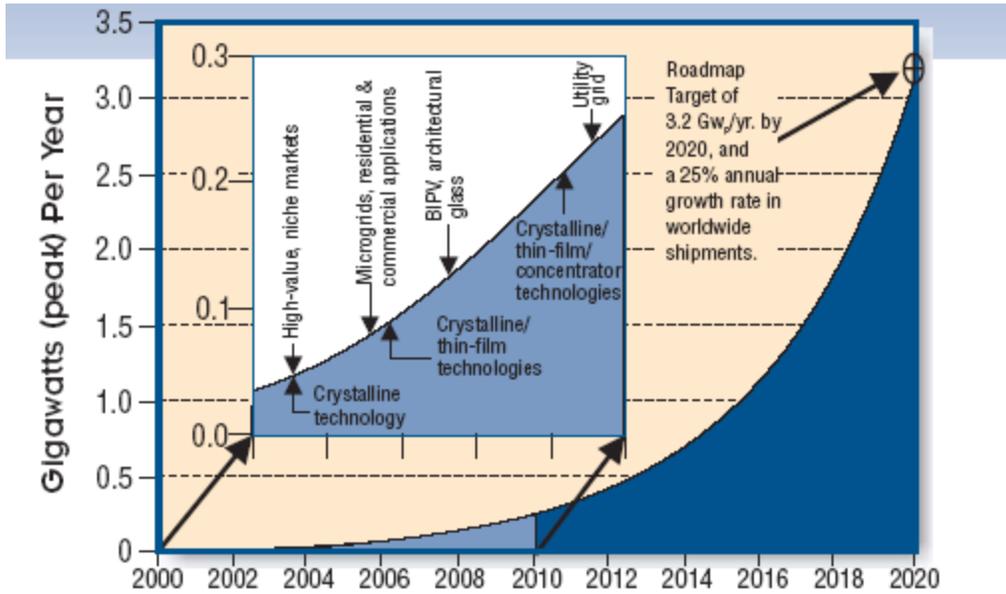
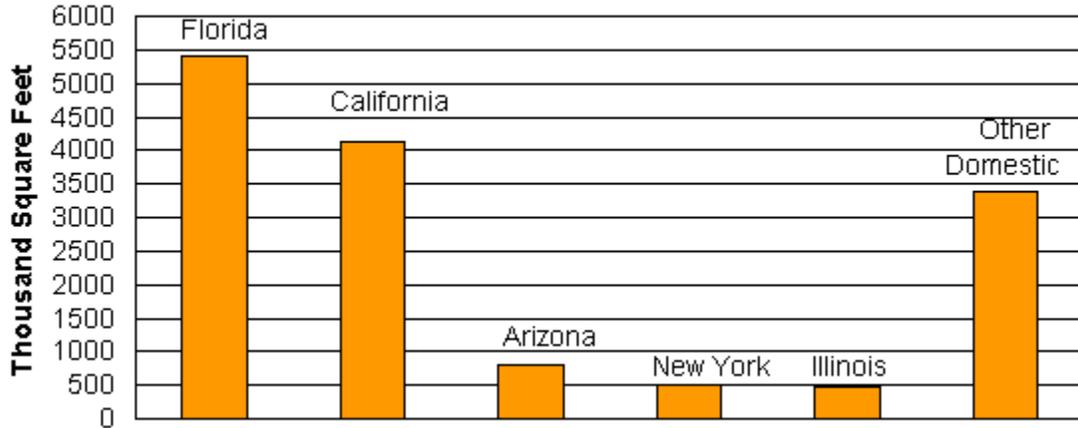


Figure 8 - Goal for U.S. manufactured PV modules installed in U.S. domestic applications, for a U.S. market share that increases linearly from 30% to 50% from 2000 to 2020. Inset shows the evolution of the impact of various markets and technologies.

Figure 7. Source: California Energy Commission

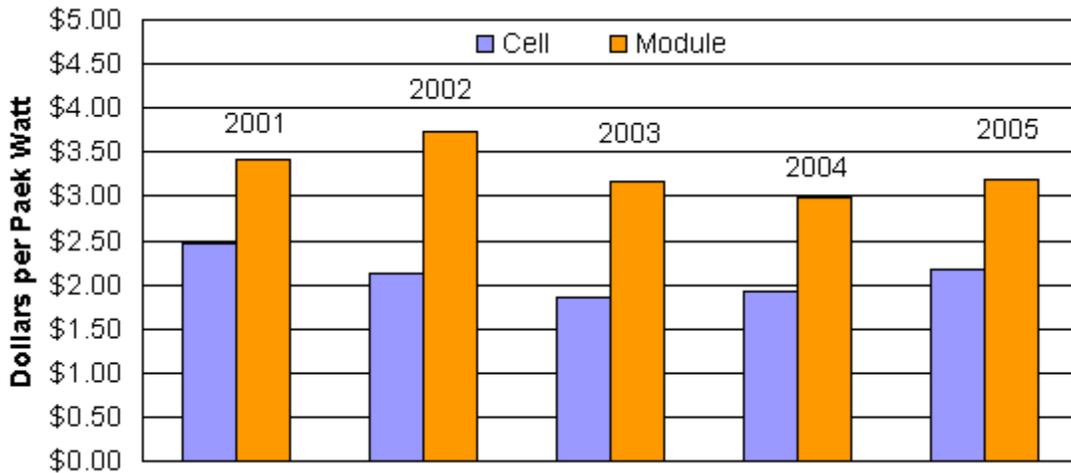
Cost of Electricity Generation 1994 Compared to 2003		
Technology ^[1]	1994 Cost of Electricity (cents/kWh)	Current Cost of Electricity (2003 data, cents/kWh)
Hydroelectric ^[2]	0.31 to 4.4	0.25 to 2.7
Nuclear ^[3]	2.5	1.4 to 1.9
Coal ^[4]	1.9 to 2.3	1.8 to 2.0
Natural Gas ^[5]	2.5 to 11.7	5.2 to 15.9
Solar ^[6]	16.4 to 30.5	13.5 to 42.7
Wind ^[7]	7.6	4.6

Figure 8: Solar Thermal Collector Shipments Top Domestic Destinations, 2005



Source: Energy Information Administration, Form EIA-63A, "Annual Solar Thermal Collector Manufacturers Survey."

Figure 9. Photovoltaic Cell and Module Average Prices, 2001-2005



Source: Energy Information Administration, Form EIA-63B, "Annual Photovoltaic Module/Cell Manufacturers Survey."

<http://www.eia.doe.gov/cneaf/solar.renewables/page/solarreport/highlights10.html>

Contacts List - Solar Thermal Collector Manufacturers	Address
Fafco Inc	435 Otterson Dr, Chico, CA 95928
Heliodyne Inc	4910 Seaport Avenue, Richmond, CA 94804
Industrial Solar Technology	4420 Mcintyre Street, Golden, CO 80403
Radco Products, Inc.	2877 Industrial Parkway, Santa Maria, CA 93455
Sealed Air Corporation	3433 Arden Road, Hayward, CA 94545
SolarRoofs.com	5480 Gibbons Drive, Suite G, Carmichael, CA 95608
Sun Quest	1555 Rankin Avenue, Newton, NC 28658
SunEarth Inc	8425 Almera Avenue, Fontana, CA 92335

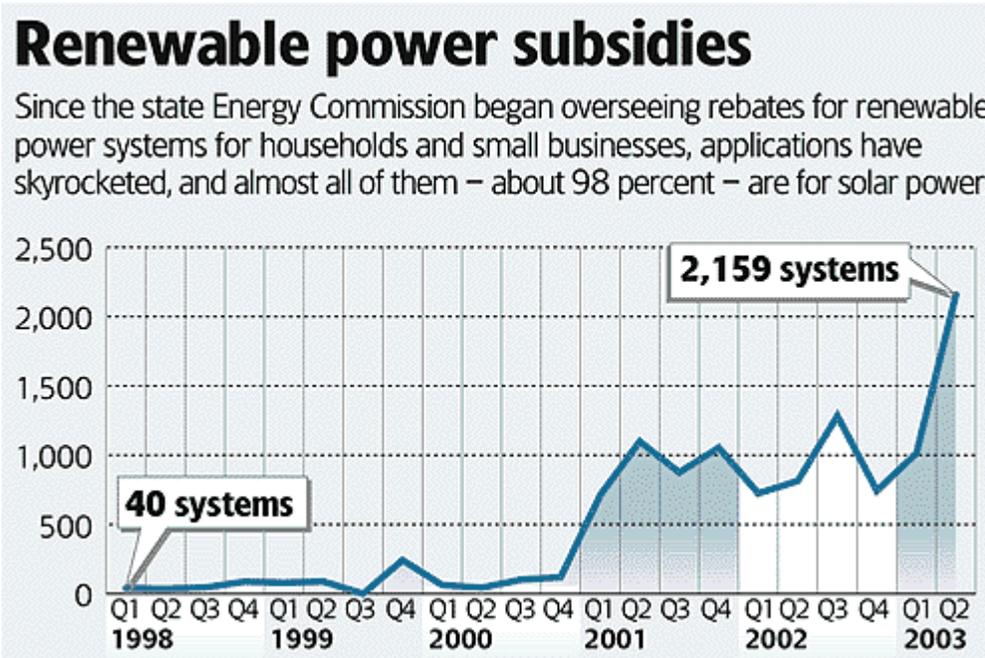
Contacts List - Photovoltaic Collector Manufacturers	Address
Amonix Inc	3425 Fujita Street, Torrance, CA 90505
Innergy Power Corporation	9375 Customhouse Plaza, Building 1, Suite J, San Diego, CA 92154
Mitsubishi Electric & Electronics USA, Inc.	5655 Plaza Drive, Cypress, CA 90630
Mitsui Comtek Corp.	20300 Stevens Creek Blvd, Cupertino, CA 95014
Pacific SolarTech	44843 Fremont Blvd, Fremont, CA 94539
SANYO Energy (USA) Corporation	2055 Sanyo Avenue, San Diego, CA 92154
Shell Solar Industries LP	4650 Adohr Lane, Camarillo, CA 93012
SunPower Corporation	3939 North First Street, San Jose, CA 95314

Please note that the Energy Commission staff gathered this information from both Commission staff reports and secondary sources. While this is a best effort, it should not be considered definitive. Figures for “Current Cost” is from 2003, the latest that such costs have been estimated.

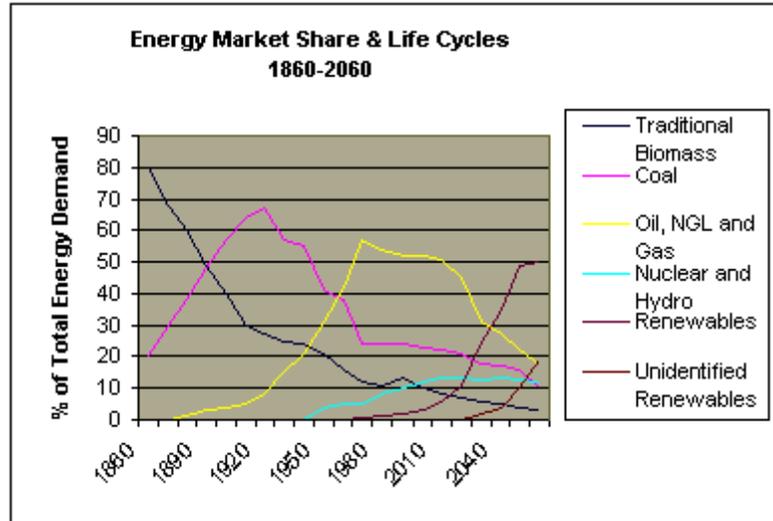
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Natural Gas ^[5]	2.5 to 11.7	5.2 to 15.9
Solar ^[6]	16.4 to 30.5	13.5 to 42.7
Wind ^[7]	7.6	4.6

Current actual cost of generation data for solar is not available because virtually all solar plants are owned by merchant generators, who are not required to report their costs to FERC or any government energy agency. The 2003 costs in this table are based on the California Energy Commission’s Comparative Costs of California Central Station Electricity Generation Technologies Report, which estimated the cost of utility-sized solar photovoltaic (50 MW), solar thermal-stirling dish (31.5 MW), and solar parabolic with thermally enhanced storage (110 MW). The 1994 solar costs are estimates for building a new system (including amortized capital costs over useful life of facility) from the *1996 Energy Technology Status Report Summary* (Commission publication # P500-96-006, December 1996, www.energy.ca.gov/etsr/) for a utility-sized (80 and 200 MW) parabolic trough solar hybrid system. The current solar costs are not directly

comparable to the 1994 costs, since the Energy Commission does not have data that compare the same solar technologies, and the available data is from different sources.



Source: <http://www.californiasolarcenter.org/index.html>



Source: Deutsche Shell AG

Largest Installed Solar Arrays in California

Facility:	City:	Zip:	Size (watts)	On Line:	Installer:
Anthony Elementary School	Kentfield	94904	186,000	Jul-05	SPG Solar
Adeline Kent Middle School	Kentfield	94904	240,000	Dec-05	SPG Solar
Antelope Valley Transit Authority	Antelope Valley		190,000	Mar-04	Global Solar
Auto Club of Southern California	Los Angeles	90007	115,000	Feb-03	PowerLight
Butte County Center	Oroville	95965	1,180,000	Aug-04	SPG Solar
Butte College	Oroville	95965	1,060,000	Jul-05	SPG Solar
Cache Creek Casino Resort	Brooks		307,200	Aug-04	RWESchott Solar
Cal State Hayward	Hayward	94542	523,000	Dec-03	PowerLight
California State University, Northridge	Northridge	95835	467,000	Apr-05	PowerLight
ChevronTexaco Exploration & Production, Inc. (Midway-Sunset oil field)	Taft	93268	558,489.60	2/14/2003	Powerlight
City of Anaheim	Anaheim	92802	120,000	Dec-00	PowerLight
City of Fresno	Fresno	93706	276,000	Apr-04	PowerLight
City of Oroville Projects	Oroville	95965	203,000	May-03	SPG Solar
City of San Francisco, Moscone Center	San Francisco	94103	675,000	Mar-04	PowerLight
City of Vallejo	Vallejo	94590	108,000	Jan-03	PowerLight
County of Alameda	Oakland, Alameda, Hayward, Dublin, Fremont		2,270,000	Apr-05	PowerLight
County of Contra Costa	Martinez	94553	189,000	Oct-02	PowerLight
County of San Diego	San Diego	4 locations	290,000	Mar-04	RWESchott Solar
County of San Mateo	San Mateo	94402	234,000	Jan-03	PowerLight
County of Solano	Fairfield	94533	230,000	Mar-03	PowerLight
Cypress Semiconductor	San Jose	95134	335,000	Jul-02	PowerLight
Desert Water Agency	Palm Springs	92264	350,000	Apr-05	Shell Solar
Domaine Carneros Winery	Napa	94559	120,000	May-03	
Double Decker Lanes	Rohnert Park	94928	225,000	Nov-04	Unlimited Energy
Earth Island Natural Foods	Chatsworth		113,000	3/7/2004	RWESchott Solar
Edison Development Corporation	Fountain Valley	92708	123,654.20	2/23/2005	
Edison Development Corporation	Fountain Valley	92708	126,275.70	2/23/2005	
FedEx	Oakland	94621	904,000	Aug-05	PowerLight
Franchise Tax Board	Sacramento	95827	470,000	Aug-02	PowerLight
Hayward Lumber	Santa Maria	93458	118,000	Jan-02	PowerLight
Hills Flat Lumber Co.	Colfax		145,000	Nov-04	Felix Electric

Facility:	City:	Zip:	Size (watts)	On Line:	Installer:
Inderkum High School, Natomas	Sacramento	95835	467,000	Dec-04	PowerLight
Lowe's Home Center	West Hills	91304	370,000	Aug-03	PowerLight
Loyola Marymount University	Los Angeles	90045	124,000	3-Apr	PowerLight
Mt. Tam Raquet Club	Larkspur	94939	150,000	Apr-02	SPG Solar
Mt. Vernon Elementary School	Lemon Grove	91945	190,000	Aug-05	Unlimited Energy
Monterey Ridge Elementary School	Poway	94904	200,000	Jun-06	SPG Solar
Neotrogena	Los Angeles	90045	230,000	Aug-01	PowerLight
Nuon Renewable Ventures USA	San Francisco	94107	151,955	12/25/2007	
OK Produce	Fresno	93779	232,000	Dec-02	PowerLight
Oakland Scottish Rite Center	Oakland	94612	120,000	Apr-05	SPG Solar
Palm Middle School	Lemon Grove	91945	190,000	Aug-05	Unlimited Energy
Pierce College	Woodland Hills	91371	191,000	Oct-03	PowerLight
PowerLight	Berkeley	94710	102,008.36	3/20/2005	PowerLight
P-R Farms	Clavis		1,131,000	Jul-05	PowerLight
Rancho Las Virgenes, Municipal Water Dist.	Calabasas	91302	186,428	10/30/2003	
Rancho Las Virgenes, Municipal Water Dist.	Calabasas	91302	213,572	10/30/2003	
Rodney Strong Winery	Healdsburg	95448	766,000	Dec-03	
RREEF-- Edison Development Corporation	Carlsbad	92008	116,926.90	2/23/2005	
San Francisco Public Utilities Commission (Southeast Water Pollution Control Plant)	San Francisco		225,000	Oct-05	
San Miguel Middle School	Lemon Grove	91945	150,000	Aug-05	Unlimited Energy
Sanyo North America	San Diego	92154	150,000	Dec-04	PowerLight
Semiotopic Water Storage District	Wasco	93280	979,200	May-05	Shell Solar
Sewerage Commission Oroville Region					
Silver Dollar Fairgrounds	Chico	94590	112,500	Feb-03	
SMUD	Sacramento County / Rancho Seco		3,090,000	Jul-84	
Solano County Government Center and Plaza	Fairfield	94533	340,000	Dec-04	PowerLight
Sonoma State University	Rohnert Park	94928	106,000	Dec-02	PowerLight
South Feather Water & Power	Oroville	95966	556,000	May-04	SPG Solar
St. Francis Winery	Santa Rosa	95409	457,000	May-04	PowerLight
Toyota Motor Sales	Torrance	90509	536,000	Dec-02	PowerLight
U.S. Naval Base	Coronado	92118	750,000	Sep-02	PowerLight
U.S. Coast Guard Training Center	Petaluma		225,000	Apr-04	RWE Schott Solar
U.S. Postal Service	Los Angeles	90311	127,000	Nov-01	PowerLight
U.S. Postal Service	West Sacramento	95799	403,000	Sep-04	PowerLight
Vallecitos Water District	San Marcos	92123	410,592	Aug-06	SPG Solar
Western Wine Services	American Canyon	94503	358,000	Sep-04	SPG Solar

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