

## PRICING EMISSIONS PRESENTS CHALLENGES

### New Costs Imposed on CO<sub>2</sub> Emissions Would Result in Financial Harm to Arizona's Economy and Families

An AIC-commissioned study, prepared by economists from Arizona State University, W.P. Carey School of Business, L. William Seidman Research Institute, finds negative impacts to Arizona's economy even when cap-and-trade auction proceeds are recycled within the state economy through investment in renewable energy projects or other activities.

We are all stewards of the environment and must look to protect its future. We must, however, consider the full spectrum of issues and trade-offs, including the economic costs to Arizona businesses and families from programs to control greenhouse gases (GHGs).

#### FOUR KEY FINDINGS:



The imposition of an emission allowance trading program (or tax) would have significant net negative impacts on the Arizona economy.



The size of the negative impacts is directly related to the price of the allowances (or tax).



The most energy-intensive industries in Arizona would experience the greatest negative impact.



The higher the percentage of proceeds "recycled" back into the Arizona economy, the smaller the negative effects—but the negative impacts remain.

Efforts to curb emissions of greenhouse gases (GHG), including carbon dioxide (CO<sub>2</sub>) from burning fossil fuels, are receiving increased attention from policymakers at all levels. President Obama proposed mandatory limits on GHG emissions and a system for auctioning permits to GHG emitters as part of the Executive Budget. Efforts are underway in Congress to pass legislation to curb greenhouse gases through a cap and trade program. Additionally,

members of the Western Climate Initiative—comprised of several states, including Arizona and several Canadian provinces—are developing a cap-and-trade system designed to limit the emission of GHGs in the region. Implementation of the program is scheduled for 2012. Such a program would reduce emissions through the use of the market system, increasing the costs of energy and other products.

# THE NUMBERS IN 2020

## The Economic Impacts of Cap-and-Trade or Taxing CO<sub>2</sub> Emissions

Cap-and-Trade or Carbon Taxes would have three primary direct effects:

1.

Production costs of the utilities and fuel distributors would increase by the cost imposed for emitting CO<sub>2</sub>.

2.

The increased cost of supplying electricity and fuels would result in significant price increases to industrial and residential consumers.

3.

The proceeds from the sale of emission permits (or tax) if distributed and recycled through the economy would mitigate a portion of the negative economic effects.

Gross State Product lowered from between \$3.3 bil and \$14.7 bil



Jobs reduced between 17,000 and 124,000

Retail Trade lowered from between \$0.5 bil and \$2.1 bil

Personal Income lowered from between \$1.4 bil and \$8.9 bil



Population less from between 43,000 and 249,000

Household Annual Income less from between \$160 and \$1,350

Cumulative Household Income (2012 through 2020) less by \$2,400 to \$18,200



Electricity Prices up by 14% - 50%\*

Gasoline Prices up by 8%-27%

\*Does not include any price increases associated with meeting renewable electricity mandates.

## About the Arizona Investment Council

AIC is a not-for-profit organization comprised of about 6,000 debt and equity investors in Arizona utility companies. The organization's mission is to advocate on behalf of its member investors before regulatory and legislative bodies. AIC also works with business leadership, policymakers, community leaders and educators to improve the investment climate in Arizona and to support the planning and development of essential infrastructure to meet the needs of Arizona.

For more information about the Arizona Investment Council and the greenhouse gas emission allowance study, call 602-257-9200 or go to [www.arizonaic.org](http://www.arizonaic.org). A copy of the study is available for download.

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