Gas prices rise for first time in weeks; California cap-and-trade effect cited

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Hours after 2015 arrived, gasoline prices in Sacramento and throughout California inched upward for the first time in weeks. Experts called the uptick a subdued response to the state's new requirement that oil companies buy credits to offset the carbon emitted by cars and trucks.

Opponents and supporters of the state's effort to combat climate change offered wildly different predictions in recent weeks for how much gas prices would rise when the industry was included in California's cap-and-trade market. State officials and some environmentalists insisted that it would be just a few cents a gallon. Oil industry leaders raised fears of spikes as high as 75 cents or more a gallon.

On Friday, the increase was small, and masked by the steep decline in gas prices over the past year.

National gas price tracker GasBuddy.com said the average retail price of gas in California on Friday was $2.64 a gallon, up 2 cents from New Year's Day. In Sacramento, the average was $2.54, also up 2 cents from Thursday.

Those prices remain dramatically lower than at the start of 2014, when the average price statewide was $3.65 a gallon.

Motorists filling up at pumps Friday in Sacramento did not appear alarmed. They're enjoying unusually low gas prices these days – the result of plentiful fuel supplies and plunging prices for crude oil, which closed below $53 a barrel Friday on the New York Mercantile Exchange.

"I didn't notice any price change today or yesterday," said Sacramentan Bill Nelson, 45, filling up at the Chevron station at 19th and Broadway, where regular was posted at $2.79 a gallon. "I'm just glad I'm not paying $4 a gallon like I was paying for a long time."

Jeanice Walker, 29, also considers the current price of gas a reprieve. Walker was pumping gas Friday at the Valero station at Broadway at Riverside Boulevard, where regular was going for $2.45 a gallon for customers who paid cash.

"It always goes up for some reason or another," Walker said. "I'm glad I'm getting a break with these (current prices)."

Dave Clegern, an Air Resources Board spokesman, initially had this reaction to Friday's relatively humble price increases: "There's a very large universe of variables which could affect gas prices on a daily basis, and we don't set fuel prices. We'd prefer not to speculate on what may be involved."

Later, he noted that the ARB does expect gas prices to edge up in January: "We don't see them going up more than a dime, at the most, based on any current cap-and-trade compliance costs. We won't speculate on fuel price projections, but the high-end numbers would require the cost of carbon allowances to increase more than six times beyond where they are now."

Patrick DeHaan, senior petroleum analyst for GasBuddy, attributed the New Year's price bump to cap-and-trade, but he offered a similarly humble projection of price hikes over the short term: "I think (gas) station margins will be affected more than consumers ... Over the next week, you might be looking at 6 to 10 cents a gallon."

Some consumers worry that higher prices may still be coming, however. At the Valero station on Broadway, Elk Grove resident Pat Webster, 40, said she was fearful of what might happen in spring and summer.

“You know the prices always go up then, and we get socked at the pumps,” she said. “I’ve heard all these predictions about this cap-and-trade thing, and what scares me most is that no one seems to have a real good grasp of it.

“I know this: I’m eventually going to be paying a lot more for gas than I am right now.”

Starting Thursday, gas and diesel fuel became subject to California’s cap-and-trade market, the regulatory mechanism that puts a price on carbon spewed into the atmosphere.

Under the program, a centerpiece of the state’s landmark 2006 climate change law, big companies have to pay for the right to emit greenhouse gases. They must purchase carbon allowances, either at quarterly state-run auctions or on the open market.

The market-based approach gives companies flexibility for complying with the regulation. Most of the emissions allowances are given out for free. But if their emissions exceed the cap, companies can buy more credits or find ways to reduce their carbon footprint. The total amount of carbon that can be emitted in the state, the “cap,” declines slightly each year.

Oil refiners are already covered by the cap, but only for the greenhouse gases emitted from their smokestacks. The impact on fuel prices has been modest, maybe a penny a gallon, according to UC Berkeley energy economist Severin Borenstein.

The New Year’s Day change broadens the oil industry’s participation. For the first time, the carbon coming out of car and truck tailpipes will be covered. The long-standing expectation has been that the cost of carbon will be passed along to motorists.

Motorists are not responsible for buying carbon-emissions credits. Instead, fuel wholesalers purchase credits in an amount based on the volume of fuel they deliver to service stations. The state Air Resources Board will make more carbon credits available at its auctions to accommodate the increased demand.

The impact on pump prices will depend on the carbon content in a gallon of fuel, and the market price of emissions credits, currently about $12 a ton. UC Berkeley’s Borenstein recently projected an increase of 9 to 10 cents a gallon in the first few days of 2015.

While that might seem small given the gas price declines of the past eight weeks, some business operators, elected officials and economists have raised alarms about any price increase in a state where motorists pay nearly 67 cents in taxes on each gallon of gas. The recent, unusually low gas prices have been hailed as a major boost for businesses that rely heavily on fuel, including trucking operations, transportation companies, auto sellers and parcel delivery firms.

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