

Vermont Energy & Climate Summit Pitch Submission Form

1. Pitch Submitted By (Your Name or Organization):

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4. Pitch Title:

Cap, Trade and Invest for Transportation

5. Pitch Summary:

Vermont should extend its successful experience in using emissions trading to its largest emissions sector, transportation, and neighboring Quebec, together with its Western Climate Initiatives (WCI) partners, offers the quickest lane to do so. The Regional Greenhouse Gas Initiative (REGGI) has proven a valuable tool, embraced over time and across the political spectrum, to drive down carbon emissions from the electricity production sector. At its foundation are three levers – a cap that sets the emissions goal, an allowance and offset trading market to achieve that goal most efficiently, and revenue that can be invested strategically to spur economic development and further drive down emissions in an equitable way. Cap and trade is carbon pricing applied at the point where businesses make investment and innovation decisions involving the atmosphere, a public asset. Allowances are auctioned, like airwave spectrum, and offsets can include farming and forestry enterprises. Revenue is distributed as a common benefit, incenting businesses and reducing costs to consumers over the long term through efficiency, alternatives and infrastructure. There is an overall net positive impact on the economy. Cap, trade and invest can work in parallel with other tools, such as fuel standards or a carbon tax, and even could help address limitations of the current gas tax. Application of the cap, trade and invest approach to the transportation sector is overdue.

6. What energy sector(s) does this Pitch apply to? (Check all that apply):

- Energy Efficiency
- Electricity
- Transportation
- Thermal Heating &/or Cooling

- All (Total Energy)
- None: Non-energy related carbon reduction proposal

7. Which criteria category(ies) does it address? (Check all that apply):

- Economic Activity
- Affordability
- Vulnerable Vermonters
- Other

8. Scale of impact on Vermont's energy and climate goals:

Vermont must address transportation to achieve its goals; according to the 2016 Comprehensive Energy Plan (CEP) it accounts for 45% of CHG emissions. (Section 4.1.3.) The CEP has a thorough discussion of how Vermont might meet its 2025 goal, including the role of transportation and market based strategies (Sections 4.4.2.2 and 4.5). Analyses of REGGI detail emission reductions, long term savings to consumers, and net positive impact on the economy. (See the Analysis Group Review of REGGI, 2012-14, and the Department of Conservation, REGGI 2016 Program Review Stakeholder Meeting, 11-29-16.)

A cap in the transportation sector can be designed to move as quickly as Vermont chooses on its goals, with flexibility in allowance features calibrated to accommodate other concerns, such as thresholds to limit impacts on smaller businesses, and discounted allowances if necessary to address unique competition concerns. Vermont's agricultural and forestry sectors can be engaged to provide offset as another tool for businesses to comply with the cap. Decisions around the use of the revenue can likewise be tailored to address any number of objectives, including further emission reduction, economic development, equity and potential supplement to current transportation funding. As REGGI has demonstrated, design features intentionally are subject to revision periodically and as circumstances change, ensuring that the cap, trade and invest program stays current to Vermont's needs.

Vermont could continue in REGGI for electricity production, and develop a separate emissions trading program to cover the transportation sector. Vermont could seek linkage for this sector to the WCI, at least in the short term, which would not preclude working with REGGI partners to extend its trading program to this sector in the long term.

The experience of Quebec is instructive. Quebec originally enacted a tax on the carbon content of fuel, and then established an emissions cap program. "The government realized that a stronger, more robust tool than a carbon levy was needed to integrate the hidden economic, social and environmental costs related to GHG emissions into the economy as well as the decision-making of businesses and citizens."

<http://www.mddelcc.gouv.qc.ca/changements/carbone/documents-spede/historical-overview.pdf>. Legislation was passed enabling the program to be enacted through regulation. For the first two years, the cap was applied to electricity and industry over a certain threshold, it was then extended to include transportation, building and smaller industry. Quebec carefully

crafted its allowance program in collaboration with business and other stakeholders. It also worked with California and the WCI to harmonize its design and operating rules for a regional trading program. For one year, it operated a domestic allowance market, and then formally linked with WCI. Quebec can point to emissions reduction achieved and investments made with its Green Fund, including in transportation infrastructure. Perhaps most impressively, electric vehicles comprise 45% of Quebec's car market. Notably, Quebec's economy has achieved impressive growth during the time the program has been in effect.

9. Benefits/costs of this proposal for Vermont and Vermonters:

In terms of economic and financial costs, this proposal applies those costs in the first instance at the point where investment and innovation happens. Businesses can make economic decisions that reflect use of commonly held assets. For any given business, economic efficiency might dictate revisiting their production or supply methods, or buying allowances from other businesses that can more economically lower emissions, or offsets from agriculture and forestry enterprises. Linking to an existing market platform such as WCI will give businesses more options from the get go. The revenue generated from public auction gives government the ability to invest to further environmental goals and address any economic, financial or social disruption – at the business, community or individual level. Revenue can be invested in appropriate transportation solutions for rural communities and individual citizens, including housing and development, electric vehicles and charging stations, modern mass transit etc. REGGI shows that over time consumer prices drop, and there is a net economic gain.

10. - 12. Decision-makers; strategy and key considerations; timeline:

This approach involves the Administration and Legislature engaging stakeholders including businesses, consumers, and advocates on legislation and regulations. Lead regulatory agencies would include the Agency of Transportation, Agency of Natural Resources and the Department of Public Service. The strategy can be divided into three areas. First, the cap, allowances and offsets are designed. The cap is derived by determining the entities covered, the current emission levels, and the desired pace of meeting goals, while the allowance and offset modeling allows for considerable accommodations within the cap to meet economic objectives. Long-term process should be set to adjust these design parameters over time. Second, the valuable advantages of linkage are explored. With a larger market, Vermont entities have more opportunities to obtain or sell allowances and offsets; more liquidity and stability. The WCI partners have developed compliance and trading tools in the transportation sector, and over time, market protections such as price floors and ceilings; it is an attractive option at least for the interim. If linkage is contemplated, Vermont would develop its system with an eye to harmonizing. The final area involves the decisions around investing revenue, to further reduce emissions, smooth disruption, incent innovation and ensure equity. The framework could be enacted in the short term with legislation authorizing regulation. The regulation setting process, implementation and linkage could proceed as quickly as Vermont wanted to move, with speed tempered by building in robust engagement of stakeholders and potential partners, and allowing for future flexibility.