TRANSPORTATION & CLIMATE INITIATIVE
Of the Northeast and Mid-Atlantic States

Framework for a Draft Regional Policy Proposal

Building on the statement issued in December 2018, the jurisdictions participating in the Transportation and Climate Initiative (TCI) have been working to develop a regional low carbon transportation policy proposal by the end of 2019. TCI remains committed to transparency, and to actively seeking input from the public to inform the proposal. Since the beginning of this year, TCI jurisdictions have conducted public workshops and webinars regionally and in individual jurisdictions, and continue to encourage people to submit input and ideas. This year, more than 1,000 people have participated in the public workshops and webinars, and more than 100 separate entries have been submitted through the TCI online public input portal.

To foster an informed public conversation, this document presents a high-level draft framework of a regional policy proposal for public input. While many details remain under consideration, this draft framework reflects progress to date on several key elements of a proposed program, informed by public and expert input received so far. TCI jurisdictions will continue to review and consider input as a regional program is designed and proposed in the months ahead. A draft memorandum of understanding (MOU) building on the framework is anticipated in December of 2019. After considering further public input, a final MOU is expected in the Spring of 2020, at which point each jurisdiction will decide whether to sign the final MOU and participate in the regional program. Public input on this framework document is most useful if received through the TCI online portal by November 5.

Program Design Elements

Equity

TCI jurisdictions embrace the goals of equity, environmental justice, non-discrimination and meaningful public participation. TCI jurisdictions have committed to working with people and communities to develop and implement a regional policy that addresses the urgent need to reduce greenhouse gas (GHG) emissions and other harmful pollutants generated by the transportation system, while seeking to improve equity, mobility and community engagement. This commitment derives from an understanding that there are communities within the TCI region that live with historic inequities with respect to accessibility, mobility, affordability, public health risks, and a disproportionate vulnerability to a changing climate. The TCI jurisdictions also recognize that these inequities apply to urban, rural, and suburban communities in different

[1] For a deeper understanding of cap-and-invest program elements, please watch the Cap-and-Invest 101 video on the TCI website and definitions of related terms at this link. Additional background on cap-and-invest approaches is available on the TCI website here.

ways, and particularly to low-income communities, communities of color and communities with limited mobility options. Together, the TCI jurisdictions are committed to developing a program to reduce carbon emissions from the transportation sector while also addressing equity needs and concerns. The TCI jurisdictions are committed to equitable outcomes including by working with people and communities on the following:

- Expanding low-carbon and clean mobility options in urban, suburban, and rural communities, particularly for populations and communities that are currently underserved by the transportation system or disproportionately adversely affected by climate change and transportation pollution.
- Developing complementary policies and priorities for carbon-reduction investments and continually improving the program.
- Providing transparency and information to the public by tracking and reporting on changes in transportation-related emissions over time.
- Making modifications and adjustments to the program design, as warranted by feedback from communities and data related to outcomes and impacts.
- Encouraging individual jurisdictions to conduct their own outreach that is tailored to meet the needs of their own communities.

Applicability

Affected Fuels and Emissions

The proposed program would cap emissions of carbon dioxide from the combustion of the fossil component of finished motor gasoline and on-road diesel fuel in the region. The TCI jurisdictions are evaluating whether and how to include and treat biofuels in the program. Affected fuel would include fuel destined for final sale or consumption in a TCI jurisdiction, upon removal from a storage facility (i.e., a “terminal rack”) in the TCI jurisdiction, or, for fuel removed from a facility in another jurisdiction, upon delivery into the TCI jurisdiction.

Regulated Entities

State fuel suppliers would be the regulated entities under the proposed program and would be required to hold allowances to cover reported emissions. Applicability criteria would draw on the Energy Information Administration’s (EIA’s) “Prime Supplier” concept of regulating large “upstream” suppliers, but would include additional specificity, as necessary to ensure efficient program implementation. For example, jurisdictions may draw on existing state and federal regulatory language to ensure clarity and enforceability. Regulated entities would include owners of fuel at terminals in a TCI jurisdiction (i.e., “position holders”), and owners of fuel delivered into the jurisdiction for final sale or consumption in the state from a facility in another jurisdiction. Owners and operators of fuel supply infrastructure (terminals, pipelines, distributors, etc.) may also have reporting or recordkeeping obligations. TCI jurisdictions will consider including de minimis thresholds, exclusions, etc., to address circumstances such as fuel stored in a vehicle fuel tank for use in that vehicle.

Compliance and Enforcement

Emissions reporting requirements

Fuel suppliers would be required to report emissions to TCI jurisdictions, plus supporting information. Compliance obligations would be calculated based on the emissions that occur when the affected fuel is combusted, using standard emission factors developed by the United State Environmental Protection Agency (US EPA), California, or other similar sources. The reporting system would draw upon lessons and standards from existing programs as necessary. Examples include EIA's Prime Supplier reporting program and California and other states' fuel supplier emissions reporting requirements, which provide models, particularly with regard to separate reporting of fossil and biogenic components of blended fuels.

Monitoring and Verification

TCI jurisdictions would establish an electronic emissions reporting system informed by existing reporting requirements for fuel suppliers. In order to guarantee the accuracy of reported data, jurisdictions would use one or more of the following approaches: third party verification (as required under California's GHG emissions reporting regulation); agency verification (as used by US EPA to verify GHG emissions reported pursuant to 40 CFR Part 98); or self-certification (as used by states to support enforcement of other environmental regulations). Consistent with other programs (e.g., the Regional Greenhouse Gas Initiative (RGGI), EIA, state regulatory systems), monthly or quarterly emissions reporting would be required. The program could take advantage of existing platforms for the accompanying allowance tracking system, for example, the RGGI CO_2 Allowance Tracking System (COATS) or the Western Climate Initiative Compliance Instrument Tracking System Service (WCI CITSS).

Flexibility, Allowance Allocation, and Stringency

Flexibility and Cost Containment

The program would incorporate allowance banking and multi-year compliance periods and include price-based mechanisms for cap flexibility and cost containment based on examples from RGGI and WCI (e.g. cost containment reserve, emissions containment reserve, minimum reserve price). Price-based flexibility mechanisms would be implemented through auction design. Linking is another possible way to add flexibility and contain costs. Jurisdictions are considering whether and how to link (or make the allowance market "linking-ready") with other programs with similar flexibility mechanisms, such as RGGI or WCI.

Auctions and Allocation

Auctions would be the primary mechanism of distributing allowances and the program would auction nearly 100% of allowances. In other cap-and-invest programs, participating jurisdictions may set aside a small number of allowances that can be used to achieve other policy priorities. TCI jurisdictions are independently considering whether and how such “set asides” are appropriate.

Regional Caps and Allowance Budgets for Each Jurisdiction

The program would begin with an initial emissions cap set at a level that then declines every year at a rate chosen by TCI jurisdictions to support their emissions reduction goals, and informed by analysis of the program’s impact. The initial cap would be set using a combination of baseline emissions for three recent years, and projected emissions estimated through modeling. The program would begin as early as 2022 and reach a target emissions level in 2032. Each jurisdiction’s allowance budget would be a percentage of the regional emissions cap.

<u>Regional Program Administration</u>

Market Monitoring and Auction Administration

A regional organization would be used to conduct carbon market monitoring, auction administration and allowance tracking. This would include the establishment and maintenance of a system to collect and manage reported emissions-related data from regulated entities and track allowance accounts. Emission allowance and transportation fuel markets would be monitored on an ongoing basis.

<u>Additional Program Design Elements</u>

Investment of Proceeds

Each TCI jurisdiction has different transportation needs and unique authorities; therefore, each jurisdiction would independently decide how proceeds are invested to achieve carbon emission reductions and other policy goals—like improved air quality and more affordable access to transportation. Additionally, jurisdictions may identify shared priorities for investment of proceeds including to maximize the efficiency of the regional program and to ensure greater benefits. TCI jurisdictions are committed to equity and meaningful community engagement when making new investment decisions and conducting program review.

Complementary Policies

Implementing a regional cap-and-invest program for carbon emissions from transportation would be important to help each TCI jurisdiction achieve their GHG emission reduction goals. In addition, each of the individual jurisdictions participating in a regional program may choose to pursue complementary policies and programs to further enable GHG emission reductions from transportation, while also achieving other important policy goals, including air quality improvements, particularly in communities already bearing a disproportionate pollution burden, improved safety, and greater access to affordable, low-carbon transportation options. This could include coordinated infrastructure planning, land-use planning improvements, and the development of green banks and other innovative financing mechanisms.