December 10, 2019

Kathleen Theoharides
Secretary
Massachusetts Executive Office of Energy and Environmental Affairs
Chair, TCI Leadership Team

R. Earl Lewis, Jr.
Deputy Secretary
Maryland Department of Transportation
Vice-Chair, TCI Leadership Team

Re: Framework for a Draft Regional Policy Proposal for the Transportation and Climate Initiative

Secretary Theoharides and Deputy Secretary Lewis:

We, the undersigned vehicle manufacturers, fuel providers, and industry groups, thank you for your commitment to cleaner air and greenhouse gas reduction in Northeast and Mid-Atlantic States through the Transportation and Climate Initiative (TCI). Following the release on October 1 of the Framework for a Draft Regional Policy Proposal,[1] and ahead of the release of a multi-state draft memorandum of understanding (MOU) to advance the policy design process, **we wish to express our support for the development and implementation of a coordinated regional cap-and-invest program to hasten an equitable transition toward a cleaner transportation economy and healthier communities throughout the region.**

[1] https://www.transportationandclimate.org/sites/default/files/TCI-Framework_10-01-2019.pdf

The climate crisis demands an accelerated transition away from fossil fuels throughout our economy, and this imperative is most critical in the transportation sector, which at 29% contributes more to national greenhouse gas emissions than any other sector.[2] To effectuate a rapid transformation in our nation's transportation system, incremental measures will not suffice. The scale and timeline of required change demands bold policy signals that apply beyond the boundaries of a single state. A regional cap-and-invest program for transportation enacted by the 12 TCI states and the District of Columbia presents a befitting solution to bend the curve on consumption of conventional petroleum while generating revenues to enable participating states to catalyze an equitable transition to cleaner mobility solutions.

By better aligning the retail prices of petroleum products with their true societal costs, and raising millions of dollars per year in each state through the auction of allowances, a cap-and-invest framework provides both "push" and "pull" mechanisms to encourage rapid sector transformation. These complementary market signals will enable jurisdictions to accelerate the pace of progress toward desired clean transportation objectives such as the following:

- Increase general adoption of zero-emission light-duty vehicles and the infrastructure needed to support them at home and in public;
- Support state of good repair and modernization of public transit systems and support deployment of cutting edge micromobility options to those who do not, or would prefer not to, own their own means of transportation;
- Goods movement will continue apace in the region as the economy continues to grow, but truck freight will increasingly embrace zero-emission vehicles for urban first- and last-mile applications and both zero- and near-zero-emission engines with renewable fuels (e.g., hydrogen, renewable natural gas, renewable diesel) for regional haul throughout the region.

As a voice of transportation sector interests, we recognize that this is the end-state our sector must continue moving toward at a much quicker rate. To that end, we would like to offer the following input in response to the Framework for a Draft Regional Policy Proposal as well as thoughts on how the MOU can provide certainty and clarity to market actors doing business in the region by setting out investment parameters for the revenues generated by emissions caps.

1. *The TCI policy framework must distinguish between biofuels and conventional petroleum products.* The Framework document notes that "TCI jurisdictions are evaluating whether and how to include and treat biofuels in the program." Particularly for medium- and heavy-duty fleets that have predominantly depended on petroleum diesel fuel until now, biofuels present a viable near-term option as a lower lifecycle carbon intensity fuel for many fleets. Supply of biodiesel is already strong in the region and can provide a drop-in option for many fleets. For other fuels, such as renewable diesel, renewable natural gas, and renewable propane, supply is constrained because virtually all production goes to California, where there is built-in demand from the low-carbon fuel standard. A strong and coordinated regional program to incent rapid fleet decarbonization could unlock a compelling demand signal throughout the region, which in turn can motivate local production capacity for these fuels and provide competition to Californian markets. In order for fleets currently relying on conventional diesel, compressed natural gas, or propane to complete their service lives with lower carbon intensity fuels, it is critical that biofuels not be treated as equivalent to conventional petroleum in the resulting program design. We suggest a treatment for

[2] https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions

biofuels that reflects their lifecycle emissions (which would account for indirect land-use change impacts, for example) relative to those of traditional petroleum fuels.[3]

2. *The TCI MOU should contain an investment framework to best harmonize and amplify the impact of each jurisdiction's programs.* We agree that participating jurisdictions should have latitude to make investment decisions independently, in accordance with the unique needs and priorities of each jurisdiction. With that said, the benefits of a regional policy approach are amplified when states' individual programs are integrated and harmonized to the fullest extent possible. On the "cap" side, integration means the open trading among compliance entities in all participating states to achieve desired emissions reductions at least cost. On the "investment" side, harmonization refers to compatibility between the clean transportation investment programs funded using auction revenues. We offer that the ongoing stakeholder engagement being conducted by TCI jurisdictions and the Georgetown Climate Center can inform development of a TCI investment framework, which would contain principles and guidelines for how participating jurisdictions can invest revenues. This framework would include, but not be limited to, measures such as: clean vehicle purchase incentives, ZEV infrastructure, utility programs to support ZEV infrastructure, public transit fortification, clean non-vehicular mobility options, and consumer awareness campaigns. Such a framework could be functionally similar to Appendix D of the Partial Consent Decree for the federal Volkswagen Settlement,[4] which set out categories of "eligible mitigation actions" in which beneficiaries could invest settlement allocations, without prescribing how beneficiaries were to distribute benefits among these categories.

The Northeast and Mid-Atlantic have great potential to lead the nation in rapid decarbonization of its transportation systems. A transportation cap-and-invest program helps to realize this promise and make progress toward ambitious climate targets throughout the region. As representatives of the transportation sector, we support a swift and coordinated program development and enactment and pledge to prioritize TCI jurisdictions for the deployment of advanced, low-carbon technologies in the coming years ahead as long as there is a robust and thoughtfully designed cap-and-invest program that shapes our operating and investment conditions. Together we can make sure that TCI jurisdictions assume their rightful place as the leaders in clean transportation nationally and globally.

Sincerely,

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[3] See, e.g., CARB's "pathway certification" process for various fuels: https://ww3.arb.ca.gov/fuels/lcfs/fuelpathways/pathwaytable.htm
[4] https://www.vwcourtsettlement.com/en/docs/DOJ/Approved%20Appendix%20D-2.pdf

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