The Business Council

memo

FROM:	Joseph Foskett, Esq.
SUBJECT:	Transportation & Climate Initiative
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The following provides an overview of the recently released "Transportation & Climate Initiative" draft MOU and modeling results [Link: https://www.transportationandclimate.org/main-menu/tcis-regional-policy-design-process-2019]. The Business Council continues to review this policy development process and welcomes your input as we develop comments for submission on this draft document.

TCI Background

The Transportation & Climate Initiative (TCI) is a collaboration among eleven Northeastern and Mid-Atlantic states and District of Columbia for the purpose of reducing greenhouse gas emissions generated by the transportation sector. Transportation accounts for approximately 40 percent of all emissions, with passenger cars, SUVs and light trucks representing more than 90 percent of economy-wide gasoline usage.

The TCI, which is spearheaded by Massachusetts and organized through the Georgetown Climate Center, released a draft memorandum of understanding (MOU) on December 17, 2019 which proposed a more detailed framework for a regional cap-and-invest program designed to achieve its emission reduction goals. The program, which is similar in structure to the Regional Greenhouse Gas Initiative (RGGI) for the electric generation sector, will place a cap on allowable emissions from on-road gasoline and diesel usage, with the cap declining over the lifespan of the program from 2022 – 2032.

A public comment period will be open until February 28, and a final MOU is expected to be released in spring 2020 which is when TCI states will have the opportunity to formally commit to participation in the program.

New Hampshire elected to cease further collaboration shortly after the draft MOU was released. New York is in 'observer status', which indicates some degree of involvement but no active participation in the overall design of the program.

TCI Timeline

- Spring 2020: Release a final MOU. At this point, each jurisdiction will decide whether to sign the MOU and participate in the regional program.
- By December 31, 2020: Release of a Model Rule for all Participating Jurisdictions.
- 2021: Jurisdictions will conduct formal rulemaking process to adopt regulations.
- As Early as 2022: Program implementation begins.

Applicability

As proposed, TCI would apply to the fossil fuel components of finished motor gasoline and on-road diesel fuel in three (3) scenarios: (1) destined for final sale or consumption within a participating jurisdiction, (2) upon removal from a storage facility within a participating jurisdiction, or (3) upon removal from a storage facility in a foreign jurisdiction [outside of TCI]. The program would require fuel suppliers to have emissions allowances equal to the greenhouse gas emissions from the fuel they distribute in participating jurisdictions, which would then be traded or sold at auction.

Emissions Cap & Price Modeling

Accompanying the draft MOU, modeling was released setting forth possible cap and price scenarios. The models established were compared to a "reference" standard, which is a representation of data detailing an outcome in the event that no additional emission reduction program is established. According to the "reference" data, between 2022 and 2032 transportation emissions will decline by up to 19% due to a series of factors, including current fuel efficiency policies, possible disruptions in global supply, and the continued electrification of the transpiration fleet (i.e. evolving electric vehicle [EV] technology [range], pricing becoming comparable and competitive with equivalent internal combustion engine vehicles, and the further build-out of EV infrastructure).

Three scenarios were proposed: a 20%, 22%, and 25% reduction in the region-wide emission cap.

	No Cap No Investments		**20% Cap Reduction with Investments**		**22% Cap Reduction with Investments**		**25% Cap Reduction with Investments**	
	Reference Case		**Policy Case**		**Policy Case**		**Policy Case**	
	2022	**2032**	**2022**	**2032**	**2022**	**2032**	**2022**	**2032**
Emissions Total, million metric tons; and percent reduction from 2032 to 2022	254	206 -19%	254	202 -20.5%	254	199 -22%	253	192 -24%
Allowance Prices per metric ton (2017$)	n/a	n/a	$6	$9	$11	$18	$22	$36
Source: *Georgetown Climate Center*								

The TCI modeling estimated that a 20.5% cap reduction would lead to an increase of approximately $0.05 per gallon whereas the 25% cap could result in an increase of roughly $0.17 per gallon.

Investment of Proceeds

Initial estimates project that TCI could raise up to $68 billion, region-wide, over the lifespan of the program. Assuming New York participates, it would account for approximately 22% of the overall revenue ($14.9 billion). Importantly, all funds raised under the program would be pooled and redistributed through the TCI jurisdiction in a manner determined to best achieve overall reduction goals.

The draft MOU proposes that realized revenue be utilized though investments in 'clean' transportation options, such as incentivizing the electrification of passenger and municipal transportation fleets, the expansion of EV infrastructure, and build-outs of sidewalks and park-and-rides.

Conclusion and Next Steps

Many TCI program elements still remain undefined and could change prior to release of the final MOU and subsequent Model Rule, namely the allocation of emissions allowances among the participating jurisdictions, the overall governance of the TCI, whether to establish a pool of reserve allowances or to allow for the use of carbon offsets.

Further, the established targets are generally considered to be conservative by many in the environmental community, with many suggesting that a 40-45% reduction in transportation-related emissions would be necessary to achieve meaningful results. If the program is poorly designed and thus unable to achieve serious emissions reductions, the corresponding increase in the cost of fuel could be viewed as simply another burden on businesses and a tax on residents.

It is critical that the business community weigh in. I encourage you to contact me with questions or comments concerning the TCI or any of the information set forth above, and/or to provide input into our comments. I can be reached at 518-694-4461 or joseph.foskett@bcnys.org.