

# VERMONT AGENCY OF NATURAL RESOURCES & AGENCY OF TRANSPORTATION

## Cap-and-Invest Study: Potentially Impacted Business Focus Group

November 18, 2024

### MEETING SUMMARY

| Project Team (9)                             | Attendees (5)   |
|--|---|
| Andrea Wright (Agency of Transportation)     | Matt Cota - Meadowhill Consulting (Vermont Petroleum Association, Vermont Vehicle and Automotive Distributors Association), Vermont Climate Council |
| Jane Lazorchak (Agency of Natural Resources) | Molly Mahar - Vermont Ski Areas Association   |
| Brian Woods (Agency of Natural Resources)    | Peter Young - Vermont Rail  |
| Patrick Murphy (Agency of Transportation)    | Justin Johnson - MMR, LLC representing Global Partners fuel distribution  |
| Billy Coster (Agency of Natural Resources)   | Richard Cowart - Regulatory Assistance Project, Vermont Climate Council*  |
| Ashlynn Doyon (Vermont Treasurer's Office)   |   |
| Chris Porter (Cambridge Systematics)         |   |
| Jim Redeker (FHI Studio)                     |   |
| Toni Marie Pignatelli (FHI Studio)           |   |

*\*Technical Advisory Committee Member*

### Presentation Summary

Jane Lazorchak, from the Vermont Agency of Natural Resources (ANR), and Andrea Wright, from the Vermont Agency of Transportation (AOT), welcomed attendees to the virtual Business Focus Group on November 18, 2024. The focus of the meeting was Vermont's consideration of a cap-and-invest program. J. Lazorchak and A. Wright thanked participants for joining the public session.

Jim Redeker, of FHI Studio, outlined instructions for participating in the meeting, after which Andrea reviewed the agenda, which included the following items:

- Welcome
- What has Vermont done to plan for and address climate change?
- What is a cap-and-invest program?
- How can a cap-and-invest program help Vermont meet its climate goals?

- What are the potential benefits and impacts to Vermonters?
- Introduction to this climate policy study
- Discussion
- Stay Involved!

A. Wright emphasized that Vermont is conducting a study to evaluate the feasibility, potential benefits, and costs of joining a cap-and-invest program. She clarified that the state is not currently implementing such a program. She then introduced the study team.

J. Lazorchak, from Vermont's Climate Action Office, provided an overview of the state's progress in addressing climate change. She highlighted the Global Warming Solutions Act (GWSA), passed in 2020, which legally mandates emissions reductions and includes objectives related to land use, resilience, and adaptation. The GWSA established statutory climate pollution reduction targets:

- 26% below 2005 levels by January 1, 2025.
- 40% below 1990 levels by 2030.
- 80% below 1990 levels by 2050.

The GWSA also created the Vermont Climate Council, an independent body of eight state officials and 15 legislative appointees representing diverse sectors. The council drafted Vermont's Climate Action Plan (CAP), first adopted in December 2021. While the CAP included emissions reduction strategies, it acknowledged that the transportation sector required additional policies to meet statutory goals. The Transportation Carbon Reduction Strategy later identified that modest emissions reductions could be achieved by redirecting funds but recommended more robust policies, such as cap-and-invest.

Chris Porter, of Cambridge Systematics, introduced cap-and-invest programs:

- These programs establish an economy-wide, declining cap on emissions.
- The state distributes or sells "allowances" (rights to emit one metric ton of carbon dioxide equivalent).
- Companies can trade allowances, enabling emissions reductions to occur at the lowest cost.
- Proceeds from allowance auctions are reinvested into clean energy, energy efficiency, and other initiatives that benefit Vermonters while reducing emissions.

### **Projected Benefits of Cap-and-Invest Programs**

- Reduction in climate pollution.
- Investments in energy efficiency, electrification, and multimodal transportation.
- Job creation in the clean energy sector.

- Improved public health through reduced emissions and increased physical activity.
- Enhanced business certainty with formalized emissions reduction timelines.

### **Potential Challenges**

- Higher prices for fossil fuels (e.g., gasoline, diesel, natural gas).
- Potential border effects, such as consumers or businesses seeking cheaper options in neighboring states.
- Compliance burdens on regulated entities.

### **Strategies to Mitigate Impacts**

C. Porter outlined several measures Vermont could adopt to reduce potential burdens:

- Introducing a price cap to prevent excessive allowance costs.
- Allocating proceeds to equity-focused programs, including rebates for low-income households and vulnerable businesses.
- Reinvesting proceeds to support fuel switching and energy efficiency.
- Providing free allowances to at-risk industries to prevent business relocation.

### **Preliminary Findings**

The study indicates Vermont's ambitious 2030 emissions reduction targets may require high allowance prices and broad sector coverage. Key metrics being evaluated include:

- Potential emissions reductions under different price scenarios (starting at ~\$10, \$30, \$60+ per ton in 2026).
- Auction revenue projections, ranging from \$25–\$250+ million annually, depending on sectoral coverage and allowance prices.
- Socioeconomic impacts, such as household cost savings, job changes, and health benefits.

C. Porter explained that a draft analysis will be completed by December 2024, with further public engagement planned for early 2025. The results will inform recommendations to the Vermont Legislature in 2025.

The study aims to provide actionable insights on cap-and-invest programs and their alignment with Vermont's statutory climate goals. The Climate Action Plan update, due in July 2025, will incorporate these findings to guide the state toward achieving its targets.

### **Facilitated Discussion**

Jim Redeker opened the facilitated discussion by asking participants to introduce themselves and the organization that they are associated with. He then asked if there were any clarifications needed to better understand the purpose of the cap-and-invest study. No

clarifications were needed. Additional questions were asked of participants. Participant responses are anonymous.

***Question for participants: What do you see as the biggest benefits of a cap-and-invest program for the state of Vermont and potentially for your business?***

A: Participant works as a lobbyist and serves many different clients. They believe that having a cap-and-invest program that is broken down by sectors would be very expensive. Also, it would impact their clients in different ways and be complicated for them to manage multiple programs that each essentially measure the same thing. Nevertheless, this participant stated that they think a cap-and-invest program is a good idea and will wait to see the outcome of the study.

*Comment:* Jane L. took a moment to clarify to participants the reason they were invited to be a part of this particular focus group. She explained that the study team wanted to gather feedback from businesses that could benefit from the program but could also be impacted by the potentially increasing costs upfront for fossil fuel. Participants were not necessarily chosen because they would be regulated by a cap-and invest program.

***Question for participants: How might your business be positively or negatively impacted if Vermont were to adopt cap-and-invest?***

A: Participant expressed concern over the role of offsets. They briefly discussed the offset program in California and identified it as an important study consideration, as offsets are important to provide a range of business opportunities. They understand New York has indicated their program will not provide an option for offsets. It's important to establish parameters at the beginning; claims should be verifiable.

*Comment:* Jane L. agreed and noted that this is something that is under consideration

A: Multiple participants expressed concern over the cost burden the program could create on residents and businesses. Because Vermont is such a small state, incremental costs on residents and businesses could impact the state's overall economy. Even businesses that run environmentally green operations or that are affected by climate change would be impacted by rising fuel prices. They believe that it is important not only for the project team to assess this, but also for the project team to continue to receive feedback from the public on the topic.

A: Another participant shared their concern over the impacts of having no bordering states that have a similar program. If the cost of doing business goes up, people could cross borders to where things are cheaper, but not every business is able to adjust to this change.

A: Participant stated that they believe that caps limit growth. The state is trying to increase housing development and population size, but some energy restrictions could be undermining these efforts.

A: Participant made several comments in response to the discussion. They explained that depending on how the revenue is spent from a cap-and-invest program, it could lead to cost savings not only for the state, but also for residents and businesses. The biggest question is what the most advantageous way would be to spend revenue so that these benefits are dispersed throughout the population. This participant also noted that in all the jurisdictions where they have seen cap-and invest implemented, complementary policies also had to be enacted to ensure that progress was made. They stated that Vermont would likely have to do the same if a cap-and-invest program is adopted, especially if the state is going to meet established emission goals.

***Question for participants: What is your perspective on the economic climate and businesses in Vermont?***

A: Participant stated that if there were more incentives provided by the state to use technologies that help reduce emissions they might be adopted more quickly by businesses.

A: Participant reiterated their concern of the size of the state and the impact of making a big change such as adopting a cap-and-invest program. They explained that businesses and residents could easily leave the state to avoid rising costs. Larger fuel suppliers might be able to adjust (e.g., more bio/renewable fuels) but smaller suppliers may have a hard time switching their business operations. It will be important for the state to determine how the revenue generated would be used and to think about how cap-and-invest would work with complementary programs to avoid fallout and alienating businesses or residents.

***Question for participants: Please share any other topics or program features that you think could enhance the effectiveness of a cap-and-invest program and/or to avoid developing an unsuccessful program.***

A: Participant commented that it's important to make allowance auctions open to a wide range of participants to ensure that the lowest cost reduction emissions can truly be realized. They also recommended that marketing for this program should be as broad as possible to ensure that it generates the amount of revenue needed for the program to be successful. Additionally, they recommended that the program be kept simple to start so that it's not so complicated that it discourages investment.

A: Participant recommended that because there are so many small businesses in the state, a cap-and-invest program should consider the size of the business in relation to the

emission thresholds. They also stated that there should be a choice in how revenue from allowances get invested into decarbonization or returned to the public.

***Question for participants: Are there additional stakeholders that the project team should reach out to include in the discussion of this topic?***

A: Participant recommended reaching out to heavy fuel users as they would likely be the most challenged by a cap-and-invest program.

### **Closing Remarks**

J. Redeker thanked everyone for their input and encouraged participants to stay involved and share additional feedback as the State moves toward final recommendations. J. Lazorchak provided final remarks based on the discussion, highlighting that the project team is identifying additional opportunities for public and stakeholder engagement on the study.