

CAP-AND-INVEST: Reducing Pollution, Investing in Communities & Supporting the Economy



New York State is undertaking one of the most ambitious and comprehensive efforts in the U.S. to address the threat of climate change by reducing climate-altering emissions from every sector of the economy and investing in an equitable renewable energy future for all New Yorkers. To ensure we meet our climate goals, Governor Hochul directed the Department of Environmental Conservation (DEC) and New York State Energy Research and Development Authority (NYSERDA) to advance an economywide Cap-and-Invest Program that establishes a declining cap on greenhouse gas emissions, limits potential costs to economically vulnerable New Yorkers, invests proceeds in programs that drive emission reductions in an equitable manner, and maintains the competitiveness of New York industries.

A Cap-and-Invest Program is the most feasible, efficient, and affordable method to attain a more sustainable future. At the Governor's direction, the State will design the Program with the express intent to reduce consumer costs, help businesses succeed in the low-carbon economy, and bring Program benefits to every community in the state. This process will solicit crucial feedback from consumers, labor, industry, and stakeholder groups to build out a system that works for everyone.

New York's Cap-and-Invest Program will draw from the experience of similar and successful programs across the country and the world that have yielded sizeable emissions reductions while catalyzing the clean energy economy. New York's electricity system is already part of a regional Cap-and-Invest Program, the Regional Greenhouse Gas Initiative (RGGI). Since RGGI was established, the program has helped reduce greenhouse gases from power plants by more than half and raised nearly \$6 billion to support cleaner energy solutions.

How Cap-and-Invest Works

Over the coming year, DEC and NYSERDA will design a program that sets an annual cap on the amount of pollution that is permitted to be emitted in New York. Every year, New York's pollution cap will be set lower and lower, with the aim of setting the State on a trajectory to meet our greenhouse gas reduction goals of 40% by 2030, and at least 85% from 1990 levels by 2050, as mandated by New York State law.

Large-scale greenhouse gas emissions sources and distributors of heating and transportation fuels will be required to purchase or obtain allowances for the emissions associated with their activities. By applying a price to the amount of pollution associated with polluting fuels, the Cap-and-Invest Program incentivizes consumers, businesses, and other entities to transition to lower-carbon alternatives. Proceeds will support the State's critical investments in climate mitigation, energy efficiency, clean transportation, and other projects, in addition to funding an annual Climate Action Rebate that will be distributed to New Yorkers to mitigate any potential consumer costs associated with the Program.

Governor Hochul's Guiding Principles

In directing DEC and NYSERDA to develop a Cap-and-Invest Program, the Governor laid out five core principles that will shape Program design:

- **Affordability:** A Cap-and-Invest Program must put the wellbeing of New York families first. In her upcoming Executive Budget, Governor Hochul will propose legislation to create a universal Climate

Action Rebate that is expected to drive more than \$1 billion in future cap-and-invest proceeds to New Yorkers every year. The Climate Action Rebate will be designed to mitigate consumer costs, while preserving crucial funding for consumer-led decarbonization efforts, including energy efficiency measures that reduce energy costs, clean mobility solutions that reduce transportation costs, and other investments that improve air quality and create new job opportunities. Furthermore, Governor Hochul will seek program design features that can help ensure potential Cap-and-Invest costs are predictable and manageable for all consumers and businesses.

- **Climate Leadership:** New York's Cap-and-Invest Program will not only help achieve New York's climate goals, but also further catalyze a nationwide movement towards carbon pricing. To that end, Governor Hochul is specifically directing DEC and NYSERDA to design a program with the capacity to join other current or future programs, which can lower the price of the transition overall.
- **Creating Jobs and Preserving Competitiveness:** Our Cap-and-Invest Program must be designed to launch new investment in industries that will create tens of thousands of good paying, family-sustaining jobs of the future that can lift up entire communities. From home retrofits to green manufacturing, Cap-and-Invest proceeds can stimulate the entire clean energy economy. The Governor is directing DEC and NYSERDA to take every precaution in Program design to limit the potential for "leakage" and ensure industries that are intrinsically energy intensive and trade exposed are not put at a competitive disadvantage by a Cap-and-Invest Program, and indeed are given the tools they need to decarbonize in a way that is compatible with economic growth. Furthermore, Cap-and-Invest proceeds can go towards just transition initiatives that ensure that no worker is left behind.
- **Investing in Disadvantaged Communities:** Cap-and-Invest will prioritize the frontline disadvantaged communities in our state that for far too long have suffered from pollution and environmental injustice. The Program will not allow the use of offsets that could allow high-emitting sources to continue to pollute and expand and will instead be designed to ensure pollution burdens are reduced. In addition, the Program will be designed to ensure pollution burdens are reduced in frontline communities. Under Governor Hochul's leadership, a minimum of 35 percent, with a goal of 40 percent, of investments will benefit Disadvantaged Communities. These investments will fund crucial programs to improve air quality, reduce reliance on polluting power plants, retrofit green schools, and clean up our transportation systems, among other vital efforts.

- **Funding a Sustainable Future:** Cap-and-Invest will provide funding needed to support the achievement of New York's climate goals. From helping business owners electrify operations to funding electric vehicle (EV) chargers and energy efficiency investments that will reduce energy bills, cap-and-invest proceeds will filter across our state – enhancing livability, cutting transition costs for consumers, and creating a better New York.

Cap-and-Invest Revenue Benefits Communities

Revenue raised by Cap-and-Invest auctions will be invested to bolster carbon reductions and help ensure the Program is affordable for all New Yorkers. Potential projects include:

Buildings

- Further support the 2 million electrified homes goal, prioritizing homes with high fossil fuel usage first to reduce costs
- Support buildout of thermal energy networks
- Reduce retrofit costs
- Support affordable housing in transit-oriented districts
- Further invest in Clean Green Schools

Vehicles

- EV incentives
- Zero-emission truck incentives
- Electric school bus deployment
- Transit expansion and electrification, including infrastructure support for bus lanes
- Infrastructure support for bike and pedestrian facilities

Industrial

- Efficiency and electrification investments

Research & Development and Solutions Pilots

- Research and deployment of zero-emission dispatchable generation

Just Transition Fund

- Energy-related workforce development
- Energy-related displaced worker benefits