Citizens' Climate Lobby
New York State

Cap-and-Invest Program with Climate Action Rebate

RELEVANT BUDGET SECTION: **2023/S4006 (PART TT)**

What is the Cap? Large greenhouse gas (GHG) emitters will bid for allowances, which permit them to emit a certain amount of carbon dioxide. The number of available allowances is limited by the cap, which will be set in accordance with the reduction limits outlined in the Climate Leadership and Community Protection Act (CLCPA) of 2019[1].

What is the Invest? The program would use the proceeds to invest in programs that drive emissions reductions in an equitable manner, limiting costs to economically vulnerable households. The budget includes a climate action rebate to return 30 to 33% of the Cap and Invest proceeds to consumers (plus 0 to 3% more for small businesses, totaling 33%), expected to return more than $1 billion to New Yorkers annually to protect them from costs associated with the transition to clean energy. The remaining proceeds are directed to be spent on state climate action programs.

How is the rebate distributed? The budget included a requirement for the DEC to conduct a "climate affordability" study, which was recently released[2]. The study provided recommendations for distributing the rebate in an equitable manner and identified various mechanisms for distributing rebates, including considerations for rebates not being considered taxable income for people receiving means-tested government assistance, such as food stamps.

Why Cap-and-Invest?

- It provides a market-based mechanism to drive innovation and achieve emissions cuts by putting a price on carbon (through emission-allowance auctions).
- In contrast to the cap-and-trade model, not only is there a price on carbon dioxide production, but the money is also invested back into renewable and energy-efficient state infrastructure.
- The climate action rebate helps protect low and middle-income people in the transition to clean energy.
- It is intended to have the capacity to link to similar programs in other jurisdictions to lower costs, reduce leakage, and catalyze greater emissions reductions at scale.

Future legislative considerations: We believe lawmakers will want more flexibility in the rebate structure to address affordability concerns that may arise. For example, by increasing the size of the rebate beyond 33% (up to 50%) as needed to better assist the most energy-vulnerable NY residents through the transition. The current "Not less than" language used in the bill sets a floor, but a higher ceiling will provide future flexibility to buffer unexpectedly high emission allowance auction prices, protect citizens from price jumps[3], and ensure durability over time.

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[1] The CLCPA establishes certain emission reduction limits of statewide greenhouse gas emissions to 60% of 1990 levels by 2030 and 15% of 1990 levels by 2050.

[2] https://www.nyserda.ny.gov/-/media/Project/Nyserda/Files/Press-Releases/Climate-Affordability-Study.pdf

[3] Washington State is seeing pushback again their cap & invest program due to gas price increases. https://www.seattletimes.com/opinion/editorials/was-cap-and-trade-system-may-go-up-in-smoke-without-reforms/