New Yorkers for Clean Power
New York Cap-and-Invest Teach-In Q+A follow up

Q: *What prevents polluters from passing these costs down the supply chain? If the cap doesn't eat into the polluters bottom line, the incentive to reduce pollution seems weakened.*

A: It depends on the type of polluter. We'll cover a few key categories below.

Electric power generators are already covered under another multistate cap-and-invest program called the Regional Greenhouse Gas Initiative (RGGI). The program incentivizes emissions-free sources of electricity over carbon-based sources and generates revenue for clean-energy and related investments.

The situation would be similar for any energy consumer with multiple fuel options; for example, in road transportation, the program would make electric vehicles relatively more attractive and help lower cost and other barriers to their adoption by driving further investments in electric transportation from the revenue generated by the program. Similarly, the revenue from the program can help homeowners affordably transition to heat pumps to escape any cost increases passed on to customers by fossil gas suppliers.

About a third of the revenue from the program will be distributed back to New Yorkers, for those with limited financial means, in order to compensate for the costs that are passed down to customers.

In the near term, most manufacturers without access to cost-effective technology for reducing emissions will be considered Emissions Intensive and Trade Exposed (EITE) entities that will be eligible to obtain cost-free allowances. Since the allowances will not cost them, they will not pass any costs to customers.

Q: *The consumer fund will provide support for LMI consumers to pay the higher prices passed on by polluters. Higher income consumers would be incentivised to leave fossil fuels behind in part by those higher prices, and both by the increased incentives – at least that seems like the theory. Is there more detailed information in the draft on how these mechanisms are to work, particularly how polluters are projected to change their operations as a result of NYCI? What sections/pages of the proposal deal with that?*

A: The consumer fund or the Consumer Climate Action Account is likely to offset the costs for LMI households. All energy customers of any income level will be incentivized to switch to clean energy to avoid the high and volatile prices for fossil oil and gas and will benefit from the program's investments aimed at lowering the barriers to the adoption of clean energy sources. Note that the prices of oil and fossil gas can swing wildly due to factors other than the inclusion of these fuels in the cap and invest program. Slide 7 has GHG reductions by sector anticipated in response to the modeled scenarios.

Q: *Every new market creates opportunities for financial reward, either by some way to "play the market" and/or by a new business role to package, buy and sell. What such "opportunities" do you see possibly emerging here? What measures do we request be put into place to prevent possible diversion of funds to another layer of business, rather than going directly into renewable & DAC investment?*

A: This was answered on zoom, but here's additional information and context.

The allowances will be auctioned by NYSERDA and the proceeds will be directed to a Climate Action Fund overseen by the State Comptroller and the Department of Taxation & Finance. The accounts within this fund will be used for providing the benefits, such as direct distributions and investments in various decarbonization projects in the transportation, buildings, and industrial sectors.

There isn't much opportunity for a private business to divert the funds. Moreover, the auction rules will be designed to minimize the possibility of market manipulation or for non-obligated entities to abuse the allowance market for purely financial gain unrelated to emissions reduction.

Q: *Am I correct in understanding that once the price ceiling is reached (which happens in every modeled scenario) there are unlimited additional allowances released above the cap so that polluters can comply? Doesn't that defeat the purpose of having a cap?*

A: Yes, that is true, and if the program adopts one of the modeled scenarios with unlimited additional allowances released, it would indeed defeat the purpose of having a cap. In fact, if the price ceiling is too low, the allowance price will stay mostly fixed at the ceiling price until the ceiling is raised, and instead of a market-based cap-and-invest program, the program will mimic a fixed carbon tax.

This is one of the reasons why we need to advocate for reasonable ceilings and better program design and parameters. Submitting comments at https://capandinvest.ny.gov/ expressing your concerns is one way to push back.

You can also use our form letter at https://p2a.co/vABXQ6O to send a message to the Hochul administration.

One thing to bear in mind is that even the low price ceilings will increase annually and in a few years will likely reach a level where the program starts becoming more effective. However, we continue to advocate for a highly effective program from the onset.

Q: *Is there discussion about making the cap a total cap on emissions such that only X amount of emissions permits would be issued, regardless of price ceiling?*

A: Yes, most climate and environmental groups are advocating for higher price ceilings and for not distributing an unlimited number of allowances above the price ceiling. Our form letter at https://p2a.co/vABXQ6O advocates for issuing allowances equivalent to no more than 10% of a given year's cap as a cost containment measure in that year.