**Massachusetts Campaign for a Clean Energy Future**

# Principles for Carbon Pricing/Cap-and-Invest

## Preamble

Climate change is the greatest environmental threat facing our health, safety, and economy and will have devastating effects on future generations.

Massachusetts has made strong commitments to address this crisis through the Global Warming Solutions Act of 2008 (GWSA), setting legal mandates to cut the state's greenhouse gas (GHG) emissions to 25% below the 1990 level by 2020 and to at least 80% below 1990 by 2050. However, the state's existing policies may not be stringent enough to meet the 2020 mandate and there is no plan to attain the 80% reduction by 2050.

Moreover, reports issued over the past year by the United Nations (International Panel on Climate Change) and the U.S. Government Global Change Research Program (National Climate Assessment Report), warn that even deeper emission reductions than those envisioned in 2008 will be needed, to avert catastrophic climate change.

The authors of these reports argue that **putting a price on greenhouse gas pollution is critical to achieving the deep emission cuts required to stabilize our global climate**. This could be achieved directly through a pollution fee or indirectly through a cap-and-invest policy on emissions.

## Basic Principles for Carbon Pricing in Massachusetts

The Massachusetts Campaign for a Clean Energy Future will use the principles below to decide whether to support particular carbon pricing proposals. It is essential that proposals meet these two principles:

- Achieve, in combination with other policies, the state's GHG reduction mandates;
- Ensure that the vast majority of low-income, and most moderate-income, people come out ahead or even from the combination of carbon pollution charges and use of the resulting revenues for rebates/tax cuts and reinvestment.

In addition, we support the following **design criteria** as necessary to achieve the two principles above:

1) **Sufficient fee rate or effective cap:** The rate charged per ton of carbon emissions must be high enough and rise quickly enough so that, in combination with the state's other GHG policies, Massachusetts will reach our GHG reduction mandates; or the cap must be set at or below the GWSA's mandated emission limits. The fee rate or cap level should be regularly reviewed and adjusted if projections show that we are not on track to meet the GWSA mandates.

2) **Economy-wide:** Preferably all major sources of GHG emissions should face a similar carbon price or a joint cap, but the systems may be integrated over time. For electricity, which is covered by RGGI at

present, and for any other sector where an emissions cap is adopted, carbon fees should be reduced by the amount paid for emission allowances.

3) **Progressive use of revenues for people and communities:**
   a. **Protect low and moderate income households:** Using rebates and targeted reinvestment, sufficient revenues must be allocated to ensure that the vast majority of low-income, and most moderate-income, households do not experience increases in their cost of living as a result of the policy.

   b. **Investment in low-income communities**: Because low-income communities are disproportionally affected by climate change, they must receive greater than their proportional share of revenues set aside for green energy and resilience investment programs.

   c. **Additional assistance for vulnerable households:** To the degree feasible, provide additional protection to low- and moderate-income households whose circumstances currently result in high carbon emissions. For example, rural residents (who must do more driving) and households with high-carbon heating fuels (such as fuel oil).

   d. **Rebates when needed:** Ensure low- and moderate-income households receive their rebates before they must pay their fuel bills and other energy costs.

   e. **Just transition:** Provide transition benefits and training for workers and communities who are affected by shrinkage of fossil fuel industries.

4) **Protect business and institutional competitiveness:** Provide sufficient rebates to MA businesses which are energy-intensive or in competition with firms from other states or nations that do not have carbon pricing systems, so that MA companies are not disadvantaged in comparison to those based elsewhere.

**5) Investment to cut emissions:** Substantial carbon revenues should be allocated to investments that reduce GHG emissions, while also meeting essential public needs and creating jobs. This includes projects that support renewable energy, energy efficiency, low-carbon transportation, and resilience to climate change impacts.

**6) Regulations subsequent to legislation:** We are open to policies that leave the state administration with options on how to use carbon pricing revenue, as long as low- and moderate-income households are protected. In such a case, we will advocate for preferred use of the revenues, including investment in clean energy and transportation, in regulatory procedures subsequent to passage of legislation.

7) **Integrity of emissions cap and carbon fees:** The various design aspects of the program should be transparently constructed and evaluated in order to ensure the program's effectiveness:
   a. If offsets are allowed (paying for GHG emissions outside the regulated sectors, enabling a company to reduce its obligations to purchase emission permits) they must meet the requirements currently used by the Regional Greenhouse Gas Initiative (RGGI).[1]
   b. Baseline (initial year) emissions must be transparently calculated and the initial cap must be stringent enough to avoid a future surplus of "banked" allowances.
   c. Leakage (shifting of emissions to other states) must be prevented to the degree possible, under either an emissions cap or carbon fees.

[1] These include that the offsets must be located within one or more of the RGGI states; are limited to a small number of specified types; and must be real, additional, verifiable, enforceable, and permanent (terms defined in the RGGI regulations).

d. A price floor must be included that ensures stability of revenues and allowance prices in the range anticipated in the policy design.
e. If a price ceiling is included it must be sufficiently high that the emissions cap is exceeded only in extreme circumstances.


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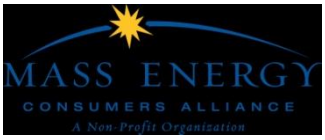


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