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HOUSE FILE No. 3195

FIRST COMMITTEE ENGROSSMENT

February 18, 2008

Authored by Knuth, Wagenius, Hausman, Hilty, Lieder and others

The bill was read for the first time and referred to the Committee on Environment and Natural Resources

March 6, 2008

Committee Recommendation and Adoption of Report:

To Pass as Amended and re-referred to the Committee on Commerce and Labor

March 17, 2008

Committee Recommendation and Adoption of Report:

To Pass as Amended and re-referred to the Committee on Finance

Referred by Chair to Energy Finance and Policy Division.

March 17, 2008

Returned to the Committee on Finance as Amended.

1.1 A bill for an act
1.2 relating to environment; establishing principles of a cap and trade program for
1.3 greenhouse gas emissions; requiring studies; appropriating money; proposing
1.4 coding for new law in Minnesota Statutes, chapter 216H.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. **[216H.10] TITLE.**

1.7 This act may be cited as the "Green Solutions Act of 2008."

1.8 Sec. 2. **[216H.11] CAP AND TRADE PROGRAM.**

1.9 Subdivision 1. **Intent.** It is the intent of the legislature that Minnesota participate in
1.10 the midwest regional cap and trade program to help achieve the greenhouse gas emissions
1.11 reductions goals established in section 216H.02, subdivision 1.

1.12 Subd. 2. **Principles.** The legislature recognizes that the atmosphere and climate are
1.13 common assets, and damage to them by greenhouse gas emissions are costs now borne by
1.14 the public. Capping greenhouse gas emissions places a market value on emissions, and
1.15 that market value should accrue to the public. It is the intent of the legislature that any cap
1.16 and trade program developed pursuant to section 216H.12 should take into account the
1.17 results of the studies required under section 216H.13, and should consider:

1.18 (1) covering as many emitting sectors as is administratively feasible, but excluding
1.19 sectors from which emissions cannot be reliably quantified, giving particular scrutiny to
1.20 whether emissions from the transportation sector can be reliably quantified;

1.21 (2) auctioning allowances to the extent economically feasible and directing all
1.22 proceeds from any auction toward the public benefit;

2.1 (3) allowing auctions to be phased in if necessary to protect consumers and industries
2.2 from sudden price increases, provided that protections are in place to ensure that windfall
2.3 profits do not accrue to entities allocated allowances during the transition;

2.4 (4) ensuring that the emissions reductions necessary to meet the cap come from the
2.5 capped sectors themselves rather than from sectors outside the cap;

2.6 (5) not increasing the emissions cap by allowing the issuance of allowances beyond
2.7 the limits specified in section 216H.02; and

2.8 (6) providing for equity to communities at risk of disproportionate economic and
2.9 environmental impacts.

2.10 **Sec. 3. [216H.12] MIDWESTERN GREENHOUSE GAS ACCORD.**

2.11 (a) By December 1, 2008, the commissioner of commerce shall submit a report
2.12 to the chairs and ranking minority members of the senate and house of representatives
2.13 committees with primary jurisdiction over energy policy, environmental policy, and
2.14 transportation policy describing the status of the development of a model rule establishing
2.15 a regional cap and trade program under the Midwestern Greenhouse Gas Accord. The
2.16 report must address the degree to which any model rule being developed under the
2.17 Midwestern Greenhouse Gas Accord incorporates the principles set forth in section
2.18 216H.11, and will operate in a time frame that will allow Minnesota to meet its greenhouse
2.19 gas emissions-reduction goals under section 216H.02, subdivision 1. If a model rule
2.20 incorporating those principles and in accord with the state's emissions-reduction goals is
2.21 not yet ready for adoption, or is unlikely to be adopted, the report must identify options
2.22 for Minnesota to supplement the regional agreement with state policies, to join another
2.23 regional cap and trade program, or to implement a cap and trade program in Minnesota
2.24 alone.

2.25 (b) The senate and house of representatives, in accordance with the rules of
2.26 their respective bodies, must appoint a bipartisan team of six legislators to serve in an
2.27 advisory role to the governor's Midwestern Greenhouse Gas Accord stakeholder group.
2.28 The legislators must receive regular briefings from the stakeholder group and have an
2.29 opportunity to participate as observers in meetings of the regional negotiations and may
2.30 offer advice.

2.31 (c) Any cap and trade agreements entered into are not effective in Minnesota until
2.32 enacted into law.

2.33 **Sec. 4. STUDIES.**

3.1 Subdivision 1. **Governance study.** The University of Minnesota shall issue a
3.2 request for proposals for a study that describes and analyzes several options regarding
3.3 how decisions on expenditures of revenues captured by any cap and trade program may be
3.4 made. The study must examine:

3.5 (1) the role that the legislature, citizens, technical experts, and state agencies may
3.6 play in decision making; and

3.7 (2) innovative decision-making structures and processes, including the
3.8 Legislative-Citizens Commission on Minnesota Resources, and other examples in
3.9 Minnesota and other states and countries that may offer useful models to consider.

3.10 The report must be submitted to the University of Minnesota by January 1, 2009.

3.11 Subd. 2. **Economic and emissions study.** (a) The commissioner of commerce
3.12 shall conduct a study of the economic, environmental, and public health costs and
3.13 benefits of a cap and trade program incorporating the principles established in section
3.14 216H.11. The study must consider the impact of the cap and trade program on individual
3.15 industrial sectors subject to the program and on the state economy and consumers, and
3.16 how expenditures of any auction revenues on the measures identified in subdivision 3 can
3.17 reduce the economic costs and increase the economic, environmental, and public health
3.18 benefits.

3.19 (b) The study must include:

3.20 (1) estimates of the costs to entities covered by the cap to buy allowances or reduce
3.21 greenhouse gas emissions;

3.22 (2) estimates of the impact of the program on energy costs, the impact of energy
3.23 cost changes on businesses and households, and recommendations on how to avoid
3.24 regressive impacts;

3.25 (3) projections of likely revenues if allowances are auctioned;

3.26 (4) a detailed estimate of the degree to which different levels of expenditures of
3.27 auction proceeds on the options listed under subdivision 3, clauses (1) to (6), would:

3.28 (i) reduce greenhouse gas emissions;

3.29 (ii) reduce economic costs to industry and households;

3.30 (iii) yield jobs and other economic benefits by stimulating economic activity,
3.31 promoting the growth of new businesses, reducing the amount of money leaving the state
3.32 to purchase fossil fuels, or other means;

3.33 (iv) result in environmental and public health co-benefits by reducing pollutants
3.34 other than greenhouse gases, improving habitat, or other means; and

3.35 (v) otherwise meet the goals identified in subdivision 4;

4.1 (5) discussion of the potential for any allowances allocated under the program to
4.2 result in windfall profits rather than be used to reduce consumer prices;

4.3 (6) analysis of ways to avoid putting Minnesota industries subject to the cap and
4.4 trade program at a competitive disadvantage with competitors not subject to comparable
4.5 regulation;

4.6 (7) options for criteria that decision makers can use to determine how to allocate
4.7 expenditures among the spending options listed under subdivision 3, balancing the goals
4.8 set forth in subdivision 4;

4.9 (8) analysis of various mechanisms for protecting job loss in energy-intensive
4.10 industries subject to competition from outside the Midwestern Greenhouse Gas Accord
4.11 region, including steel, cement, paper, pulp, aluminum, and chemicals, including an
4.12 analysis of possible mechanisms to account for the greenhouse gas emissions associated
4.13 with the production and transportation of imported goods;

4.14 (9) analysis of various mechanisms to provide for equity to communities at risk of
4.15 disproportionate economic or environmental impacts; and

4.16 (10) analysis of the effect of adopting a cap and trade program on the level of
4.17 foreign investment in Minnesota.

4.18 (c) The study must consider the data and policy recommendations developed through
4.19 the Minnesota Climate Change Advisory Group as well as the growing literature related to
4.20 reducing greenhouse gas emissions.

4.21 (d) By January 1, 2009, the study must be submitted to the chairs and ranking
4.22 minority members of the senate and house of representatives committees with primary
4.23 jurisdiction over energy policy and environmental policy.

4.24 Subd. 3. **Expenditures to be studied.** (a) The study required under subdivision 2
4.25 must consider the impacts of the following types of expenditures:

4.26 (1) direct per capita rebates to Minnesotans;

4.27 (2) grants and incentives to consumers to invest in energy efficiency and utilize
4.28 renewable energy sources, or in other technologies, products or practices that reduce
4.29 energy costs, energy consumption, and greenhouse gas emissions;

4.30 (3) financial assistance to businesses that install technologies that reduce their
4.31 facilities' greenhouse gas emissions, targeting energy-intensive industries facing
4.32 competitors not subject to comparable regulation including, but not limited to, steel, pulp,
4.33 paper, cement, chemicals, and aluminum;

4.34 (4) investments in public infrastructure that reduce greenhouse gas emissions;

4.35 (5) investments in worker training and retraining programs; and

4.36 (6) incentives for carbon sequestration on forest land and farmland.

5.1 (b) A majority of expenditures must be directed to uses under paragraph (a), clauses
5.2 (1) and (2).

5.3 Subd. 4. **Study criteria.** The study required under subdivision 2 must determine the
5.4 extent to which expenditures on the measures identified in subdivision 3 assist Minnesota's
5.5 transition to a low greenhouse gas-emitting economy and increase the economic gains
5.6 and reduce the dislocating impacts of the transition. Specifically, the study must discuss
5.7 the extent to which expenditures meet the following goals:

5.8 (1) produce cost-effective emissions reductions;

5.9 (2) increase sustainable economic development, job creation, and job growth;

5.10 (3) reduce greenhouse gas emissions in sectors that do not participate in the cap
5.11 and trade program;

5.12 (4) reduce disruptive economic impacts of the transition on workers, businesses,
5.13 and consumers;

5.14 (5) equitably distribute the costs and benefits among state residents, communities,
5.15 and economic sectors;

5.16 (6) assist low-income and other consumers to reduce their costs associated with
5.17 greenhouse gas emissions; and

5.18 (7) protect and enhance public health, environmental quality, wildlife habitat, and
5.19 the state's natural resources.

5.20 **Sec. 5. APPROPRIATION.**

5.21 (a) The commissioner of commerce may assess up to \$500,000 under section
5.22 216B.62. The amount of the assessment is appropriated to the commissioner of commerce
5.23 for the purposes stated in paragraphs (b) and (c). The assessment is not subject to the cap
5.24 on assessments provided under section 216B.62 or any other law.

5.25 (b) The commissioner of commerce may transfer up to \$150,000 of the amount
5.26 appropriated under paragraph (a) to the Board of Regents of the University of Minnesota
5.27 to be used for the purposes of completing the study under section 4, subdivision 1.

5.28 (c) The commissioner of commerce may use up to \$350,000 of the amount
5.29 appropriated under paragraph (a) for the purposes of completing the study under section 4,
5.30 subdivision 2.

5.31 **Sec. 6. EFFECTIVE DATE.**

5.32 Sections 1 to 5 are effective the day following final enactment.