

Sec. 1. 30 V.S.A. § 254 is added to read:

§ 254. REGIONAL COORDINATION TO REDUCE GREENHOUSE
GASSES

(a) Legislative findings. The general assembly finds:

(1) There is a growing scientific consensus that the increased anthropogenic emissions of greenhouse gases is enhancing the natural greenhouse effect resulting in changes in the earth's climate.

(2) Climate change poses serious potential risks to human health and terrestrial and aquatic ecosystems globally, regionally, and in Vermont.

(3) A carbon constraint on fossil fuel-fired electricity generation and the development of a CO2 allowance trading mechanism will create a strong incentive for the creation and deployment of more efficient fuel-burning technologies, renewable resources, and end-use efficiency resources, and will lead to lower dependence on imported fossil fuels.

(4) Absent federal action, a number of states are taking actions to work regionally to reduce power sector carbon emissions.

(5) Vermont has joined with at least 6 other states to design the Regional Greenhouse Gas Initiative (RGGI), and in 2005 Vermont's Governor signed a memorandum of understanding (MOU) signaling Vermont's intention to develop rules and programs to participate in RGGI.

(6) It is crucial to manage Vermont's implementation of RGGI so as to maximize the state's contribution to lowering carbon emissions while minimizing impacts on electric system reliability and unnecessary costs to Vermont power consumers.

(7) The accelerated deployment of low-cost energy efficiency and the strategic use of low- and zero-carbon generation are the best means to achieve these goals.

(8) It is crucial that funds made available from operation of a regional carbon credits cap-and-trade system be devoted to the benefit of Vermont power consumers through investments in a strategic portfolio of energy efficiency and low-carbon generation resources.

(b) Cap and trade program creation.

(1) The agency of natural resources and the public service board shall, through appropriate rules and orders, establish a carbon cap and trade program that will limit and then reduce the total carbon emissions released by major electric generating stations that provide electric power to Vermont utilities and end-use customers.

(2) Vermont rules and orders establishing a carbon cap and trade program shall be designed so as to permit the holders of carbon credits to trade them in a regional market proposed to be established through the RGGI.

(c) Allocation of tradable carbon credits.

(1) The secretary of natural resources, by rule, shall establish a set of annual carbon budgets for emissions associated with the electric power sector in Vermont consistent with the 2005 RGGI MOU and on a reciprocal basis with the other states participating in the RGGI process.

(2) In order to provide the maximum long-term benefit to Vermont electric consumers, particularly benefits that will result from accelerated and sustained investments in energy efficiency and other low-cost, low-carbon power system investments, the public service board, by rule or order, shall establish a process to allocate 100% of the Vermont statewide budget of tradable power sector carbon credits and the proceeds from the sale of those credits through allocation to one or more trustees acting on behalf of consumers in accordance with the following principles. **To the extent feasible, the allocation plan shall accomplish the following goals:**

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(A) minimize windfall financial gains to power generators as a result of the operation of the cap-and-trade program, considering both the costs that generators may incur to participate in the program and any power revenue increases they are likely to receive as a result of changes in regional power markets;

(B) employ an administrative structure that will enable program managers to hold, bank, and sell carbon credits in regional, national, and international carbon credit markets in a financially responsible and market-

sensitive fashion, and provide funds to defray the reasonable costs of the program trustee(s) and the administrative costs of Vermont's pro-rata share of the costs of the RGGI regional organization;

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(C) maximize the revenues received from the management and sale of carbon credits for the benefit of Vermont electric customers and the Vermont economy;

(D) minimize any incentives from operation of the cap and trade program for Vermont utilities to increase the overall carbon emissions associated with serving their customers;

(E) build upon existing administrative structures and programs that lower power costs, improve efficiency, and lower the carbon profile of the state's power supply;

(F) ensure that carbon credits allocated under this program and revenues associated with their sale, remain power system assets managed for the benefit of electric consumers, particularly benefits that will result from accelerated and sustained investments in energy efficiency and other low-cost, low-carbon power system investments; and

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(G) where practicable, support efforts recommended by the agency of natural resources or the department of public service to stimulate investment in the development of innovative carbon emissions

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abatement technologies, in the power sector, with significant carbon reduction potential.

(d) Appointment of consumer trustees. The public service board, by rule, order, or competitive solicitation, may appoint one or more consumer trustees to receive, hold, **bank**, and sell tradable carbon credits created under this program. Trustees may include Vermont electric distribution utilities, the fiscal agent collecting and dispersing funds to support the statewide efficiency utility, or a financial institution **or other entity** with the expertise and financial resources to manage a portfolio of carbon credits for the long term benefit of Vermont consumers.

(e) Investment of carbon credit revenues. The public service board shall ensure that proceeds from the sale of carbon credits by the trustee or trustees shall be devoted to the benefit of Vermont power consumers through investments in a strategic portfolio of energy efficiency and low-carbon generation resources.