

A bill for an act
relating to environment; establishing principles of a cap and trade program for
greenhouse gas emissions; establishing a climate trust fund, and specifying its
goals and uses; requiring studies; appropriating money from the general fund;
proposing coding for new law in Minnesota Statutes, chapter 216H.

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

Section 1. **[216H.10] FINDINGS; TITLE.**

(a) The legislature finds that a cap and trade program, combined with supporting policies, will achieve Minnesota's greenhouse gas emissions reduction goals in a cost-effective manner. These goals, established in section 216H.02, subdivision 1, require reductions of 15 percent from 2005 levels by 2015, 30 percent by 2025, and 80 percent by 2050. The legislature further finds that the right to emit greenhouse gases should be auctioned to emitting facilities rather than allocated at no cost, with proceeds from the auction returned to citizens and invested in projects that reduce greenhouse gas emissions and advance the transition to a low greenhouse gas-emitting economy in a manner that maximizes public benefits and minimizes public costs. The legislature concludes that a greenhouse gas cap and trade program is best pursued in cooperation with other states and encourages the continued development of a midwestern cap and trade program. The legislature finds that the interests of the public are best served by a cap and trade program that is broadly based, simple, predictable, equitable, and transparent. The legislature intends that the activities undertaken pursuant to this program complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.

(b) This act may be cited as the Green Solutions Act of 2008.

Sec. 2. **[216H.11] DEFINITIONS.**

Subdivision 1. **Allowance.** "Allowance" means a permit that allows the owner of that permit to emit a specified amount of carbon or carbon-equivalent into the atmosphere.

Subd. 2. **Cap and trade program.** "Cap and trade program" means a program that limits the number of allowances of greenhouse gases sold to facilities and allows facilities to buy, sell, and trade allowances in order to comply with the limit.

Subd. 3. **Commissioner.** "Commissioner" means the commissioner of commerce.

Subd. 4. **Greenhouse gases.** "Greenhouse gases" means carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride emitted by anthropogenic sources within the state and from the generation of electricity imported from outside the state and consumed in Minnesota.

Subd. 5. **Greenhouse gas emissions.** "Greenhouse gas emissions" means emissions of greenhouse gases into the atmosphere. Carbon dioxide that is injected into geological formations to prevent its release to the atmosphere in compliance with applicable laws, and carbon dioxide associated with the combustion of fuels other than coal, petroleum, and natural gas, are not greenhouse gas emissions.

Sec. 3. **[216H.12] CAP AND TRADE PROGRAM.**

Subdivision 1. **Intent.** It is the intent of the legislature that a cap and trade program be implemented in Minnesota to help achieve the greenhouse gas emissions reductions goals established in section 216H.02, subdivision 1. Any cap and trade program adopted in Minnesota must be in accord with the principles specified in this section.

Subd. 2. **Sectors included.** The cap and trade program must apply, at a minimum, to the following sectors: electricity generation, large industrial facilities, transportation fuels, natural gas sold to heat buildings, and landfills. The commissioner shall add additional sectors if the commissioner determines that:

(1) significant reductions in greenhouse gas emissions may be made cost-effectively by a sector's inclusion in the cap and trade program;

(2) inclusion of the sector does not unduly burden the administration of the cap and trade program; and

(3) the sector's greenhouse gas emissions and reductions can be reliably measured and verified.

Subd. 3. **Auction.** All allowances issued by the state under a cap and trade program must be distributed through auction to individual facilities that are part of the sectors specified in subdivision 2.

3.1 Subd. 4. **Reductions from outside program prohibited.** Greenhouse gas emissions
3.2 reductions must be made from Minnesota facilities in sectors included in the cap and
3.3 trade program. Greenhouse gas emissions reductions associated with projects outside the
3.4 sectors covered by the cap, or outside the geographical boundaries of a regional cap
3.5 and trade program of which Minnesota is a part, must not be recognized for compliance
3.6 purposes. Allowances issued by other jurisdictions with which the state has established
3.7 a formal trading relationship under a regional cap and trade program may be used for
3.8 compliance purposes.

3.9 Subd. 5. **Issuing additional allowances prohibited.** The cap and trade program
3.10 must prohibit the issuance of additional allowances beyond the limit of the cap. The state
3.11 may not enter into a trading relationship with any jurisdiction that issues such additional
3.12 allowances.

3.13 **Sec. 4. [216H.13] MIDWESTERN GREENHOUSE GAS ACCORD.**

3.14 (a) The governor is strongly encouraged to work with other signatories to the
3.15 Midwest Greenhouse Gas Accord to develop a regional cap and trade program that
3.16 incorporates the principles specified in section 216H.12, and that enables Minnesota to
3.17 achieve the greenhouse gas emissions reductions goals established in section 216H.02,
3.18 subdivision 1.

3.19 (b) The legislature must approve, in all particulars, any regional cap and trade
3.20 program agreed to by the governor, before the cap and trade program becomes effective in
3.21 this state.

3.22 (c) By December 1, 2008, the commissioner of commerce and the commissioner
3.23 of pollution control shall submit a report to the chairs and ranking minority members
3.24 of the senate and house of representatives committees with primary jurisdiction over
3.25 energy policy, environmental policy, and transportation policy describing the status of the
3.26 development of a model rule establishing a regional cap and trade program under the
3.27 Midwestern Greenhouse Gas Accord. The report must address the degree to which any
3.28 model rule being developed under the Midwestern Greenhouse Gas Accord incorporates
3.29 the principles set forth in section 216H.11, and will operate in a time frame that will allow
3.30 Minnesota to meet its greenhouse gas emissions reduction goals under section 216H.02,
3.31 subdivision 1. If a model rule incorporating those principles and in accord with the state's
3.32 emissions-reduction goals is not yet ready for adoption, or is unlikely to be adopted, the
3.33 report must identify options for Minnesota to join another regional cap and trade program
3.34 or to implement a cap and trade program in Minnesota alone.

Sec. 5. [216H.14] CLIMATE TRUST FUND; ESTABLISHMENT.

The climate trust fund is established in the state treasury. Revenues from the auction of allowances authorized under section 216H.12, subdivision 3, interest, dividends, other contributions, and any other earnings arising from fund assets must be credited to the fund. Money remaining in the fund after all obligations are met do not cancel and must be carried forward to subsequent years.

Sec. 6. [216H.15] CLIMATE TRUST FUND; GOALS AND USES.

Subdivision 1. **Goals.** Expenditures from the climate trust fund must be used to assist Minnesota in its transition to a low greenhouse gas-emitting economy, and to increase the economic gains and reduce the dislocating impacts of the transition. Money in the fund must support actions that:

- (1) produce cost-effective emission reductions;
- (2) increase sustainable economic development, job creation, and job growth;
- (3) reduce greenhouse gas emission reductions in facilities that do not participate in the cap and trade program;
- (4) reduce disruptive economic impacts of the transition on workers, businesses, and consumers;
- (5) equitably distribute the costs and benefits (i) among state residents, communities, and economic sectors, and (ii) in particular, among low-income residents to reduce their costs associated with greenhouse gas emissions; and
- (6) protect and enhance public health, environmental quality, wildlife habitat, and the state's natural resources.

Subd. 2. **Expenditures.** Expenditures from the climate trust fund must be consistent with the goals in subdivision 1. Expenditures from the fund may include:

- (1) direct dividends to consumers to defray increased costs of using energy sources that emit high levels of greenhouse gases;
- (2) grants and incentives to consumers to invest in energy efficiency and utilize renewable energy sources;
- (3) financial assistance to businesses that install technologies that reduce their facilities' greenhouse gas emissions, targeting energy-intensive industries facing competitors not subject to comparable regulation including, but not limited to, steel, pulp, and paper;
- (4) investments in public infrastructure that reduce greenhouse gas emissions;
- (5) investments in worker training and retraining programs; and

(6) financial support to study and implement terrestrial carbon sequestration practices, including incentives for Minnesota landowners to implement terrestrial carbon sequestration practices.

A majority of expenditures from the fund must be directed to uses under clauses (1) and (2).

Subd. 3. **Fund governance; study.** The Legislative Coordinating Commission shall issue a request for proposals for a study that describes and analyzes several options regarding how decisions on expenditures from the climate trust fund may be made. The study must examine:

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

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

The report must be submitted to the Legislative Coordinating Commission by January 1, 2009.

Subd. 4. **Economic and emissions study.** The commissioner of commerce shall issue a request for proposals for a study of the economic impact of the implementation of a cap and trade program incorporating the principles established in section 216H.12 on individual industrial sectors subject to the cap and trade program and on the state economy and consumers, and how expenditures under the fund can reduce these economic impacts. The study must include:

(1) estimates of allowance prices and rates of investment by facilities subject to the cap and trade program in infrastructure and equipment to reduce emissions of greenhouse gases over time;

(2) estimates of increases in energy prices for fuels whose consumption produces greenhouse gas emissions, the impact of price increases on businesses and family income, and the degree of regressivity of the price increases;

(3) measures of the degree to which different levels of expenditures from the fund under subdivision 2, clauses (1) to (6), reduce economic impacts on industry and families and achieve greenhouse gas emissions reductions;

(4) an estimate, using the data on the cost-effectiveness of various greenhouse gas emissions reduction actions developed by the Minnesota Climate Change Advisory Group, and developing measures for additional reduction actions, of the marginal impact on reducing greenhouse gas emissions for each action;

(5) analysis of ways to avoid putting Minnesota industries subject to the cap and trade program at a competitive disadvantage with competitors not subject to comparable regulation. By January 1, 2009, the study must be submitted to the chairs and ranking minority members of the senate and house of representatives committees with primary jurisdiction over energy policy and environmental policy; and

(6) options for criteria that decision makers can use to determine how to allocate expenditures among the goals listed under subdivision 1 and the spending options listed under subdivision 2, balancing the goals of emission reductions and reducing the economic impact of increased energy costs.

Sec. 7. **APPROPRIATION.**

(a) \$..... is appropriated from the general fund for the purposes of completing the study under Minnesota Statutes, section 216H.14, subdivision 3.

(b) \$..... is appropriated from the general fund for the purposes of completing the study under Minnesota Statutes, section 216H.14, subdivision 4.

Sec. 8. **EFFECTIVE DATE.**

Sections 1 to 7 are effective the day following final enactment.