Department of Planning and Budget
2016 Fiscal Impact Statement

1. **Bill Number:** HB351

House of Origin	X	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** Villanueva

3. **Committee:** Commerce and Labor

4. **Title:** Virginia Alternative Energy and Coastal Protection Act.

5. **Summary:** Requires the Governor to seek to join the Regional Greenhouse Gas Initiative (RGGI) or other carbon (CO2) trading program with an open auction of carbon allowances. The Department of Environmental Quality is directed to establish a carbon dioxide cap and trade program to reduce emissions released by electric generation stations. The revenues from the sale of carbon allowances are to be deposited in the Commonwealth Resilience Fund, a revolving fund established by this measure that is to serve as a revenue source to assist localities with the implementation of adaptation efforts to combat sea level rise and recurrent flooding. The Commonwealth Resilience Fund also provides funding for energy efficiency and conservation programs; economic assistance for families and businesses in Southwest Virginia; renewable energy generation programs, and costs of administering the program.

6. **Budget Amendment Necessary**: Yes, Item 369 (HB30/SB30) – See Item 8 below.

7. **Fiscal Impact Estimates:** Preliminary.

7a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2016	$0	N/A	
2017	$190,000	2	GF
2018	$190,000	2	GF
2019	$390,000	2	GF
2020	$760,000	8	NGF
2021	$760,000	8	NGF
2022	$760,000	8	NGF

7b. Expenditure Impact: (the Commonwealth Resilience Fund)

Fiscal Year	*Dollars*	*Positions*	*Fund*
2016	$0	N/A	
2017	$0	0	N/A
2018	$0	0	N/A
2019	$0	0	N/A
2020	$249,240,000	0	NGF
2021	$249,240,000	0	NGF

2022	$249,240,000	0	NGF

7c. Revenue Impact: (the Commonwealth Resilience Fund)

Fiscal Year	*Dollars*	*Fund*
2016	$0	N/A
2017	$0	N/A
2018	$0	N/A
2019	$0	N/A
2020	$250,000,000	NGF
2021	$250,000,000	NGF
2022	$250,000,000	NGF

8. **Fiscal Implications:** The fiscal impact of this bill is based on Virginia becoming a full participant in the RGGI, rather than another carbon trading program. If Virginia were to join another trading program, then the revenue estimate in table 7c above, could increase/decrease depending on the number of other participants included in the trading program and the ultimate trading price. The expenditure needs in table 7a above are expected to be the same, but the expenditures in table 7b above, could change.

   The Department of Environmental Quality (DEQ) estimates that it will need two positions ($95,000 each) for FY 2017, FY 2018, and FY 2019. These positions are needed to develop programs for implementing the goals of the Commonwealth Resilience Fund, which includes setting up the entire framework for this large new program, coordinating program requirements with localities and other entities, and setting up the financial infrastructure on both the revolving fund and the distribution process. Beginning no later than June 30, 2017, DEQ is required to adopt rules and regulations that establish a carbon dioxide cap and trade program to reduce emissions released by electric generating stations and permit holders of carbon dioxide allowances to trade them in a regional market.

   In FY 2019, DEQ will need a contractor that specializes in open auctions of carbon allowances. Overseeing auctions is not an activity DEQ currently undertakes, and estimates that it will cost $200,000. In FY 2020, once the revenue begins to be generated, six additional nongeneral fund positions are needed to oversee the management of the funds, including the review of funding applications from cities, municipalities, counties, state agencies, businesses, and other entities for use of the Fund. Also, the bill provides that the Department of Mines, Minerals, and Energy (DMME) be consulted on possible renewable energy and energy conservation grants. Given this, DMME notes that this bill could increase their workload, but that the revenue generated could offset their costs.

   The State Cooperation Commission (SCC) is tasked with the possible refund of any or all of the unused and unneeded moneys in the Fund to “ratepayers” of electric utilities regulated by the SCC. The bill provides that the SCC shall adopt procedures through which electric utilities shall refund the moneys to their customers on a proportionate basis. Currently, there are no such regulations for this to occur. Creating these regulations could impact the SCC’s workload and systems, and have an expenditure impact; however, this cannot be determined at this time. Unlike DEQ and DMME, the SCC is not allocated funding from the revenue generated for administration of these provisions.

According to DEQ, approximately 25 to 29 million tons of carbon allowances are estimated to be available each year. At an estimated price of $10 per ton, the overall revenue from this bill could generate $250.0 to $290.0 million annually that could be deposited to the Commonwealth Resilience Fund (the December 2015 auction price was $7.50 per ton, which could have resulted in $187.5 million). The final price is dependent on supply and demand, but $10 per ton is assumed for this estimate. (There is a possibility that revenue may not be realized until after FY 2020 if the decision were made to join a carbon trading program other than RGGI since additional administrative time made be needed.)

According to the bill, the Fund shall be disbursed in the following manner:

- 50 percent of the revenue will assist cities, counties, and towns affected by recurrent flooding, sea level rise, and flooding from severe weather events with adaptation and resilience efforts (which is estimated to be $125.0 million).
- 30 percent of the revenue will be provided to an energy efficiency and conservation programs account to provide energy efficiency and conservation grants and support the development and promotion of energy efficiency programs and conservation in the Commonwealth (which is estimated to be $75.0 million).
- 10 percent of the revenue will be directed to the Southwest Economic Development program of the Tobacco Region Revitalization Commission to provide economic development, education, and workforce training assistance for families and businesses in Southwest Virginia for the purpose of revitalizing communities negatively affected by the decline of fossil fuel production (which is estimated to be $25.0 million).
- 5 percent of the revenue will be credited to a renewable energy generation programs account to provide renewable energy grants and support the development and promotion of Distributed Renewable Energy Programs in the Commonwealth (which is estimated to be $12.5 million).
- 5 percent may be used to cover reasonable costs of DEQ and DMME for the administration of the provisions of this bill (which is estimated to be $12.5 million). Any unused administrative revenue shall be used to assist cities, counties, and towns affected by recurrent flooding, sea level rise, and flooding from severe weather events with adaptation and resilience efforts.

If DEQ finds that significant unused and unneeded moneys have accumulated in Fund, then they may notify the State Corporation Commission (SCC). The SCC will have the authority to, refund any or all of the unused and unneeded moneys in the Fund to customers of electric utilities after the transfer of such money has been made to the SCC.

9. **Specific Agency or Political Subdivisions Affected:** The Department of Mines, Minerals and Energy, the Department of Environmental Quality, the State Corporation Commission, the Tobacco Region Revitalization Commission, and localities.

10. Technical Amendment Necessary: No.

11. Other Comments: The bill does not define “ratepayers” (electric, natural gas, jurisdictional, non-jurisdictional customers, etc.).

This is a companion to SB 571.

The RGGI became the first mandatory cap-and-trade program to limit CO2 emissions in the United States in 2009. Electric power generators located in the states participating in RGGI are required to obtain a number of CO2 allowances equal to the number of tons of CO2 they emit. RGGI distributes CO2 emissions allowances to the market primarily through auctions, making it distinctive among existing cap-and-trade programs. Regulated power plants can use a CO2 allowance issued by any participating state to demonstrate compliance with an individual state program. In this manner, the state programs, in aggregate, function as a single regional compliance market for CO2 emissions.

The RGGI is a cooperative effort among the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont to cap and reduce power sector CO2 emissions.

Date: 02/04/2016 /jlm
c: Secretary of Natural Resources
Secretary of Commerce and Trade