TRANSPORTATION AND CLIMATE INITIATIVE PROGRAM

Elements of Program Design

In furtherance of the Transportation and Climate Initiative Program (TCI-P) Memorandum of Understanding (MOU), these *Elements of Program Design* will guide the Signatory Jurisdictions in developing a Model Rule to serve as the common framework for each TCI-P participating jurisdiction's regulations implementing its individual cap-and-invest program and in developing other aspects of each jurisdiction's TCI-P design.

TCI-P PROGRAM DESIGN AND SCHEDULE

Definitions

"TCI-P" means the multijurisdictional cap-and-invest program, consisting of programs adopted and implemented by individual TCI-P participating jurisdictions under their independent legal authority, to reduce carbon dioxide ("CO_2") emissions from transportation and to invest proceeds from the program in measures designed to further reduce CO_2 emissions, provide incentives for low-carbon and more resilient transportation, and otherwise further the goals of TCI-P as set forth in the MOU.

"Signatory Jurisdictions" means those jurisdictions that sign the MOU.

"TCI-P participating jurisdictions" means those jurisdictions that adopt a program consistent with the Model Rule and that complete the processes needed to become part of TCI-P.

"Administrative Organization" means a nonprofit entity created and maintained by TCI-P participating jurisdictions to provide administrative and technical support to programs adopted and implemented by individual TCI-P participating jurisdictions.

"Affected Fuel" includes the fossil fuel components of motor gasoline and on-road diesel fuel delivered for final sale or consumption in a TCI-P participating jurisdiction.

"Position Holders" means owners of Affected Fuel at terminals delivering across a terminal rack.

Model Rule

The Signatory Jurisdictions will develop and finalize a Model Rule in accordance with the MOU and consistent with these *Elements of Program Design* after providing for a public review and input period on a draft model rule.

Launch of TCI-P

The first reporting period of TCI-P will commence as early as January 1, 2022 and the first compliance period will commence January 1, 2023. One or more early CO_2 allowance auctions may be conducted in 2022.

MODEL RULE FOR THE ESTABLISHMENT OF TCI-P

As outlined in the MOU, the Model Rule will include the following program design elements:

Compliance

"State Fuel Suppliers" will be required to obtain and hold allowances to cover CO_2 emissions from Affected Fuel and report CO_2 emissions that result from the combustion of Affected Fuel. State Fuel Suppliers includes Position Holders, namely those owners of Affected Fuel at fuel terminals. Other entities that deliver fuel for final sale and consumption in TCI-P participating jurisdictions will be regulated as State Fuel Suppliers only as necessary to ensure that all Affected Fuel is subject to an allowance holding obligation. State Fuel Suppliers and other fuel supply market participants (terminal operators, distributors, blenders, etc.) may have other reporting or recordkeeping obligations.

TCI-P Emissions Cap

In accordance with the MOU, the multijurisdictional base annual CO_2 emissions cap for TCI-P, starting in 2023, will be equal to the sum of all TCI-P participating jurisdiction emission budgets.

TCI-P Participating Jurisdiction Emissions Budgets

As of the date of execution of the MOU, the TCI-P participating jurisdictions' 2023 base annual CO_2 emissions budgets shall be as follows:

Connecticut:	13,497,957 metric tons
District of Columbia:	877,715 metric tons
Massachusetts:	24,467,216 metric tons
Rhode Island:	3,291,658 metric tons

Each TCI-P participating jurisdiction's regulation implementing TCI-P will include its respective annual base CO_2 emissions budget as listed above. Future TCI-P participating jurisdictions shall establish their CO_2 budgets based on the methodology used by the Signatory Jurisdictions, or by a methodology agreed upon by the participating jurisdictions during subsequent review, provided that no jurisdiction's CO_2 budget shall be less than one percent of the multijurisdictional CO_2 emissions cap.

Scheduled Reductions

Beginning with the initial base annual CO_2 emission budgets for 2023, the base annual CO_2 emission budgets will decline by 30 percent by 2032, by equal amounts each year.

Stability Mechanisms

The Model Rule will include a cost containment reserve (CCR), consisting of a quantity of allowances totaling approximately 10 percent of the annual base budget, in addition to the annual

CO_2 emissions budget, which are held in reserve. The CCR allowances are only made available for sale if emission reduction costs are higher than projected. The CCR is replenished at the start of each calendar year. CO_2 CCR allowances will only be sold at an auction in which total demand for allowances, above the CCR trigger price, exceeds the number of CO_2 allowances available for purchase at the auction, not including any CO_2 CCR allowances. The annual CCR trigger prices will be as follows (in dollars per metric ton):

	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
CCR trigger	$12.00	$13.43	$15.02	$16.81	$18.80	$21.04	$23.54	$26.34	$28.19	$30.16

The Model Rule will include an emissions containment reserve (ECR), consisting of a quantity of allowances totaling approximately 10 percent of the annual base budget, that allows the TCI-P participating jurisdictions to withhold allowances from circulation if CO_2 emission reductions costs are lower than projected. CO_2 ECR allowances will only be withheld from an auction if the demand for allowances would result in an auction clearing price that is less than the ECR trigger price prior to the withholding from the auction of any ECR allowances. The annual ECR trigger prices will be as follows (in dollars per metric ton):

	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
ECR trigger	$6.50	$6.98	$7.51	$8.07	$8.66	$9.29	$9.97	$10.68	$11.47	$12.30

TCI-P could link to other emissions reduction programs through mutual agreement to accept the other programs' emission allowances. TCI-P will not initially link with other emissions reduction programs, but TCI-P and the Model Rule will be developed to facilitate potential linking in the future.

Emission Reporting Requirements

TCI-P participating jurisdictions will establish a shared electronic emissions reporting system informed by existing reporting requirements for State Fuel Suppliers. The Model Rule will include mechanisms to ensure the accuracy of the reported data. The Model Rule may provide for the use of existing platforms for the accompanying allowance tracking system. Compliance obligations will be calculated based on the CO_2 emissions reported by State Fuel Suppliers. The CO_2 emissions from the combustion of Affected Fuel will be calculated based on a formula to be set forth in the Model Rule using emission factors developed by the United States Environmental Protection Agency or other similar sources.

Compliance Periods and Flexibility

The Model Rule will include three-year compliance periods, at the end of which State Fuel Suppliers must surrender emission allowances equivalent to their emissions during the compliance periods, and may include interim compliance obligations.

The Model Rule will provide that privately held allowances not used at the end of a compliance period can be retained for sale or use in future compliance periods without limitation.

The Model Rule will provide, as a compliance alternative, for the limited use of offsets. The Model Rule will provide for the award of offset allowances to sponsors of approved CO_2 (or CO_2 equivalent) emission offsets projects for reductions that are realized on or after the date of this MOU. In each compliance period, a State Fuel Supplier may cover up to 3.3 percent of its reported emissions with offset allowances. TCI-P participating jurisdictions will offer and accept offset allowances to the extent consistent with applicable law.

Allowances and Allowance Auctions

The TCI-P participating jurisdictions will establish a shared auction platform. The TCI-P participating jurisdictions will originate allowances consistent with the Model Rule as implemented through the laws and regulations of the TCI-P participating jurisdictions. Unless inconsistent with applicable law, TCI-P participating jurisdictions will accept allowances that originated in other TCI-P participating jurisdictions for compliance with their own laws and regulations implementing the Model Rule. TCI-P participating jurisdictions will offer all allowances for sale at auction, except that TCI-P participating jurisdictions may set aside or retire allowances to be used to achieve other TCI-P goals. The TCI-P participating jurisdictions will establish a minimum reserve price below which allowances will not be sold.

INVESTMENTS, EQUITY, AND COMPLEMENTARY POLICIES

Investment of Proceeds from Auction of Allowances

Each TCI-P participating jurisdiction, in its discretion, will seek to invest the proceeds from the auction of CO_2 allowances to achieve TCI-P goals. Shared priorities for investment of proceeds also include maximizing the efficiency of the multijurisdictional program to ensure greater benefits are achieved toward reduction of CO_2 emissions and other related TCI-P goals, such as improved air quality and public health, as well as multi-modal programs and projects that will reduce CO_2 emissions from the transportation sector, increase resilience to the impacts of climate change, and more affordable access to clean transportation choices. Each TCI-P participating jurisdiction is committed to working collaboratively within its jurisdiction to invest, in a manner that reflects the population of overburdened and underserved communities, no less than 35 percent of the proceeds from the auction of allowances to ensure that overburdened and underserved communities benefit equitably from clean transportation projects.

Equity a Shared Priority

It is a shared priority to expand low-carbon and clean mobility options in urban, suburban, and rural communities, particularly for populations and communities that are disproportionately adversely affected by climate change and transportation pollution and currently underserved by the transportation system. Each TCI-P participating jurisdiction will work with communities and with its Equity Advisory Body to assess the equity impacts of the program on an ongoing basis to evaluate whether program changes are needed and to inform investment priorities.

Equitable Processes

Each TCI-P participating jurisdiction will ensure that overburdened and underserved communities are able to provide meaningful input to decision making processes. Each TCI-P participating jurisdiction will establish and support an Equity Advisory Body (or bodies) composed of diverse stakeholder groups, with a majority of members being representatives of overburdened and underserved communities or populations, or designate an existing body that meets this description, to advise on decision making and equitable outcomes for TCI-P. The roles of an Equity Advisory Body include:

- Developing criteria for defining overburdened and underserved communities, building on existing criteria and definitions, where applicable;

- Providing recommendations for equitable investments of TCI-P proceeds and complementary policies that would achieve the requisite benefits for overburdened and underserved communities; and

- Developing metrics for evaluating how TCI-P investments demonstrably provide direct and meaningful benefits for overburdened and underserved communities.

Transparency

TCI-P participating jurisdictions shall annually review and report the impacts of each jurisdiction's individual program, including with respect to equity. Each TCI-P participating jurisdiction will work with communities and with its Equity Advisory Body to assess the equity impacts of the program on an ongoing basis, including air quality monitoring in communities overburdened by air pollution. Annual reports will specify how TCI-P proceeds are spent by each TCI-P participating jurisdiction and include lists of projects and programs supported by TCI-P proceeds and the levels of investment in each.

Complementary Policies

Achieving long-term reductions in pollution from transportation will require a combination of policy approaches. Each TCI-P participating jurisdiction will consider a range of complementary policies in addition to TCI-P to achieve additional emission reductions, particularly in overburdened and underserved communities. TCI-P participating jurisdictions will work with communities to monitor air pollution in communities overburdened by air pollution to ensure the effectiveness of policies and investments.

TCI-P participating jurisdictions will consider and utilize additional tools to improve access to clean transportation, including regulations in areas such as fuel and vehicle emission standards, utility investments, building standards, and land use policy. The TCI-P participating jurisdictions will also prioritize investments in multi-modal public and commercial transportation infrastructure including bike and pedestrian infrastructure, and incentive programs and projects to promote clean transportation and travel demand management, including telework.

PROGRAM ADMINISTRATION AND REVIEW

Administrative Organization, Functions, Authorities, and Limits on Authorities

The Signatory Jurisdictions will establish an Administrative Organization to provide administrative support and technical assistance to the TCI-P participating jurisdictions. The Administrative Organization will operate pursuant to by-laws agreed upon by the TCI-P participating jurisdictions. The Administrative Organization will have an executive board comprised of two representatives from each TCI-P participating jurisdiction. The Administrative Organization may employ staff, contract for services, and acquire and dispose of assets, to perform its functions.

The Administrative Organization will provide administrative and technical support to TCI-P participating jurisdictions and carry out functions including but not limited to:

- Administrative forum. Act as the forum for collaborative discussion regarding administration of TCI-P as the agent of each TCI-P participating jurisdiction, as each TCI-P participating jurisdiction implements its individual program.

- Emissions and allowance tracking agent. Act as the agent of each TCI-P participating jurisdiction to develop, implement, and maintain the system to receive and store reported emissions-related data from regulated entities, and track allowance accounts for the TCI-P participating jurisdictions' individual programs.

- Auction administration. Act as the agent of each TCI-P participating jurisdiction to administer allowance auctions on behalf of the TCI-P participating jurisdictions.

- Emissions allowance and fuel market monitoring. Act as the agent of each TCI-P participating jurisdiction to monitor emission allowance and transportation fuel markets on an ongoing basis.

- Contracting. Contract with appropriate entities to implement shared tracking systems, reporting systems, auction systems, banking systems, or other administrative functions needed to assist and support the TCI-P participating jurisdictions' implementation of TCI-P.

The Administrative Organization will have no authority to adopt, implement or enforce TCI-P or any TCI-P participating jurisdiction's individual program. Authority is reserved to each TCI-P participating jurisdiction for the enactment or promulgation of laws for the implementation and enforcement of its individual program.

Funding for the Administrative Organization

The Administrative Organization will be funded by payments from each TCI-P participating jurisdiction in proportion to the TCI-P participating jurisdiction's annual base CO_2 emissions budget, subject to any necessary appropriations process in the respective jurisdiction. The Administrative Organization's budget will be determined and approved by the Administrative Organization's executive board.

Program Monitoring and Review

Each TCI-P participating jurisdiction will monitor the progress of its individual program and TCI-P on an ongoing basis. Within three years after program launch and regularly thereafter, the TCI-P participating jurisdictions will commence a comprehensive review of TCI-P and the Model Rule to determine its effectiveness and whether it is achieving emission reductions at reasonable cost. Program review will consider emissions reductions resulting from TCI-P and complementary policies. As part of each comprehensive review, the TCI-P participating jurisdictions may pursue additional reductions before or after 2032.

The TCI-P participating jurisdictions will annually review and report the impacts of each TCI-P participating jurisdiction's individual program, including with respect to equity. Annual reports will specify how TCI-P proceeds are spent by each TCI-P participating jurisdiction and include lists of projects and programs supported by TCI-P proceeds and the levels of investment made in each.

ADDITION OR WITHDRAWAL OF JURISDICTIONS

New TCI-P Participating Jurisdictions

The TCI-P participating jurisdictions will work together to encourage non-signatory jurisdictions to become TCI-P participating jurisdictions and will welcome the participation of new jurisdictions with a goal of expanding the scope of TCI-P. TCI-P participating jurisdictions would execute appropriate measures to accommodate the addition of jurisdictions to TCI-P.

Withdrawal from TCI-P

A TCI-P participating jurisdiction may withdraw from TCI-P in a manner consistent with maintaining the integrity of TCI-P. In this event, the remaining TCI-P participating jurisdictions would execute appropriate measures to accommodate the withdrawal of the jurisdiction from TCI-P.