EXPLAINER: HOW CAP-AND-INVEST WORKS

In the coming years, governors and state legislators have a decisive opportunity to move the U.S. forward on climate. One of the strongest policy tools available to states are cap-and-invest programs. Here's how these programs work:

The "Cap" – An Enforceable Limit on Climate Pollution

- Cap-and-Invest reduces pollution by setting a limit — or "cap" — on the total amount of greenhouse gas emissions that can be released. Each year, the cap is steadily reduced in line with emission reduction targets. The cap is enforced by issuing a limited number of emissions permits, or "allowances" each year, equal to the level of the emissions cap. Polluters must turn in one allowance for each ton of greenhouse gas they emit and, since there are fewer allowances available over time, they must reduce their emissions accordingly.
- Cap-and-Invest plays a crucial role as an emissions backstop – ensuring that climate pollution is reduced in line with targets, even if other sectoral policies fail to deliver reductions at the pace or scale intended. An enforceable, declining cap on emissions is the best way to ensure actual pollution levels decline quickly enough to meet our climate targets.

"Invest" – How Program Revenue Supports Affordability and Pollution Reduction

- Cap-and-Invest programs raise revenue by auctioning emissions allowances – each equivalent to one ton of greenhouse gas – to polluters, for a fee. Proceeds from these fees are reinvested to help meet our climate targets by reducing energy bills, helping businesses clean up pollution, and catalyzing clean technologies.
- The Regional Greenhouse Gas Initiative (RGGI) – a power sector-specific Cap-and-Invest program currently operating in ten states – has raised more than $9 billion in revenue, providing over $20 billion in energy bill savings for households. In California, Cap-and-Invest has already delivered $13 billion to more than half a million projects, like clean transportation, sustainable agriculture, and affordable housing – with 73% of investments benefitting disadvantaged and low-income communities. Washington State's Cap-and-Invest program has already generated over $2.3 billion in revenue and is investing in numerous community projects.

How Emissions Allowances are Distributed

- Allowances are typically distributed through a combination of allowance auctions and direct allocation to regulated entities. Cap-and-Invest programs often allocate a portion of the program's limited allowances to utilities at no cost for the purpose of protecting ratepayers and to a small subset of "energy-intensive trade-exposed" industries particularly susceptible to any price increases.
- When utilities sell those allowances, they are required to use the proceeds for reducing customers' utility bills. For example, California households have received more than $16 billion off their electricity and natural gas bills, thanks for proceeds from Cap-and-Invest.

Achieving Low-Cost Emission Reductions

- By putting a price on pollution and requiring emissions to decline, Cap-and-Invest creates a financial incentive to pursue the most readily available and least cost reduction opportunities. This cost-effective strategy helps us cut pollution even faster.
- For individual companies, this means cutting pollution is good for business and can give them a competitive edge. Companies won't just stop at the minimum required – because of the financial incentive, they are motivated to uncover all available pollution-cutting solutions. At the level of the entire economy, this incentive means that no low-cost solutions are left on the table where faster progress is possible, creating opportunities to not only meet our goals in the most cost-effective way, but also to drive deeper and earlier reductions than would be possible otherwise.