



Approaches to Address Potential CO₂ Emissions Leakage to New Sources under the Clean Power Plan:

Ten Recommendations to EPA

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Resources for the Future

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RESOURCES
FOR THE FUTURE

Background

- Capping emissions from only existing sources raises generation costs relative to costs of new sources that are excluded from the cap.
- Under these circumstances, generation may shift from existing to new sources with an associated increase in emissions outside the emissions cap.
- Emissions leakage can be reduced by lowering costs for existing sources to make them more competitive.
- More generation from existing sources reduces use of new sources and helps reduce leakage.



Outline

Our comments are grouped into three categories

- Allowance Allocation
- Requirements for State Compliance Plans
- EPA Implementation of the Clean Power Plan



Comments on Allowance Allocation (1)

1. EPA should *make the New Source Complement an element* of the mass-based model rule (MR). The federal plan (FP) should retain the mass-based option for states.
2. If EPA chooses not to require states that use a mass-based approach to adopt the New Source Complements, then EPA *should require updating allocations for **all** allowances*.
3. EPA should recognize that *updating allocation to existing natural gas combined cycle (NGCC) units and new nonemitting units reduces leakage* to new NGCC units.
 - Updating allocation to *all affected units* achieves comparable results and may have advantages.
 - Updating allocation to *existing nonemitting sources* is not an effective leakage mitigation strategy.



Comments on Allowance Allocation (2)

4. If EPA does not require coverage of new sources in the MR, EPA should
 - reduce the delay between generation and allocation
 - eliminate the threshold on utilization.
5. Any free allocation in the MR/FP not based on updating should *not focus exclusively* on generators but instead *be directed either to*
 - local distribution companies on an updating basis or
 - generators.



Requirements for State Compliance Plans

6. States that attempt to *demonstrate emissions equivalence in their plans should use an appropriate baseline assumption for other states' actions*, and should be compelled to *evaluate "other environmental outcomes"*.
7. States that do not use the new source complement should be required to build *effective programmatic energy efficiency* into their compliance plans as a measure to reduce leakage.
8. The MR and FP should *require the use of consignment sales* for entities that receive free allocation to build program confidence and transparent compliance.



EPA Implementation of the Clean Power Plan

9. EPA should provide greater certainty by *affirming the schedule for reconsideration of the New Source Performance Standard under section 111(b).*
10. EPA should *commit to a schedule for program review of 111(d).*



Comments on Energy Efficiency (EE) EM&V Guidance

- Robust evaluation of energy savings is crucial to the environmental integrity of a rate-based state plan
- In recognition of that fact, EPA issued proposed Guidance on Evaluation, Measurement and Verification (EM&V) of EE.
- I offer several recommendations but highlight two here:
 - The EPA EM&V guidance should be a living document that accommodates future advances in EE programs, policies, and technologies as well as new developments in program evaluation.
 - EPA should provide incentives for greater use of experiments and empirical approaches for evaluating EE programs within the states. Such approaches do a better job of attribution and of capturing behavior responses to EE interventions.
- For more information see www.rff.org.