

Clean Power Plan Fact Sheet

Energy Efficiency in Mass-based Plans

EPA has provided both a mass-based and a rate-based goal for each state covered by the Clean Power Plan (CPP). This Fact Sheet describes the effect of mass-based plans on energy efficiency.

- In mass-based plans, **each allowance corresponds to one short ton of CO₂**. States adopting the mass-based approach are effectively capped at the total number of allowances. Each ton emitted must be paired with an allowance to be surrendered to attain compliance. The transparency and relative simplicity of accounting for emissions (and therefore allowances) is already embedded in existing state air emission regulations.
- Enforceable CO₂ standards are tracked directly and exclusively through the measurement of emissions from the affected electric generating units (“EGUs”). The benefits of energy efficiency are captured indirectly through reduced generation from EGUs, **without the need to subject a state’s Evaluation, Measurement & Verification (EM&V) plans to federal enforceability**. This is a significant advantage of the mass-based approach, reducing the administrative burden and associated costs (for the CPP as a whole and especially for energy efficiency projects).
- In its Regulatory Impact Assessment, EPA estimates that the benefits of the CPP vastly outweigh the costs, and that the **costs are lower for a mass-based plan**.
 - Estimated benefits: between \$34 billion and \$54 billion per year in 2030,
 - Estimated costs: of \$8.4 billion (rate-based) or \$5.1 billion (mass-based) in 2030.
- States may implement mass-based plans using either an “Emission Standard” approach (**regulating power plants only, ultimately enforceable by the federal government**) or a “State Measures” approach (**including programs and policies beyond the fence line enforceable only under state law**). If a State Measures approach is adopted, states must also develop a backstop plan enforceable under federal law in the case that state policies and programs do not meet the CPP goal. Neither approach, however, requires federally approved EM&V.
- Because they are uniform and finite in number, **allowances are readily tradable between mass-based states**. The proposed federal trading rule (which states may adopt) encourages the use of an EPA-administered allowance tracking and compliance system (ATCS) that would facilitate trading between all mass-based plans, but this is not a fundamental prerequisite for trading. **EPA is inviting comments on this and other implementation matters**.
- While mass-based state plans do not require explicit incorporation of energy efficiency, **state strategies without energy efficiency are essentially spending more than necessary for compliance**. As a least-cost resource, energy efficiency is the fastest, most cost-effective and simplest compliance mechanism for states. Each state can decide how and whether to incentivize energy efficiency in its plan.
 - Allocating allowances directly to energy efficiency implementers provides an incentive for utility programs and third-party implementers alike.

- State auctions of allowances could provide revenues for states to offset the costs of energy efficiency, as has been done by states participating in the Regional Greenhouse Gas Initiative (RGGI).
- EPA contends that a federal auction of allowances would require proceeds to be deposited with the U.S. Treasury, preventing them from direct reallocation for incentive purposes.¹ As such, auctions are not part of the proposed federal plan.

CEIP under a mass-based approach

- The proposed Clean Energy Incentive Program (CEIP) is a voluntary complement to the CPP designed to encourage early deployment of renewable energy projects implemented in all communities and energy efficiency projects implemented in (or, pending clarification by EPA, in some cases, to the “benefit” of) low-income communities. Eligible projects—those commencing construction (renewable) or implementation (energy efficiency) after approval of a state plan or September 2018 for states under a federal plan—will be rewarded for zero-emission energy generated or energy saved in 2020 and 2021 by allocating allowances from the participating state’s CPP emissions budgets. As an incentive, the federal government will match these allowances out of an additional, incremental pool of allowances (up to 300 million tons of CO₂ in total). Energy efficiency projects in low-income communities will receive double credit for each MWh saved, with half of the credit coming from the affected state and half from EPA. Renewable solar and wind projects will receive 1-for-1 credit for each clean MWh generated, with half coming the affected state and half from EPA. Comments on the CEIP are due to EPA on or before January 21, 2016.
- Under the proposed mass-based federal plan, EPA foresees that early action allowances will be awarded to CEIP projects “based upon the quantified and verified MWh of generation or savings.”² For states adopting the mass-based approach under their own plans, it is yet unclear whether they would be required to directly adopt EPA’s EM&V guidelines or to develop a federally approvable and enforceable EM&V plan solely to participate in the two-year voluntary CEIP program. For a state considering a mass-based approach, this may present administrative challenges to existing state EM&V protocols. The Alliance will submit constructive comments to EPA on this topic.
- In the federal plan proposal, EPA has laid out state-by-state set-asides to allocate CPP allowances for CEIP projects. However, all states, including states subject to the federal plan, may develop their own CEIP allocation schemes. As for the federal matching pool, EPA has indicated it will reserve a specific number of allowances for renewable projects and energy efficiency projects in low-income communities. EPA is inviting comments on these and other aspects of the CEIP, including:
 - the size of the set-asides;
 - the method for distributing the set-asides among states;
 - the size of the reserves;
 - the criteria for eligible projects, including criteria for energy efficiency projects in low-income communities; and
 - EM&V requirements for eligible projects.

¹ “Federal Plan Requirements for Greenhouse Gas Emissions From Electric Utility Generating Units Constructed on or Before January 8, 2014; Model Trading Rules; Amendments to Framework Regulations” *Federal Register* 80, no. 205 (October 23, 2015): 65018. This a proposed rule.

² *Ibid.*, 65026.