Making a 111(d) Plan “Trading Ready”

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Better Energy. Better World.

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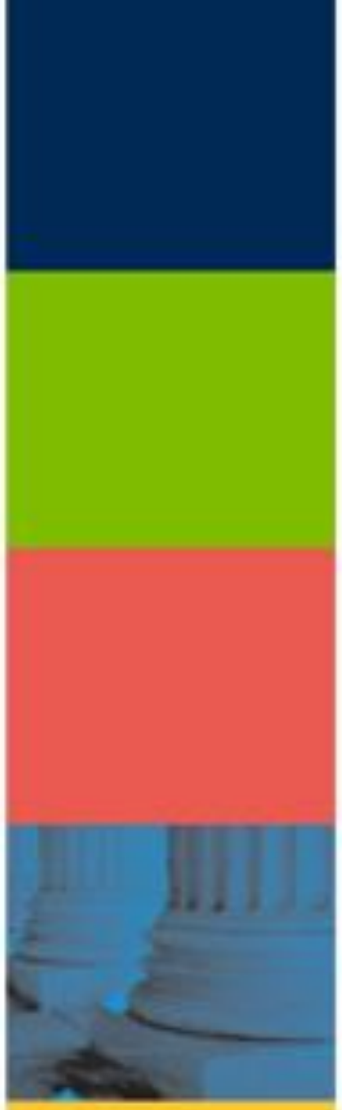

Choosing a Policy Pathway for State 111(d) Plans to Meet State Objectives

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Before Putting Pen to Paper

What are the objectives for the 111(d) plan?

Cost effective
Maintain reliability
Achieve the environmental goal
Flexibility for regulated entities
Regulatory certainty
(for regulated entities and economic regulators)
Simplicity and ease of implementation
Limit federal involvement in state energy decisions
Maintain fuel diversity
Recognize unique state circumstances
Capture reductions from all activities
Preserve the option to connect to other states
Consistency with electricity system

Before Putting Pen to Paper

Make Threshold Decisions

Rate- or mass-based approach?

What entities are to be regulated?

How much flexibility?
Trading or no trading?

Allow power plant owners to access lower cost reductions in other states?

Cover new sources?

“Self-correcting?”

Regulated Entities?	Rate-based	Mass-based
Covered Power Plants & Other Entities	State Portfolio/Commitment Approach	State Portfolio/Commitment Approach
Utilities	Utility Rate Approach	Utility Budget Approach
	Utility Rate Approach w/ Optional Trading	Utility Budget Approach w/ Optional Trading
Plant/Unit Level	Full Rate-based Trading	Full Mass-based Trading

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Making an Individual State Plan "Trading Ready"

The Idea:

Power plant owners can use (mass-based) tons or (rate-based) credits from other states without the states filing a joint plan, and without the need for (much) coordination between the states.

How?

By making the plans **compatible**—to both EPA and the other states.

Minimum Compatibility Requirements

EPA establishes a few basic rules.

Plant owner in a state that meets the minimum compatibility requirements has **the option** use tons or credits from another state that also meets the requirements.

Each state also decides which other states have compatible programs, and allows tons or credits to come from those states.

MAY 2015

Implementation Elements for a Trading-Ready Mass-Based Plan

Mass

MANY STATES AND STAKEHOLDERS have called on the U.S. Environmental Protection Agency (EPA) to enable states to adopt "trading-ready" 111(d) plans that allow power plant owners the option to use allowed tons or allowances from other states for compliance purposes. States could adopt trading-ready plans without entering into formal agreements or coordinating program details with other states. Indeed, a state would be trading ready as long as the state meets a basic set of minimum compatibility requirements established by EPA. Any power plant owner in a trading-ready state could use allowed tons or allowances from any other trading-ready state. The table below describes how to establish and administer such a trading-ready program.

ESTABLISHING THE TRADING-READY PROGRAM

STEP 1	**Determine State's Mass Emissions Budget**	Possible options for determining mass emissions budget: (1) EPA may prescribe mass budgets for all states similar to rates; (2) state may choose from several budgets deemed equivalent by EPA; or (3) state proposes a rate-to-mass conversion, shows it is equivalent and gets EPA approval.
STEP 2	**How much flexibility? Regulate at the utility level or plant level?**	Every state must regulate the "affected units" at either the plant/unit level or utility level. Plant- or unit-level regulation obligates owners to hold enough allowed tons (allowances) to match actual emissions and owners may sell extra or acquire additional allowances, providing maximum flexibility to find lowest cost reductions (A-2).* Utility level regulation gives each utility some flexibility to manage allowed tons across only their fleet (A-1). It is possible for the state to regulate at the utility level and leave the trading decision to the utility (A-3).
STEP 3	**Determine how shares of the state's mass emissions budget will be allocated**	The emissions budget is made of allowed tons, or allowances. States can distribute allowed tons to each utility or other plant-owning entity based on baseline emissions, electricity output (in baseline or going forward), or other metric; or the allowances can be distributed to other entities or sold at auction. Allowed tons have value and states can use distribution of allowed tons to allocate shares of the overall burden for delivering emissions reductions or reward specific actions.
STEP 4	**Develop**	Rulemaking language for emissions budget trading (A-2) already exists and is in place in many states

MAY 2015

Implementation Elements for a Trading-Ready Rate-Based Plan

MANY STATES AND STAKEHOLDERS have called on the U.S. Environmental Protection Agency (EPA) to enable states to adopt "trading-ready" 111(d) plans that allow power plant owners the option to use rate-based credits from other states for compliance purposes without the two states entering into a formal agreement. Interstate rate-based trading presents challenges that mass-based trading does not, including the question of whether trading between two states with different rate-based goals significantly changes the environmental outcome, and whether differences in what is credited from state to state will deter states from accepting each others credits. Assuming the issues can be resolved, a state would be trading ready as long as the state meets a basic set of minimum compatibility requirements established by EPA. Any power plant owner in a trading-ready state could use rate-based credits from any other trading-ready state. The table below walks through the steps of establishing a trading-ready rate-based program, noting some challenges in bold text.

ESTABLISHING THE TRADING-READY PROGRAM		
STEP 1	**Apply the EPA-prescribed rate? Differentiate? Merge goals with another state?**	EPA is expected to prescribe a rate-based state goal for each state. So long as a state enforces the state rate on all affected units (B-2) or all utilities (B-1 & B-3), the state will meet its goal with certainty. If a state gives different utilities or types of units different rates, this complicates things and makes attainment of the goal uncertain. **In its proposal, EPA says states must average their goals together in order to trade with each other—a requirement that is an obstacle to multistate collaboration.**
STEP 2	**How much flexibility? Regulate at the utility level or plant level?**	Every state must regulate the "affected units" at either plant/unit-level or utility-level. **Plant/unit level** regulation obligates each plant/unit to emit at or below the average emission rate standard or to acquire enough credits to adjust its emission rate to meet the standard. **Utility level** regulation gives utilities limited flexibility to average the emission rate across only their fleet (B-1). It is possible for the state to regulate at the utility level and leave the trading decision to the utility. (B-3).
STEP 3	**Develop**	State decides what will be credited within the boundaries of what EPA says is creditable. State then

MIDWESTERN POWER SECTOR COLLABORATIVE

Enabling Interstate Trading under the Clean Power Plan

April 13, 2015

Participants in the Midwestern Power Sector Collaborative (MPSC) request that EPA clearly provide in the final rule that states may adopt state plans that readily and flexibly allow for opt-in interstate trading without the need for formal agreements between states, so long as minimum compatibility requirements are met. Where minimum compatibility requirements are met, a state with an approved plan should be permitted to allow the use of allowances or credits from another state at any time, without getting additional EPA approval.

The MPSC consists of state officials, investor-owned utilities, generation and transmission cooperatives, merchant generators, public power producers and environmental organizations from the Midwest or with a significant Midwestern presence (participant list attached). MPSC participants are exploring various potential policy pathways for state implementation of the anticipated final EPA rule to reduce carbon emissions from existing power plants under Section 111(d) of the Clean Air Act (dubbed the Clean Power Plan).

The specific recommendations submitted below elaborate on comments filed by the MPSC on December 1, 2014 with EPA, specifically Section 2.6.1 of those comments. We note that the request is also consistent with the written comments filed by the Midcontinent States Environmental and Energy Regulators (MSEER) in a letter to EPA dated November 21, 2014. For your convenience, we attach both the MPSC comments and the MSEER letter to this request.

Recommended Minimum Compatibility Requirements

Approaches to interstate trading without formal agreements allowed by EPA should conform to the following minimum compatibility requirements for mass-based and rate-based interstate trading:

Mass-Based Interstate Trading. EPA should approve a mass-based state plan that allows the owners and operators of affected units to use allowed tons from any and all other states with a mass-based state plan meeting the following minimum compatibility conditions:

Regulated Entities?	Rate-based	Mass-based
~~Covered Power Plants & Other Entities~~	~~State Portfolio/Commitment Approach~~	~~State Portfolio/Commitment Approach~~
Utilities	Utility Rate Approach	Utility Budget Approach
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What makes mass-based state plans compatible?

EPA-approved budget is firm.

Every affected unit has to cover every ton of emissions with an allowance.

Nothing about the program would allow the “printing” of additional tons or lifts the requirement to cover emissions with tons.

Tracking system has integrity.

A Compatible Mass-based Plan

Step 1. Establish mass budget

Step 2. Decide utility level or plant level

Step 3. Allocate shares of budget

- **Steps 4, 5 & 6.** Rulemaking language, tracking system & emissions reporting

Step 7. Finalize rulemaking & administer

To administer: administer tracking system, undertake compliance assessments, & enforce

Could this work for rate-based trading?

Perhaps. Depends on what EPA does.

EPA would have to drop the requirement that states average their goals together.

- EPA—and states—would have to decide that credits are the "same" even though they come from states with different rates, and different crediting reqts.

Tracking system has integrity.