

# COMMENTS ON THE PROPOSED FEDERAL PLAN AND MODEL RULES



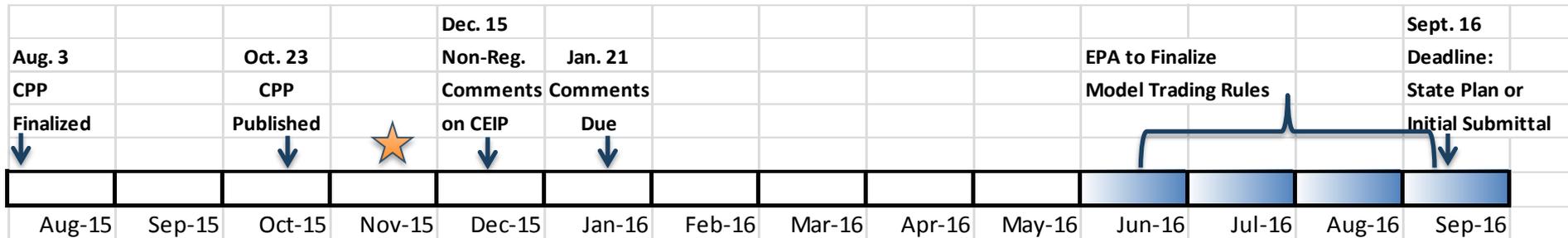
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**MN 111(d) Stakeholders Meeting, November 17, 2015**

aq-rule2-21v

# BACKGROUND

# STAKEHOLDER MEETINGS AND WEBINARS IN 2015

- Stakeholder “Kickoff” meeting on objectives
- Rate vs. Mass
- Policy pathways
- MISO
- Trading Ready Approaches
- Tracking
- Differentiating rates + allocating allowances
- Interactions with wholesale markets
- Review of Final Rule and Model Rules
- Gathering input on final Clean Power Plan
- **Today: Comments on the Federal Plan + Model Rules**



## LAST SESSION—COMMON THEMES

- **Continued effort to evaluate the rule and policy approaches.**
- **The plan should balance environmental protection, reliability and affordability.** Flexibility is key. The plan should also consider impacts on jobs.
- **Allowing trading across state lines will be important** given that customers and utilities cross state lines.
- **Praise for MN's leadership** in starting early to consider design options.

# COMMENTS ON PROPOSED FEDERAL PLAN AND MODEL RULES

# GOAL OF TODAY'S SESSION

- Gather specific guidance from stakeholders to inform the MPCA's comments on the Proposed Federal Plan and model trading rules
  - NOTE: Many issues were decided in the Clean Power Plan and are no longer open for comment.
    - Focus is on the narrower scope of issues where EPA is requesting comment.
- Challenge: There has been no decision on the form of the MN state plan



# FEDERAL PLAN

- EPA to impose a Federal Plan on a state when:
  - The state does not submit a state plan or extension request on time or the submission is found to be inadequate or incomplete.
- EPA will choose EITHER a mass or rate Federal Plan
  - Under a mass-based federal plan, states could opt to define their own allocation approach, subject to several constraints.
- Federal Plan design affects MN because:
  - Neighboring states could opt for a Federal Plan.
    - The form of the Federal Plan could facilitate or limit regional trading.
    - Federal Plan details could affect the cost of compliance under regional trading.

# MODEL RULES—RATE AND MASS

- The Model Rules are optional, presumptively approvable plan designs.
  - States may choose either a mass or rate approach.
  - States can adopt some aspects of the model rules and not others.
- The Model Rules affect MN because:
  - Minnesota could choose to adopt a model rule “as is” and it will be presumptively approvable and trading-ready.
  - Minnesota could decide to adopt aspects of the model rule.
  - The design of the model rules could influence choices of trading partners towards rate or mass.

# 1<sup>ST</sup> TOPIC: RATE VS. MASS IN THE FEDERAL PLAN

## **EPA will pick rate OR mass for the Federal Plan.**

- Should MN weigh in on a preferred form of the Federal Plan standard?
- If so, which approach is preferred for MN, and why?
  - Simplicity, ease of administration?
  - Treatment of retirements of affected units?
  - Future retirements of nuclear plants?
  - Treatment of new NGCC units?
- What issues are preventing you from choosing one over the other?
  - Lack of detailed modeling results?
  - Uncertainty about allowance distribution?
  - Uncertainty about activities eligible for emission rate credit generation?
  - Uncertainty about ERC or allowance availability?

## 2<sup>ND</sup> TOPIC: PROPOSED SET-ASIDES TO ADDRESS LEAKAGE UNDER A FEDERAL MASS-BASED PLAN

- **EPA proposes two set-asides: Output-Based Updating and Renewable Energy.**
  1. **Output-based updating set-aside** in which allowances are distributed to existing NGCC based on generation in a recent year
  2. **Set-aside that provides allowances to providers of renewable energy**

# OUTPUT-BASED UPDATING SET-ASIDE

- **Basic idea:** Allowances are distributed (from the 2<sup>nd</sup> and 3<sup>rd</sup> interim compliance periods) to existing NGCC units based on generation in a recent year.
- **Size of the set-aside:** Based on 10% of the existing NGCC capacity; stays fixed over time
- **Eligible units:** Only MWhs from existing NGCC units above 50% capacity factor over the compliance period earn allowances from set aside
- **Earning allowances:** Multiply eligible MWhs by 1,030 lbs/MWh net rate
- **Timing:** Allowances given after MWhs are demonstrated. Any unclaimed allowances “flow back” to affected units according to historical generation method.

# RENEWABLE ENERGY SET-ASIDE

- **Basic idea:** Allowances are distributed in each interim compliance period to renewable energy generators.
- **Size of the set-aside:** 5% of available allowances
- **Eligible generation:** On-shore wind, solar, geothermal, hydropower incremental to 2012 located in the state with the set-aside; must meet requirements for ERC issuance
- **Earning allowances:** Depends on pro-rata share of MWhs
- **Timing:** Allowances issued based on projected MWhs
- **Other:** Projects receiving set-aside allocations would not be eligible for ERCs in rate states. If no RE projects come forward to claim allowances, then allowances “flow back” to affected units.

## 2<sup>ND</sup> TOPIC: PROPOSED SET-ASIDES TO ADDRESS LEAKAGE UNDER A FEDERAL MASS-BASED PLAN

- Should MN weigh in on the set-aside approaches to address leakage?
- Do EPA's proposed set-asides offer a robust approach to addressing potential emissions leakage?
- If allowances are allocated as proposed, are there enough available for allocation to EGUs or for other purposes?
- Does the set-asides, as proposed, make sense for MN?
- Are there other strategies (set asides or other approaches) that would be more effective and/or less onerous to address incremental leakage to new sources?
- Could leakage be addressed as a plan “contingency measure”?

## 3RD TOPIC: IMPROVEMENTS TO THE PROPOSED MASS-BASED FEDERAL PLAN & MODEL RULE

### Other topics on a mass-based federal plan and model rule?

- Should MN comment on trading between states that do/do not include new sources in their trading programs?
- Should MN comment on banking or borrowing of allowances, and whether allowances should expire?
- Should MN comment on treatment of allocations for retiring/non-operating affected EGUs in Federal Plan states?

## 4<sup>TH</sup> TOPIC: IMPROVEMENTS TO THE PROPOSED RATE-BASED FEDERAL PLAN AND MODEL TRADING RULE

### Topics on a rate-based federal plan and model rule?

- Should MN comment on whether “other low- and zero-emitting non-BSER measures” should qualify as emission reduction credits (ERCs)?
- Should MN weigh in on EPA’s proposed methodology for calculating gas-shift ERCs?
- Should MN comment on banking, borrowing or expiration of ERCs?

# CLEAN ENERGY INCENTIVE PROGRAM (1)

- **Basic idea:** Optional “matching fund” incentive for early investments in certain zero-emitting energy measures that generate or save energy in 2020 and/or 2021.
- **Size of the match:** Match totals 300 million tons. State shares are based on each state’s share of total emissions reductions in 2030 vs. 2012 emissions.
  - Under a rate program, how to translate 300 million tons to ERCs?
- **Eligible generation:** Wind, solar and end-use energy efficiency in low-income communities built after state plan is submitted OR Sept. 6, 2018 for a Fed’l Plan.
  - Federal match is 50% of wind, solar MWhs generated, and 100% of MWhs saved from low-income efficiency
  - EPA intends to create two separate reserves.

# CLEAN ENERGY INCENTIVE PROGRAM (2)

- **Earning allowances or ERCs:** Based on MWhs generated or saved.
  - Under a mass program, how many allowances do you get per MWh?
- **Timing:**
  - In a mass-based program, state match comes from a set-aside from the first interim compliance period. Although it is not clear how it will be done, ERCs must also be “matched”.
  - There are proposed dates for construction of eligible generation of efficiency (submittal of state plan, or Sept. 2018); indicating intent (Sept. 2016); retiring unused matching allowances (Jan. 1, 2023).
- **Other:**
  - Unused matching allowances are made available to other states.

## 5<sup>TH</sup> TOPIC: COMMENTS ON THE CLEAN ENERGY INCENTIVE PROGRAM

### **EPA proposes to include the CEIP in Federal Plans**

- Should MN comment on the total number of CEIP matching allowances/ERCs available for MN and/or the amounts available for wind and solar installations vs. energy efficiency in low income communities?
- Should MN comment on the types of projects that would qualify as energy efficiency in low income communities?
- Should MN weigh in on issues related to implementation of a CEIP under a rate standard to ensure equivalency to a mass standard?

## OTHER TOPICS

- Other high priority issues that may warrant comments from MPCA?

# THANK YOU

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