

Notes: CPP Stakeholder Conference Call #4 December 16, 2015

General Topic: Rate-Base Implementation Approach

Tricia Jackson provided a summary of comment items for the call. The topics for this call are summarized for below

- 1) For the proposed rate-based federal plan and model rule, EPA proposes to use a subcategorized rate-based approach where steam units are held to the applicable fossil steam emission rate and natural gas combined cycle units (NGCCs) are held to the applicable NGCC rate. EPA requests comment on an alternative rate or set of rates.
- 2) EPA requests comment on various aspects of emission rate crediting under a rate-based implementation approach.
 - a. EPA proposes to limit issuance of emission reduction credits (ERCs) to affected EGUs that perform at a rate below the applicable emission standard, new and uprated nuclear, and select renewable energy sources, and GS ERCs to natural gas combined cycle units (NGCCs).
 - b. Gas-shift ERCs are different from other ERCs in that EPA proposes that they are generated by NGCCs, but can only be used by fossil steam units for compliance. EPA discusses three options for calculating Gas-Shift ERCs.
 - c. Under the proposed federal plan, EPA is proposing that only select renewable energy resources (wind, solar, geothermal, and hydropower) would be eligible to generate ERCs. EPA is not proposing to include biomass, combined heat and power, waste heat power, distributed renewable generation, and demand side energy efficiency as eligible measures to generate ERCs under the rate-based federal plan; however, EPA requests comment on whether these resources should be eligible to receive ERCs under a federal plan. Many of these measures are proposed as eligible for ERC issuance under the proposed rate-based model trading rule.
 - d. EPA requests comment on an avenue to add new technologies to the set of eligible measures under a rate-based federal plan.
 - e. EPA is taking comment on the intervals over which electricity savings must be quantified for ERC crediting in the proposed model rule.
- 3) For each resource eligible for ERC issuance under the proposed model rule and federal plan, EPA requests comment on evaluation, measurement, and verification plans that should apply to each renewable energy resource.
 - a. EPA requests comment on metering, measurement, and verification for nuclear sources and whether nuclear sources should be subject to the same EM&V requirements as renewables.
 - b. For the proposed model rule, EPA requests comment on EM&V requirements for combined heat and power, waste-to energy, and demand-side energy efficiency. EPA takes comment on methods for quantifying electricity savings for demand-side energy efficiency.

- 4) EPA requests comment on requirements for independent verifiers which perform verification services in connection with the federal plan.
- 5) EPA is proposing to allow unlimited banking of ERCs within and between compliance periods, including between the interim and final periods; however, EPA requests comment on whether there should be a cap on the number of ERCs that can be banked and whether an ERC should be eligible to be banked between the interim and final periods. EPA is not proposing ERC borrowing; however, EPA solicits comment on borrowing, including a methodology that would allow ERC borrowing while maintaining the integrity of compliance obligations.
- 6) Although the deadline for submission of comments on the non-regulatory docket for the Clean Energy Incentive Period has passed, many of the items for comment in that docket are included in the proposed federal plan and model training rules. Therefore, interested parties can include comments on the CEIP in their comments on the proposed federal plan and model training rules which are due by January 21st 2016. The following items regarding the CEIP are discussed in the rate-based implementation approach in the proposed rule.
 - a. Under the federal plan, EPA is proposing to issue early action ERCs to eligible wind and solar projects which commence construction after September 6, 2018 and to eligible energy efficiency in low income communities which commence implementation by September 6, 2018.
 - b. EPA is seeking comment on ways to design a Clean Energy Incentive Program mechanism for issuing early action ERCs that would have no aggregate impact on emission performance of affected EGUs. Specifically, EPA requests comment on a way to maintain stringency of the emission performance rate by retiring a number of ERCs during the interim period equal to the amount of early action ERCs awarded in 2020 and/or in 2021. EPA also requests comment on another approach in which they adjust a state's target to achieve the same stringency, taking into account the additional borrowed ERCs.
 - c. EPA proposes to distribute early action credits from the 300 million short ton CO₂ emissions-equivalent matching pool to states participating in the CEIP based on the amount of CO₂ that affected EGUs in a state are required to reduce from a 2012 baseline relative to the reductions required in other participating states.
 - d. EPA is proposing to reserve a portion of the pool of matching ERCs to eligible wind and solar projects and a portion of the pool to EE projects implemented in low-income communities. EPA requests comment on the size of these reserves.
 - e. EPA requests comment on the treatment of unused ERCs in either the RE or EE CEIP matching pool reserves, including whether these unused ERCs should be redistributed to participating states or whether they should be distributed to eligible projects on a first-come, first served basis.

After the summary of items for comment, Tricia performed a roll call offering each stakeholder organization the opportunity to provide information or opinions on the items for comment.

Scott Weaver, SWEPCO, stated that some elements of the rate-based plan should be opened up. SWEPCO stated that all low and zero-emitting sources should be eligible to generate ERCs, including biomass, and that these sources should be prequalified as eligible before ERCs are issued. Energy efficiency should also be eligible to generate ERCs. SWEPCO agreed with the use of subcategorized rates if a rate-based plan is implemented. He also stated that ERCs should be issued frequently, and that allowances are needed in advance of the compliance period. He further stated that EM&V at the state level could be used, and that a 2:1 allowance for ERCs is too stringent. He expressed concern over the buyer's liability for ERCs and stated that it is difficult to transfer risks contractually. Finally, he stated that SWEPCO supports gas-shift ERCs and thinks that combined heat and power (CHP) and waste heat to power (WHP) should be eligible.

Plum Point inquired as to whether ADEQ had spoken to other states regarding a preference for mass- or rate-based approaches and expressed concern that there might not be enough ERCs if most states use a mass-based approach and only a few go with a rate-based approach.

Stuart Spencer stated that there seems to be a general trend toward a preference for a mass-based approach among states with whom ADEQ has spoken.

Plum Point asked whether submitting a rate-based plan would be a heavy lift for the agency.

Stuart Spencer stated a rate-based program would require more resource allocation and that a mass-based approach would be simpler, but that all approaches are still on the table.

Oklahoma Gas and Electric had no comment.

Nucor had no comment, but stated that written comments may be submitted later.

Chad Allen, MISO, had no comment, but did note that MISO's near-term modeling analysis would be made available later in the day.

Entergy stated that Entergy's customers benefit from MISO and they want to enhance those benefits. In order to do that, limitations on specific units need to be minimized. They stated the importance of preserving regional economic dispatch to help preserve reliability and emphasized the need to promote interstate trading and market liquidity. They further stated that a mass-based approach is simpler, and mass-based market trading is feasible as long as markets are liquid. They further stated the advantage of a rate-based system is that there is no issue with leakage; however, the rate-based approach puts emission limits on affected units so that all units will be in a negative credit position over the next decade. Entergy also pointed out that NGCCs may be in a position where they are generating gas-shift ERCs, which they cannot use, and must purchase ERCs to adjust their performance rate as targets become more stringent over time. Additionally, they stated that a rate-based approach would require each state to create a trading bank, and would be resource-intensive. Entergy stated that the use of sub-categorized rates allows for interstate trading and expressed concern over the alternative use of a single state rate due to the trading issue. Finally, they stated that unit-specific limits would be a major concern under a rate-based approach, and they are leaning toward supporting a mass-based approach.

Arkansas Electric Cooperatives had no comment.

Conway Corp had no comment.

Audubon Arkansas had no comment.

Arkansas Environmental Federation had no comment. They did ask whether the stakeholder meeting at MISO would be available for call-in.

Chad Allen, MISO, responded to AEF's request for call-in availability for the January 5th stakeholder meeting and stated that the MISO-South Headquarters could accommodate this.

Ken Smith, Arkansas Advanced Energy Association stated that AAEA's thoughts about a rate-based approach are similar to those of SWEPCO. He stated that demand-side EE, CHP, and waste heat recovery should be included in the federal plan and that AAEA would support ERCs for gas-shifting and for EGUs exceeding emission standards. Mr. Smith also likes that the rate-based approach goes into RE and clean energy programs, and he also stated that rate-based approach with other states do not require a joint plan. He expressed support for RE and EE measures implemented after January 2013 being eligible to produce ERCs in 2022. He also stated that AAEA would support banking of ERCs for future compliance, interstate trading, and liquid markets. He stated that AAEA is not opposed to a rate-based system.

America's Natural Gas Alliance noted that ANGA is merging with the American Petroleum Institute.

General Comments:

Eddy Moore, Arkansas Public Service Commission, stated that other states seem to be leaning generally toward a mass-based approach.

SWEPCO stated that biomass and other RE measures should be allowed to generate ERCs, and that SWEPCO has not yet made a decision concerning a rate- vs mass-based approach. They also stated that EPA seems to be favoring large-scale RE/EE and they are concerned that biomass and other measures will be excluded.

Chuck Barlow, Entergy, pointed out that leakage must be dealt with under a mass-based system, but that there is no regulatory requirement to deal with leakage under a rate-based system.

Chad Allen, MISO, indicated the time at which MISO's modeling of the final rule is scheduled to be discussed at the MISO PAC Meeting.

A total of 46 phone lines participated in the call.