

**Comments of the Center for Climate and Energy Solutions on  
the Clean Power Plan's Clean Energy Incentive Program (CEIP)  
Docket ID No. EPA-HQ-OAR-2015-0734**

This document constitutes the comments of the Center for Climate and Energy Solutions (C2ES) on the proposed Clean Energy Incentive Program proposed by the U.S. Environmental Protection Agency (EPA). C2ES is an independent, nonprofit, nonpartisan organization dedicated to advancing practical and effective policies and actions to address our global climate change and energy challenges. As such, the views expressed here are those of C2ES alone and do not necessarily reflect the views of members of the C2ES Business Environmental Leadership Council (BELC).

**OVERARCHING COMMENTS**

C2ES believes that market-based policies are the most efficient and effective way of reducing greenhouse gas emissions, and we applaud EPA for including multiple provisions in the final Clean Power Plan that promote market adoptions that can be used by states. Market-based policies harness market forces to spur innovation, development and deployment of clean energy technologies. To that end, trading of allowances or emission rate credits (ERCs) under the Clean Power Plan (CPP) can help ensure that emission targets are achieved at the lowest possible cost. Complementary to this, C2ES believes the Clean Energy Incentive Program (CEIP), properly designed, can help meet CPP objectives, promote market mechanisms and provide additional clean energy benefits as outlined below.

**The CEIP provides economic value**

CEIP credits (allowances or ERCs) issued by states and matched through EPA's reserved pool could provide economic value to clean energy projects in two ways. First, if a project developer is an electricity generator subject to the CPP, these credits can be used for compliance. Second, if the project developer does not have a compliance obligation, these credits can be sold, which creates a revenue stream that can improve the financial viability of a project. As states develop their implementation plans, they may be able to provide early enhancements for project financing if some of the CEIP credits are allocated in advance by project type. This can help mobilize capital markets who would now know that the additional incentive would be available.

**The CEIP will accelerate early market formation and price discovery**

CEIP credits will complement other trading mechanisms that states may establish to comply with the CPP and add additional liquidity to CPP markets. Liquidity is important to an emissions trading market because it lowers the risk of price volatility or sudden price spikes caused by an inability to find available allowances. In addition, it can help with price discovery because these will likely be available before CPP compliance markets are functioning.

The trading of CEIP credits could be a key strategy for electricity generators to comply with emissions limits, either by incentivizing them to reduce their emissions and sell (or avoid purchasing) credits, or by purchasing credits from other generators at a lower cost. Early

implementation of the CEIP may play a role in fostering the development of these trading regimes.

### **The CEIP could speed the development of state implementation plans and help reduce regulatory uncertainty**

Projects become eligible for CEIP credits only if they commence construction after a final state implementation plan is submitted in the project's host state. EPA allows plans to be finalized as late as September 2018. Because of the value of CEIP credits, project proponents may encourage states to finalize plans as soon as possible in order to open CEIP eligibility to a greater number of projects. Early plan finalization may give utilities additional time to plan for compliance and lower the regulatory uncertainty around CPP implementation.

### **The CEIP can incentivize city-level clean energy programs**

Finally, the CEIP could provide a way for cities to have a role in meeting CPP compliance goals. U.S. cities have tremendous citizen and policymaker interest in reducing carbon emissions, improving energy efficiency and deploying more renewable energy, but they often face resource constraints. CEIP credits could provide cities a crucial funding resource to expand existing programs or launch new initiatives.

## **SPECIFIC RECOMMENDATIONS**

While noting that the CEIP as proposed has many benefits, C2ES also sees several potential enhancements, and we recommend the following:

### **Ensure the maximum number of projects can receive credits under the CEIP**

Opportunities for wind, solar, and energy efficiency projects abound, and there is a chance that the demand for credits will exceed 300 million tons. We advise EPA to prepare for this situation by anticipating how to allocate credits when there are not enough to match each megawatt hour generated or avoided.

One way to accomplish this is to provide a reservation system for credits. Clean energy project developers would request credits prior to 2020, based upon two requirements—the launch of the program/beginning of construction and the expected performance of the project. In 2020 and 2021, after the project's performance is verified, the project could then be allocated credits. C2ES believes this would add certainty to the project financing during the development stage by reducing the chance that a project would receive no credits (because the CEIP pool had been depleted), as could happen under a first-come, first-served system. EPA or states could also modify a reservation system to achieve other policy aims by prioritizing projects that meet desired characteristics. For example, criteria could include project size, project cost, or project operation start date. This approach can help mobilize capital markets earlier.

An alternative approach would be to set a maximum number of credits that a project could request from the CEIP. In this way, an allocation to a large project would not leave too few credits for other projects. A system could be developed where allocation requests happened in

stages, so that if, after all eligible projects had received credits for some fraction of the electricity generated or avoided, they could request additional allocation if credits remained in the CEIP matching pool. This is different than the redistribution formula on which EPA is requesting comment, in that this staged distribution would occur in the same year in the same state and applies only to the situation in which the CEIP is oversubscribed.

We recognize that setting a priority to maximize the number of projects that receive CEIP credits creates a risk of missing opportunities for least-cost project development. Giving a large number of CEIP credits to a small number of projects may be more cost effective because it may result in lower costs for project administration per unit of renewable energy or energy efficiency delivered. However, given the limited duration of the CEIP, C2ES believes that the environmental benefits of broad participation outweigh the economic concerns of possibly incentivizing more costly programs over less costly ones.

### **SPECIFIC COMMENTS REQUESTED BY EPA**

EPA requested comment on a number of provisions in the proposed CEIP. C2ES thanks EPA for the opportunity to comment on a few of these areas.

#### **Definition of commence construction**

C2ES believes EPA should use a definition of “commence construction” that already exists. This lowers the administrative costs of the CEIP and facilitates faster deployment of CEIP-eligible projects, since developers would not need to educate themselves about a unique definition.

As an example, certain federal-level clean energy tax credits define “commence construction” as when either work of a significant physical nature has been undertaken or more than 5 percent of a project’s total capital cost has been spent. Such requirements are well-understood by project developers and are not considered overly burdensome to meet or demonstrate to authorities.

#### **Definition of low-income community**

Similarly, C2ES believes EPA should use a definition of “low-income community” that already exists. State and city policymakers and project developers are familiar with existing terms, for example a geographic region’s area median income, or a comparison to the federal poverty line. While we are agnostic on exactly which definition is used, we believe it should be one currently used in other federal programs, reflecting regional differences in cost of living, and consistent across all states.

C2ES identifies a second aspect of the low-income community definition under the CEIP that we believe should be changed – the prescribed extent in which low-income communities are served. Some projects serve only low-income communities, for example residential energy efficiency improvements. Others, however, serve the broader community, including low-income households. For example, energy efficiency projects at water treatment plants serve the broader community, including low income households.

C2ES believes that applying a broad definition of how communities are served will maximize the environmental and economic benefits of the CEIP. It will do this by increasing the number of projects that are eligible – some of which may be larger and therefore lower cost to implement. Energy efficiency tends to lower electricity bills as consumers who have deployed more energy efficient technologies reduce their consumption of electricity. This provides an additional benefit that can significantly help low-income communities given the regressive nature of any energy cost increase. In addition, it has the added benefit of making these consumers less vulnerable to extreme heat or cold.

#### **Evaluation, measurement, and verification requirements should be explicit and consistent**

C2ES recognizes the critical role that evaluation, measurement, and verification (EM&V) requirements play in maintaining the environmental integrity of carbon trading programs. Having EPA-defined EM&V requirements reduces potential costs for state agencies by avoiding the need to develop requirements in every state and provides consistency for project developers as part of the model rule.

C2ES recommends that as EPA finalizes the EM&V requirements, it should prioritize processes that are low-cost and can be applied uniformly across states to allow a greater deployment of energy efficiency under the CPP.

#### **Timing of credit allocation**

C2ES notes that having credits available to the market as early as possible is the best way to reduce uncertainty and stimulate early market formation. In terms of credit allocation to projects in 2020 and 2021, C2ES recommends that EPA provide matching credits to clean energy projects shortly after performance, potentially on a quarterly or six-month basis.

#### **Redistributing unused credits**

If there are insufficient projects in a state to utilize its full share of EPA's matching pool, C2ES recommends that the credits be available to projects in any state in which the CEIP is implemented and there is excess demand for credits, on a first-come, first-served basis. The initial matching pool allocation to participating states will ensure that states with a large capacity for clean technologies do not utilize the entire pool at the expense of states with smaller capacities. However, if a state's share of the matching pool is unused, this would most likely reflect capacity that is too expensive to develop in the 2020-2021 timeframe. C2ES believes the EPA matching credits should then be rewarded to projects in other states that have met eligibility criteria but have not yet been allocated credits (reflecting an oversupply of economic renewable and energy efficiency potential in that state).

#### **Converting the 300 million short ton matching pool into ERCs**

C2ES believes that such a conversion should be administratively simple and consistent with the actual emission reductions taking place on the electricity grid. For example, the emission rate of the marginal generation source in a given power market could be used. In addition, C2ES recommends that the conversion factor be periodically updated to account for the expected

change in carbon intensity of electricity generation occurring even before the first compliance period. For example, if new renewables lowered the carbon intensity (in tons/MWh) of electricity in a power market between 2020 and 2021, the conversion factor (expressed in tons/MWh) would have to be similarly lowered so that projects receiving ERCs or allowances are treated fairly, with respect to one another.

### **Participation by states, tribes and territories without CPP goals**

Since CEIP-eligible projects serve to reduce overall emissions of the entire electricity grid, it is appropriate to allocate CEIP credits to projects in states that do not have CPP goals but are connected, via interstate transmission lines, to states that do. These jurisdictions, if they wish to participate in the CEIP, should submit an intent to do so in the same way as CPP states. EPA should then allocate a portion of its matching pool to these jurisdictions using the same formula as for other states. Since there is no corresponding state match for these jurisdictions, EPA could consider doubling the allotment from the federal matching pool for projects in these jurisdictions only. In this way, project developers would have an equal incentive to develop CEIP-eligible projects in these jurisdictions. For example, an energy efficiency project located in the District of Columbia could be granted two full CEIP credits from the EPA matching pool for every megawatt hour of electricity avoided. In this way, the project receives the same economic incentive as a project located in a state with a CPP target.

### **Other Considerations**

C2ES recognizes that EPA has finalized the eligibility criteria in the final Clean Power Plan. As mentioned earlier, the CEIP has the potential to be an important stimulator of clean energy and also of market-based implementation plans. We view these as important and that the CEIP can play this role.

However, in finalizing the eligible projects to solar, wind, and energy efficiency in low income communities, EPA is making some essential policy advances, but at the same time missing some others.

### **Encourage other clean energy technologies**

C2ES believes that the CEIP as proposed encourages other clean energy technologies too narrowly. For example, hydropower and geothermal facilities could increase capacity at existing plants within a similar two-year construction window, while carbon capture and storage (CCS) could be deployed at existing coal and natural gas units to significantly decrease emissions.

We suggest that EPA explicitly help states to understand and use the flexibility they have in their overall state-wide allocations to complement the objectives of the CPP and CEIP, including rate payer protection, and potentially allocations for other clean energy technologies. Each state is unique, with its own set of industries, resources and population needs. For example, we believe one state may desire to buffer rate impacts, while another might want to use a portion of its allocation to credit a CCS retrofit or capacity upgrade at another existing power plant. We believe that states should have as much flexibility as possible.

Related to this issue, states should also be granted the flexibility to determine how many CEIP credits to allocate to clean energy or energy efficiency technologies from their state budgets. For example, under the proposal, a wind project would receive half credit from a state and half credit from EPA, for every megawatt hour generated. If a state wanted to give a wind project a full credit, for example, we see no issue (even if EPA only provides a half of a credit). Similarly, if a state deems CCS to be eligible for CEIP allocation, but EPA does not, then a state should be able to decide the size of the credit for the the CCS project. In this way, the megawatt hour generated from wind and the CO2 reductions from CCS would receive the same economic incentive, even though the source of this incentive (state versus EPA) would be different.