KEY INSIGHTS: BUSINESS, STATE, AND CITY COLLABORATION ON INTERSTATE TRADING UNDER THE CLEAN POWER PLAN

SOLUTIONS FORUM

C2ES facilitated a second private Solutions Forum workshop around the Clean Power Plan in February 2016. More than 50 business leaders, state and city officials, other experts, and representatives of the U.S. Environmental Protection Agency (EPA) participated. The discussion built on previous Solutions Forum events and took a deeper dive into implementation issues states are facing as they consider trading-ready compliance plans. This paper summarizes key insights and remaining questions from the workshop.

The week following our workshop the U.S. Supreme Court ordered a stay of the Clean Power Plan. In our assessment, most stakeholders continue to value answering these questions while awaiting the legal outcome.

For more information about the C2ES Solutions Forum, see: http://www.c2es.org/solutions-forum

KEY INSIGHTS

Stakeholders have been narrowing in on their preferred compliance approach – at least in terms of rate-based versus mass-based compliance. Nearly all participants had formed an opinion on which option offered the lower cost pathway to compliance for their state. However, participants noted that "the devil is in the details," and almost no details had been decided in the 23 states represented by our business, state, and city participants. The conversation identified several factors making Clean Power Plan implementation uniquely challenging for state regulators.

IMPLEMENTATION REQUIRES NEW PARTNERSHIPS WITHIN STATES

Most workshop participants had completed an individual The Clean Power Plan is an environmental regulation unlike any other – both because of the considerable leeway to use market mechanisms and because of its transformative impact on the electricity sector. The regulators tasked with developing compliance plans, typically environment agencies, often do not have experience with these issues. Other state offices, like public utility commissions and energy offices, have this experience, but states often do not have established protocols for coordinating across agencies. Participants reported having already consumed state resources identifying a pathway for interdepartmental collaboration and resolving jurisdictional issues.

POLITICS ARE JUST AS CRITICAL AS POLICY

The policy implications of Clean Power Plan regulations may be considerable and require political decisions be made by environment agencies. Of particular concern were allocation provisions under mass-based compliance plans. Allocation was identified as a "zero-sum game," where the choice of methodology will have large financial implications for generators, clean energy developers, and consumers. In addition, states with existing policies like renewable portfolio standards can have entrenched interests (and sunk costs) that support a prominent role for the existing policy in a Clean Power Plan implementation plan.

NO EASY SOLUTION TO GIVING CREDIT TO CITY ACTION

City and local governments across the country are actively engaged on climate issues, and many are initiating policies to increase energy efficiency and renewables. Cities are often engaged with their local utilities on these programs, but it is unclear if and how these efforts could result in compliance credit under the Clean Power Plan. Participants noted the proposed Clean Energy Incentive Program is a natural way for city-led programs to assist compliance through the generation of tradable allowances or emission rate credits for energy efficiency programs in low-income communities. But the crediting path for efforts during the Clean Power Plan compliance periods remains unclear.

QUESTIONS RAISED IN THE WORKSHOP

Workshop participants noted particular interest in a few topics related to interstate trading under the Clean Power Plan.

WHAT IS THE APPROPRIATE BALANCE BETWEEN LIQUIDITY AND MARKET OVERSIGHT?

Economic models and experience show that markets with a large number of transactions (liquidity) are more efficient than markets with low liquidity. But, due to the conservative nature of utilities, this liquidity is often provided by financial intermediaries like banks. Several participants who are actively involved in existing carbon markets reported having seen no negative impacts from this involvement, and there has been no evidence of price manipulation in the two operating carbon markets in the U.S. to date. Other participants, though, expressed concern that allowing financial participants to trade would increase administrative costs and expose utilities, and their customers, to higher costs due to market manipulation.

HOW CAN STATES OPTIMIZE THEIR PROCESS FOR DEVELOPING STATE PLANS?

The Clean Power Plan is not the only regulation affecting power plants. Participants are seeking a streamlined path forward to simultaneously regulate multiple pollutants.

Participants also noted that as they evaluate compliance costs in their state, they do not typically consider the gains that could come from generating and selling excess allowances or credits to trading partners. Several participants speculated that this would lead to a prisoner's dilemma for interstate trading – overall compliance costs would be lower if all states coordinated their compliance approach and created a single trading market, but states are likely to evaluate costs only within their own borders and develop multiple isolated markets instead. We will explore this issue more in depth.

DO CURRENT FORECASTS OF COMPLIANCE NEED REVISION?

In December 2015, Congress extended key tax credits for new wind and solar projects. This action is widely expected to drive greater expansion of renewables before 2022, but the impact on Clean Power Plan compliance has not yet been extensively studied. Forecasts of compliance costs and electricity impacts to date were completed before the tax credit extension was approved, so they do not account for this policy change. Multiple groups are currently re-working their analysis to include it, and these results should become available later this spring.

Participants were also interested in analysis of the potential for leakage, defined in the Clean Power Plan as an increase in generation from new natural gas-fired power plants at the expense of existing ones. Several utility representatives expressed skepticism that leakage was a significant issue because of the large capital costs associated with new power plants compared with the relatively small operating costs of compliance.

CONCLUSION

C2ES is actively working with stakeholders as they continue exploring these issues within and between states. Forthcoming C2ES research will address some of the key questions raised, and we will continue to facilitate events to assist states that are still moving forward in creating Clean Power Plan implementation plans that businesses can support and cities can help implement.

CENTER FOR CLIMATE AND ENERGY SOLUTIONS

2101 WILSON BLVD. SUITE 550 ARLINGTON, VA 22201 703-516-4146 C2ES.ORG