Implementation Options for EPA's Proposed Clean Power Plan: Highlights from a Midcontinent States Regional Workshop

STAKEHOLDERS, GOVERNMENT OFFICIALS, AND POLICY EXPERTS from across the Midcontinent region and the nation gathered in Detroit, Michigan, on June 5, 2015, to discuss implementation options for the U.S. Environmental Protection Agency's (EPA) proposed Clean Power Plan. The one-day workshop was organized by the Bipartisan Policy Center (BPC) and the Great Plains Institute (GPI). The goal was to provide a forum for policy discussion within the region and to help inform two regional groups working on Clean Power Plan issues: the Midcontinent States Environmental and Energy Regulators (MSEER) and the Midwestern Power Sector Collaborative.

While not all speakers support the EPA's proposed rulemaking, they all agreed to engage in a constructive dialogue about how the rule could best be implemented. Over the course of the workshop, speakers participated on panels discussing policy pathways for states, opportunities and challenges for multistate collaboration, and options for achieving state emissions reduction goals in the Midcontinent region.

Key Objectives

Speakers highlighted a range of key objectives for state consideration in developing plans under the Clean Power Plan, regardless of whether a state opts for rate- or mass-based compliance, or whether states comply on their own or in a multistate group. These included: complying in a cost effective way; focusing on simplicity and ease of implementation; maintaining reliable electric service; maintaining affordable retail rates; preserving the option to work with other states; and achieving environmental goals. For example, in her keynote address, Valerie Brader, executive director of the Michigan Agency for Energy, summed up Michigan's priorities saying, "When you look at energy decisions, you have to look at them with three different pillars in mind, and the first of those for us is always reliability; the second, affordability; and third, protection of the environment. All of these are really important." Similarly, Mary Jo Roth, manager of environmental services at Great River Energy (GRE), described her company's key objectives, saying, "Our priorities are rates and reliability and so we're really concerned that plans impose the least possible impact... Another priority of GRE is that none of our plants be shut down."

CONVERSATION HIGHLIGHTS

- Key objectives for state consideration in developing implementation plans
- Benefits and challenges of rate- versus mass-based compliance
- Benefits and challenges of multistate collaboration
- The value of "trading ready" plans instead of formal multistate agreements
- The role of supporting policies, such as renewable portfolio standards
- Measures that could be used to reduce emissions

Rate- versus Mass-Based Compliance

States will have to decide whether a rate-based or mass-based compliance plan best meets their state's key objectives. In a rate-based plan, covered entities will have to meet an emission rate goal either individually or on average. In a mass-based plan, covered entities will have to meet a mass-based goal by holding an allowance for every ton of CO_2 emitted.

Many speakers said they would prefer to see states implement mass-based policies that allow for trading of allowances. Speakers offered a range of reasons for their preference including: the relative simplicity of administering a mass-based compliance plan, the ease of integrating an allowance price into wholesale electric market bids, the ability to set up "trading ready" compliance plans, and the assured environmental benefits. "I prefer simplicity," said Kevin Leahy, the director of environmental and energy policy at Duke Energy. "I like a ton. And if I'm dealing with a mass-based regime, that's very straightforward and it's a lot more transparent and I have a bigger market to deal with."

However, Nick Martin, manager of environmental policy at Xcel Energy, said, while mass-based plans are appealing, it is difficult to advocate for a mass-based policy without first seeing how the final rule sets mass budgets and how states allocate allowances. Those factors, he said, will determine the cost to their customers. Michael Schnitzer, director of the Northbridge Group, who spoke on behalf of Entergy Corporation, said it is up to the EPA to ensure mass-based goals and rate-based goals are equitable. "If we end up that people are pursuing rate-based approaches because the conversion methodology makes that better for them, that's not a success," Schnitzer said. In his keynote address, Mark Rupp, deputy associate administrator for intergovernmental relations at the EPA, did not specify how mass-based goals will be calculated in the final rule. He did, however, say the final rule would look different from the proposal. While most of the discussion centered on the appeal of mass-based policies, Rebecca Stanfield, deputy director of the Natural Resources Defense Council's Midwest program, said states that choose rate-based policies can make those work. "When we look at the rate- and mass-based approaches, both can work," she said.

State-Only versus Multistate Plans

Speakers were largely supportive of state plans that would allow multistate trading, although some speakers said it may not be the choice that every state or utility ultimately endorses. The idea of trading credits or allowances was lauded for its ability to encourage least-cost reductions and to monetize carbon reductions. "Trading has the benefits of allowing for a level of price transparency folks need to know. In order to monetize your carbon emissions, there needs to be a general understanding of what that value is in real time," said Todd Ramey, vice president of system operations and market services with the Midcontinent Independent System Operator (MISO). While trading could be limited to an individual state, many speakers highlighted benefits of having a larger, multistate market. "I think the broader you can make trading of emissions, the better. So that implies multistate approaches," said Bruce Braine, vice president of strategic analysis with American Electric Power. Cathy Woollums, senior vice president of environmental services and chief environmental counsel at Berkshire Hathaway Energy, said stakeholders and the EPA should do what they can to enable states to engage in trading. But, in the end, the decision to trade will be a state-by-state decision. "For very good policy reasons, I think … the states are going to look at this from very different perspectives. We don't want to preclude it, but we do want to provide the opportunity," Woollums said.

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— Bruce Braine, Vice President of Strategic Analysis, American Electric Power

"Trading-Ready" Plans

Speakers coalesced around the idea that if states allow for multistate trading, plans that are "trading ready" make more sense than plans that require formal interstate agreements. In a "trading ready" plan, states would not have to coordinate much with other states. For example, a mass-based "trading-ready" plan would have to (1) allow for plants to accept tons from other states, (2) use a common tracking system or connect to other states' systems, and ideally (3) use a common metric for measuring tons of CO_2. In order for "trading-ready" plans to work with rate-based policies, the EPA will have to allow for trading between states that do not merge their state goals. State plans would then need to meet minimum compatibility requirements, such as (1) a common unit of conversion or a conversion appropriate to the state's rate-based goal and (2) a common tracking system or a tracking system that can connect to other states' systems. "I think everybody in this room is really aware of the difficulty of coming up with a great, big, complicated plan and filing it by 2016 or 2017…especially if it's going to involve multiple states," said Steve Corneli, senior vice president of policy and strategy at NRG.

"The Clean Power Plan presents significant challenges for our states and also some opportunities. So, we will need continued input from all of you, if we are to meet these challenges and seize those opportunities…"

— John Quackenbush, Chairman of the Michigan Public Service Commission and Member of MSEER

"We believe that working together will allow states to develop strategies that are more in line with existing interstate power markets, taking the maximum advantage of the sector's interconnected nature to maintain reliability and affordability while achieving emissions reductions."

—Mark Rupp, Deputy Associate Administrator for Intergovernmental Relations, EPA

The Role of Supporting Policies

If a state opts for a mass-based policy, speakers differed over the additional value of related policies, such as renewable portfolio standards (RPS), energy efficiency resource standards (EERS), or incentives, to spur growth in renewable energy, energy efficiency, or new clean technologies. Some speakers argued that mass-based policies, on their own, will not be able to incentivize the optimal level of renewable energy and energy efficiency investments. For example, Steve Frenkel, the Midwest director of the Union of Concerned Scientists, said multiple strategies are needed. "And there's a good reason for states to continue to invest in renewables and efficiency beyond complying with the Clean Power Plan," Frenkel said. "We know that there's energy diversity. There's price suppression. There's job creation. There's capital investment." Other speakers, such as Skiles Boyd, vice president of environmental management and resources at DTE Energy, said a mass-based policy could accomplish what state RPS and EERS policies do now. "I think with a new carbon policy, there's much less need for … renewable portfolio standards or efficiency standards because it's going to be driven by …what we have to achieve," he said. In addition, some speakers focused on whether mass-based policies would be able to incentivize growth in new, breakthrough clean technologies, or if additional incentives would be needed. Steve Corneli, of NRG, said he does not think the Clean Power Plan will provide enough of a market incentive. "We need something in addition to a price on carbon, and maybe we need something instead of a price on carbon in some states," Corneli said.

Measures to Reduce Emissions

Speakers offered a range of views about the measures that could be used to reduce CO_2 emissions in the midcontinent region. Over the course of the day, a variety of options were discussed, such as energy efficiency, renewable energy, nuclear energy, natural gas, and technology innovations. For example, Kathleen Barron, senior vice president of federal regulatory affairs and wholesale market policy for Exelon Corporation, said nuclear power plays an important role in providing carbon-free, baseload power. "We've been talking about the reduction targets and how many tons of carbon we want to get out of the atmosphere, but all of that assumes some baseline. And the baseline in this country includes 20 percent of our energy coming from nuclear power plants," Barron said. Others, such as Charles Griffith, director of the climate and energy program at the Ecology Center, focused on the value of energy efficiency. "I think energy efficiency also is still the best option from an environment and public health standpoint because reducing energy waste takes the fewest resources to get the desired energy service in the end," Griffith said.

Conclusion

The one-day workshop was the first of two regional workshops planned by the BPC and GPI. More than 120 people attended the event, with more than 340 watching live on the webcast. The event highlighted many of ideas stakeholders have begun to coalesce around as well as issues yet to be resolved. Most speakers said they will wait until the final rule is released before coming to any final conclusions. "Michigan is still very much weighing our options on 111(d)," said Vince Hellwig, senior policy advisor with the Michigan Agency for Energy and co-chair of MSEER. "We are still looking at everything, just as many of you are, trying to examine what may be in the rule. We have not made any decisions."

"When you look at energy decisions, you have to look at them with three different pillars in mind, and the first of those for us is always reliability; the second, affordability; and third, protection of the environment. All of these are really important."

— Valerie Brader, Executive Director of the Michigan Agency for Energy

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Founded in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole, and George Mitchell, the Bipartisan Policy Center (BPC) is a nonprofit organization that drives principled solutions through rigorous analysis, reasoned negotiation, and respectful dialogue. With projects in multiple issue areas, BPC combines politically balanced policymaking with strong, proactive advocacy and outreach.