



IRC Observations on the EPA Clean Power Plan

Summary of the EPA's Clean Power Plan

On August 3, 2015, President Obama and US Environmental Protection Agency (EPA) announced the final Clean Power Plan rule. With defined standards for existing power plants and specific targets for states to reduce emissions of carbon dioxide, the Clean Power Plan aims to provide a nationwide path that will reduce power sector carbon emissions in 2030 by 32% from 2005 levels.

Additionally, EPA proposed a federal plan to be implemented in the event that a state does not have an approved plan to comply with the Clean Power Plan. The proposed federal plan and proposed model rules for the states to potentially adopt have both a mass-based and rate-based option and are trade-ready. A “Mass-based” compliance approach allocates a limited set of CO₂ emissions allowances to power plants that must comply with the rule, and a “rate-based” compliance approach allows power plants to receive credits for reduced emissions per unit of energy generated. “Trade-ready” refers to when affected power plants in one state can trade allowances or credits with those in other states implementing the same federal or state approach (i.e., mass- or rate-based plan).

To summarize, the proposals include four discrete proposed programs:

- A rate-based federal plan;
- A mass-based federal plan;
- A rate-based model trading rule for potential use by any state; and
- A mass-based model trading rule for potential use by any state.

More details about the Clean Power Plan are available at <https://www.epa.gov/cleanpowerplan/clean-power-plan-existing-power-plants#federal-plan>.



ISO/RTO Council Observations

An ISO/RTO Council subgroup¹ has the following observations about potential pathways for complying with the Clean Power Plan. Overall, the IRC believes that the adoption of mass-based compliance approach would provide a more efficient path toward consistency of the proposed options.

Of primary importance is the ability to trade allowances, regardless of whether a state chooses to use a rate-based or mass-based plan. A robust, transparent, and efficient trading mechanism for compliance will benefit the nation as a whole by ensuring a deep and liquid allowance/credit market. Depth and liquidity is important for ensuring the most efficient means of compliance. Efficient trading will ensure that resources will be able to accurately reflect their cost of compliance in the energy market offers they submit to the ISOs and RTOs as the central dispatch authorities, which would result in the most efficient dispatch of these resources to serve load. Therefore, the coordinated selection of either trade-ready rate-based or trade-ready mass-based approaches among the states will help ensure that the allowance/credit market is as deep, liquid, and robust as possible for promoting system efficiency.

To further ease the transition into compliance with the emission performance rates, a regional compliance approach would reduce inconsistencies in the plans between states. The inconsistencies among the different state approaches within a region may result in difficulties in trading allowances/credits, as well as with comparing offers from similar resources. These difficulties would translate into inefficiencies in the commitment and dispatch of generation. A regional compliance approach would not have to depend on a single regional compliance plan, but could be accomplished with compatible state compliance plans that rely on market-based solutions and efficient allowance/credit trading. The efficiency of allowance/credit trading through a market-based approach would also support system reliability because the broader and more liquid and efficient the allowance/credit trading mechanisms are, the more likely that the resources could obtain the allowances needed to operate at the ISO's/RTO's request.

The states' selection of differing approaches to compliance plans, specifically mass-based or rate-based approaches, could inhibit trading of allowances/credits between states that are part of larger, regional markets. Whether allowance/credit trading between states with differing approaches will be efficient is not clear. Additionally, differing approaches could lead to smaller, sub regional trading pools for these allowances/credits, which may inhibit liquidity with respect to trading the allowances/credits. This, in turn, could lead to higher allowance/credit cost and energy price volatility and increasing difficulty for generating units to operate as needed. In the worst case, limited trading liquidity could increase the possibility that specific generating resources required to manage localized reliability needs are

¹ Comments of the California Independent System Operator Corporation, ISO New England, Inc., Midcontinent Independent System Operator, Inc., New York Independent System Operator, Inc., PJM Interconnection, L.L.C., and Southwest Power Pool, Inc.



unavailable due to their inability to procure sufficient emissions allowances/credits at any price. The more resources available for the ISO/RTO to dispatch, the better the ISO/RTO can support reliability. Given that certain states have already adopted mass-based approaches via initiatives like the Regional Greenhouse Gas Initiative (RGGI), the IRC believes that the adoption of mass-based approaches by other states would provide a more efficient path toward consistency of approaches than relying on states with mass-based approaches to switch to a rate-based mechanism.

The wholesale markets operate for the purpose of deploying resources in a cost-effective manner. The consistent election of compliance approaches, as described above, will ensure that the resources dispatched via the wholesale markets would be able to most efficiently include their compliance costs in their energy market offers. Therefore, the IRC believes that this consistency is critical to maximizing the effectiveness of the wholesale markets at continuing to perform this vital function.