

DETAILS OF THE CLEAN ENERGY INCENTIVE PROGRAM



Under its final Clean Power Plan (CPP), the U.S. Environmental Protection Agency (EPA) established the Clean Energy Incentive Program (CEIP) to encourage early action in meeting CPP objectives. The CEIP is a voluntary program for states to incentivize renewable and energy efficiency projects by giving them assets that will be tradable in Clean Power Plan markets. On June 16, 2016, EPA proposed design details for the CEIP. This fact sheet has been developed by C2ES in support of the Alliance for a Sustainable Future, in partnership with The United States Conference of Mayors. For more information about the Alliance, see: <http://www.allianceforasustainablefuture.com>.

The Clean Energy Incentive Program (CEIP)¹ is meant to stimulate deployment of clean energy before the Clean Power Plan's (CPP) 2022 compliance start, specifically in 2020 and 2021. The U.S. Environmental Protection Agency (EPA) proposed the CEIP to address concerns that delaying the CPP start to 2022 would delay action to reduce emissions. Early action is key to the climate problem because the faster the transition to a low-carbon world begins, the greater the chance for avoiding the worst impacts of climate change. Additionally, clean energy projects that are eligible for the CEIP deliver co-benefits to the community through cleaner air and lower energy bills. The CEIP is a voluntary program, meaning states can elect to implement the CEIP as part of their plan and receive federal incentives for early action, but they need not.

THE CEIP PROVIDES INCENTIVES TO EARLY ACTION

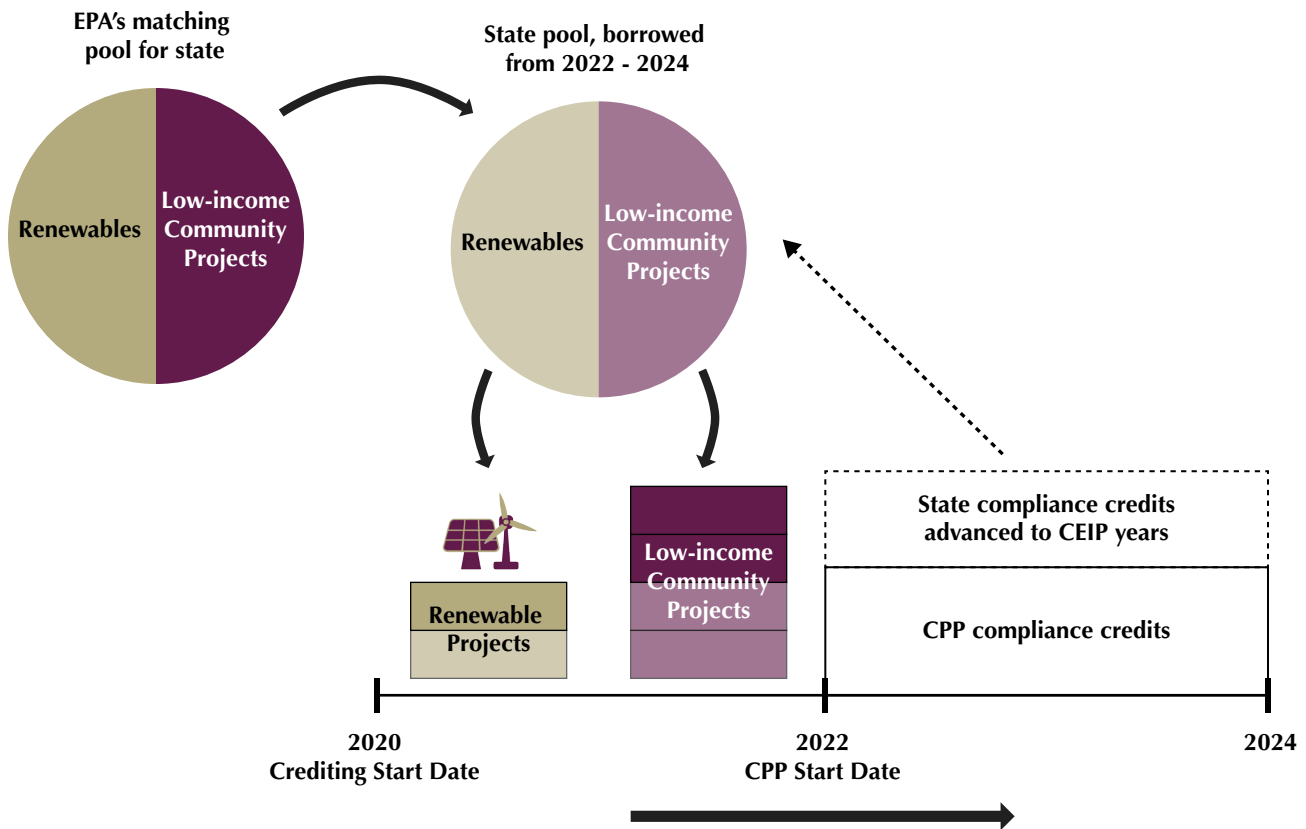
As part of a state's plan for implementing the CPP, it can opt in to the CEIP and will then be eligible to give allowances or emission rate credits (ERCs) to early-action projects that reduce emissions in 2020 and/or 2021—before the CPP compliance window starts. Clean energy

projects that receive credits under the CEIP don't need to use them for compliance, but can sell them to fossil fuel-fired power plants that do have a CPP compliance obligation.

Half the allowances/ERCs available to projects in a state will be borrowed from the state's future (2022-2024) allocation pool, and the other half will come from a matching EPA pool. Jurisdictions implementing mass-based approaches will receive CEIP allowances from EPA (each worth one short ton of carbon dioxide). Jurisdictions implementing rate-based approaches will receive CEIP Emission Reduction Credits or ERCs, (each worth one megawatt-hour of electricity).

EPA's matching pool is capped nationwide at 300 million additional allowances, equivalently expressed as 375 million ERCs. EPA will apportion this number among participating states and tribes in advance of the program's start in 2020. This will help set expectations within each state for how much early action can be incentivized. EPA proposes the share be based upon the state or tribe's share of the reduction burden required under the CPP and specific numbers are given in the proposal. The share will be assigned in either allowances or ERCs, depending upon the tribe or state's

FIGURE 1: How the CEIP Promotes Clean Energy



The figure above illustrates how matching CEIP pools for each state are divided equally between renewables and projects in low-income communities. After new clean energy projects are built, states verify the amount of clean energy a project is producing, then distribute the appropriate amount of CEIP credits to eligible projects—half from the state pool, half from the EPA pool. Low-income community projects receive double credit. Project developers can sell their credits to power plants that need them to comply with the Clean Power Plan.

compliance approach. Any of the CEIP matching pool not distributed during 2020 and 2021 will be retired. EPA is taking comments on its approach to the matching pool apportionment.

The CEIP program is designed to provide states and qualifying projects an incentive to get started before CPP compliance begins. While the ultimate dollar value of CEIP units will depend upon many factors, it is possible to estimate an upper limit for the value for the CEIP matching pool based on program scenarios modeled by EPA. Using an estimate of state-by-state carbon prices in 2030,² multiplied by mass-based apportionment, we estimate a maximum value of the CEIP of \$7.4 billion (combining the EPA and state shares of the program).

While the program value is likely to be lower than this, the estimate demonstrates the financial potential for states that choose to participate.

PROJECT ELIGIBILITY

Only two categories of projects are eligible for the CEIP - renewable projects and low-income community projects. Each state must divide evenly their available CEIP allowances or ERCs (including EPA's pool for each state) into these two categories. Renewable projects are restricted to wind, solar, geothermal, and hydroelectric technologies. Only new projects are eligible, defined as projects that "commence commercial operations" (i.e.,

What has changed since EPA's initial proposal?

The June 2016 proposed rule CEIP Design Details changes several key factors from the August 2015 initial proposal. This box gives an overview on only the elements that changed from the original proposal.

Eligible technologies: The list of eligible renewable technologies has expanded to include wind, solar, geothermal, and hydroelectric projects. The original proposal only included wind and solar. Demand-side energy efficiency projects remain an eligible technology, if they benefit a low-income community.

Projects in low-income communities: Like the original, the June 2016 proposal includes a carve out (reserve) for projects developed in low-income communities. These projects may be energy efficiency or solar. The original proposal only included energy efficiency projects in the reserve for low-income communities.

Start date for eligible projects: Renewable projects (in all locations) may be eligible if they commence commercial operations by January 1, 2020. This replaces the original requirement that renewable projects begin construction on or after Sept. 6, 2018, or the date on which a state implementation plan was submitted, whichever was earlier. Energy efficiency projects in low-income communities are eligible if they commence operations (i.e. begin delivering energy savings) by Sept. 6, 2018.

Additional details: The June 2016 proposal contains additional details including how to define a low-income community, whether projects outside of states with a compliance goal can be eligible, and how to allocate the federal pool of CEIP credits. EPA had requested comment on each of these factors in 2015. An additional requirement is added to include procedures to handle CEIP units allocated by error or fraud.

begin generating electricity) on or after January 1, 2020. They may be either utility-scale or distributed, so long as the generated electricity is continuously measured and they are connected to the electricity grid. These projects are eligible to receive one ERC or 0.8 allowance for each MWh of electricity generated in the years 2020 and/or 2021 with half coming from the state pool and half from the matching EPA pool.

Low-income community projects can be either demand-side energy efficiency or solar technologies located in and/or benefiting those communities. Energy efficiency programs that deliver benefits to multiple buildings would be eligible, provided the recipients meet the definition of a low-income community as described below. Eligible low-income solar projects must be started on or after January 1, 2020. Energy efficiency projects must "commence operations" (i.e., begin delivering verifiable energy savings) on or after September 6, 2018. Low-income community projects are eligible to receive two ERCs or 1.6 allowances for each MWh of electricity generated (in the case of solar) or saved (in the case of

energy efficiency) in 2020 and/or 2021. And again, half of the CEIP incentive will come from the state and half from the EPA match.

In the proposed CEIP Design Details, EPA gives each state implementing the CEIP the ability to select from existing definitions of low-income communities. Many current federal and state programs have specific definitions for a low-income community, and these can be geographic-based (i.e. an area in which a specified portion of residents meets defined income thresholds) or household-based (i.e. based upon the income of an individual household). Each definition strikes a different balance between administrative ease and ensuring program benefits reach the desired population. States may even use different definitions for different types of programs.

For the most part, projects are expected to be located within a state or tribe that has affected generation units. However, EPA also proposes to allow projects located outside these areas, if the project can demonstrate that it reduces emissions from an affected emission source

in that other state. This could occur, for example, if a project was located on tribal lands where the tribe had no affected sources, or if the project was located in a state without affected sources but provided documentation of benefiting a state with affected sources. In the latter case, a power purchase agreement would be one type of possible documentation. The CEIP units allocated to the project would come from the state receiving the benefit and from the EPA matching pool.

NEXT STEPS FOR THE CEIP

EPA will take public comments on the proposed CEIP Design Details over the summer of 2016. As part of the proposal, EPA is re-proposing some language in the draft model trading rules related to the CEIP, but it is not re-opening the CPP. It is possible that eligibility dates in the CEIP will be adjusted following court action on the merits of the CPP.

As the rulemaking process continues, interested parties, like the cities and businesses that want to work together with states to reduce greenhouse gas emissions, will gain additional guidance from EPA and the states on how the CEIP can help benefit their work. Ultimately, a state must craft a plan to comply with the CPP and opt into the CEIP to enable cities and businesses to take advantage of the incentives provided under this program. Once finalized, the CEIP can be one additional consideration—one that helps tip the balance toward more clean energy and reduced risks from climate change.

ENDNOTES

1 U.S. Environmental Protection Agency, “Clean Energy Incentive Program Design Details Proposed Rule,” <https://www.epa.gov/cleanpowerplan/clean-energy-incentive-program>.

2 U.S. Environmental Protection Agency, Analysis of the Clean Power Plan: Mass based analyses of the CPP, <https://www.epa.gov/airmarkets/analysis-clean-power-plan>.

Key Terms

The CEIP is a voluntary state-administered program to incentivize early deployment of renewable and energy efficiency projects by giving tradeable assets under the CPP. Qualified projects receive credits on a 1:1 basis from EPA and state pools. Below are terms that are important to understanding how the CEIP works.

Allowances: Tradeable assets issued to states using mass-based targets for the Clean Power Plan. One allowance is worth one short ton of carbon dioxide.

Emission Rate Credits (ERCs): Tradeable assets issued to states using rate-based targets for the Clean Power Plan. Each ERC is worth one megawatt-hour (MWh) of electricity.

EPA matching pool: A fixed volume of allowances or ERCs that EPA will give to each participating state for distribution to CEIP projects.

Low-income community projects: Projects located in and/or benefiting low-income communities that promote energy efficiency to reduce electricity demand or solar technologies to produce electricity.

Mass-based target: A limit on the total amount of carbon dioxide allowed, regardless of the amount of energy produced.

Rate-based target: A limit on the amount of CO₂ allowed per unit of energy produced.

Renewable projects: Projects that generate electricity using wind, solar, geothermal, or hydroelectric technologies.

State matching pool: A fixed volume of allowances or ERCs that a state borrows from the first years of the Clean Power Plan.



CENTER FOR CLIMATE
AND ENERGY SOLUTIONS

The Center for Climate and Energy Solutions (C2ES) is an independent nonprofit organization working to promote practical, effective policies and actions to address the twin challenges of energy and climate change.