

KEY INSIGHTS: MARKET READINESS FOR BUSINESSES, STATES, AND CITIES UNDER THE CLEAN POWER PLAN



C2ES held its first Solutions Forum workshop, focusing on market readiness under the Clean Power Plan, in September 2015. More than 40 business leaders, state and city officials, other experts, and representatives from the Environmental Protection Agency (EPA) and the Department of Energy shared their experiences with market mechanisms to reduce pollutants. Discussion focused on cost effectively reducing greenhouse gas emissions while protecting economic growth and driving innovation. This paper summarizes the key insights of the meeting and areas of focus moving forward.

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

KEY INSIGHTS

Workshop participants have had sophisticated discussions within their organization or jurisdiction about implementing the Clean Power Plan. Businesses, states, and cities across the country are examining compliance options, and there was broad agreement among participants on several issues.

STAKEHOLDERS SEE TRADING AS THE BEST WAY TO MINIMIZE COMPLIANCE COSTS

Reducing emissions will require investment and changes to the way electricity is produced and consumed. All participants recognized the power of market approaches, particularly interstate trading, to minimize cost, which is a key concern to low-income residents and energy-intensive industries.

STATES AND BUSINESSES ARE CONSIDERING BOTH MASS-BASED AND RATE-BASED PROGRAMS

Many participants are still discussing which compliance approach best suits their circumstances. Some questioned whether rate- and mass-based compliance programs can coexist within a single state.

Participants want to ensure implementation plans take into account different levels and types of economic

growth. Some states experiencing strong growth seemed more interested in a rate-based approach while some states with existing greenhouse gas reduction goals and/or energy efficiency goals seemed to prefer leveraging those programs in a mass-based approach.

Participants were concerned about potential leakage of power generation and emissions, including generation moving from states in a mass-based program to a rate-based program or from covered to non-covered entities. If leakage is not accounted for in state plans and at the federal level, participants worried it could affect state and business competitiveness.

EXISTING MARKETS PROVIDE EXAMPLES FOR CLEAN POWER PLAN IMPLEMENTATION

Environmental markets have existed for years, and businesses across many sectors operate within them. All of the business participants and many of the states and cities reported participating in environmental markets including those for carbon, renewable electricity, and sulfur dioxide. Many participants have invested in understanding and refining market design, and want to share best practices to prevent duplicative efforts by states.

States shared their experience using market-based mechanisms to alleviate cost impacts on their most vulnerable consumers. Steps included directing

allowance auction revenue to programs benefiting low-income residents and using industry benchmarks to promote energy efficiency.

EFFICIENCY NEEDS A CLEARER PATH FORWARD

Our participants showed a uniform desire to encourage demand-side energy efficiency for compliance, and expressed concern that this is not appropriately incentivized in the Clean Power Plan. Many stakeholders saw a more direct valuation of energy efficiency in a rate-based program and were concerned about how to financially incentivize energy efficiency under a mass-based program.

QUESTIONS RAISED IN THE WORKSHOP

Discussion repeatedly turned to a few issues that businesses, states, and cities agree will need careful attention in the months ahead as states develop their implementation plans.

MARKET DESIGN

Many areas of concern were related to the design of trading systems, whether mass-based or rate-based. States wanted a more detailed exploration of design options like allocation, tracking systems, and market oversight. Some might prefer EPA to lead on proposing those design elements while others would prefer to choose themselves.

Workshop participants were very interested in exploring options for allowance allocation (under a mass-based plan) to address competitiveness concerns and leakage, incentivize renewables and efficiency, and drive technological innovation.

Participants also want markets developed under the Clean Power Plan to operate predictably and without manipulation, credit hoarding, or price spikes. Many environmental markets, including the sulfur dioxide program and the Regional Greenhouse Gas Initiative have operated relatively smoothly with participation from non-compliance entities.

States and utilities also expressed a desire to “bridge the gap” between rate-based and mass-based trading systems. Citing the known benefits of broad markets, they want to ensure that low-cost reductions can be fully utilized even if states implement different types of plans.

CLEAN ENERGY INCENTIVE PROGRAM

The proposed Clean Energy Incentive Program (CEIP) was a focus for many participants. Some expressed a concern that the timeline in the proposal—construction beginning as late as 2018 and implementation by 2020—limited the number of clean energy and energy efficiency projects that could participate in this voluntary program. Questions were raised on the definition of a “low-income community,” which can be rural or urban, and on how federal CEIP credits would be distributed to participating states. They noted that some programs, like efficiency improvements at water utilities, simultaneously benefit low-income and other communities.

THE ROLE OF NON-COVERED ENTITIES

Participants realized that achieving the reductions required by the Clean Power Plan will require contributions and support from non-covered entities as well. Energy efficiency programs are being implemented by cities, water utilities, businesses, and other entities that have no compliance obligation. To what extent can states utilize these actions in their implementation plans? What enforcement actions are available or needed if power plants find themselves out of compliance because a program failed to achieve its goal? Can trading programs under the Clean Power Plan drive investment in these initiatives?

C2ES will continue to work with stakeholders and EPA to further explore these insights and questions. We will develop ideas with stakeholders and reconvene with the goal of helping states create Clean Power Plan implementation plans that businesses can support and cities can help implement.



The Center for Climate and Energy Solutions (C2ES) is an independent, nonprofit, nonpartisan organization promoting strong policy and action to address our climate and energy challenges. The C2ES Solutions Forum brings together businesses, states, and cities to expand clean energy, reduce greenhouse gas emissions, and strengthen resilience to climate change.