



NRECA Preliminary Summary of Final Clean Power Plan

OVERVIEW

The Environmental Protection Agency signed, and President Obama released, the final “Clean Power Plan” on Monday, August 3. The final rule governing existing power plants is extremely complex, and will take some time to thoroughly understand. The Administration also finalized regulations governing new power plants, as well as rules for modified and reconstructed power plants. Finally, EPA proposed a draft “Federal Plan” that would be used to implement the 111(d) rules in the event a state does not submit its own plan. EPA will take comments on the proposed Federal Plan for 90 days after it is printed in the Federal Register (roughly mid- or late-November). NRECA will comment on the proposal.

NRECA has developed this initial summary of the final rule to help cooperatives understand how the plan works. NRECA will continue to evaluate the rule and develop update materials in the coming days and weeks.

CHANGES FROM PROPOSED RULE

Timeline – The final rule gives states more time to develop plans (final plans are due in September, 2018), and moved the initial compliance date back from 2020 to 2022. These changes are an improvement.

Pace of Reductions: “Glide Path” vs. “Cliff” – Under the proposed rule, significant reductions would need to be achieved by the start of the compliance period (in 2020), creating a “cliff” that would have forced significant reductions in a very abrupt, unworkable manner. EPA shifted the starting compliance period to 2022, and also established a 3-phase set of interim goals to help shift from the “cliff” to more of a glidepath. Interim goals must be met in 2022-2024, 2025-2027, and 2028-2029, although states have the ability to adjust these goals. This is an improvement over the proposal, but more analysis is needed to determine whether this creates a series of smaller cliffs or actually creates a “glidepath” to the final 2030 reduction levels.

Stringency – The final rule sets state targets that result in a 32% reduction of CO₂ from 2005 levels, compared to a 30% reduction under the proposal. However, each individual state’s reduction requirement has changed, in some cases dramatically. Several states that generate a significant portion of their power from coal will see a much more stringent requirement, while other states will see less stringent requirements compared to the proposal. Overall this is a

more stringent target, but some states will view it as an improvement while others will see it as a step backwards.

Emission Performance Rates and State Goals – EPA establishes emission performance rates for coal-based generation and for natural gas-based generation. They do this by applying modified versions of Building Blocks 1, 2, and 3 and applying these building blocks to arrive at a CO₂ emission performance rate. For coal units, the rate is 1305 pounds of CO₂/MWH, and for natural gas units, the rate is 771 pounds of CO₂/MWH. EPA then applied the state-specific generation mix for each state to come up with each state's cap. For example, if a state had 100% coal generation (only looking fossil fuel-based generation sources) then its cap would be 1305 lbs CO₂/MWH. If a state is 100% gas, its rate would be 771 lbs CO₂/MWH. And if it were 50/50 coal and gas, its rate would be 1038 lbs CO₂/MWH (1305+771/2). Therefore, Idaho, with no coal, has a goal of 771, while North Dakota, with no natural gas, has a goal of 1305. A complete list of the revised state targets is attached.

EPA modified the building blocks as follows:

BB1 (power plant heat rate improvements) – EPA reduced its assumption of the efficiency improvements that can be achieved at power plants from 6% across the board to different region-specific levels. In the Eastern Interconnection, EPA says a 4.3% heat rate improvement is possible. In the Western Interconnection, it is 2.1%, and in the Texas (ERCOT) Interconnection, it is 2.3%. This is an improvement, though not as realistic as NRECA comments.

BB2 (using more existing natural gas generation) – EPA calls for phased-in increase of existing natural gas combined cycle (NGCC) to 75% net summer capacity (rather than 70% nameplate capacity as proposed). The phase-in approach is an improvement, though more analysis is needed to determine exact impacts.

BB3 (using renewables and nuclear power) – EPA calls for greater use of new renewable energy (RE) based on historical RE capacity deployment (2010-2014); existing RE and nuclear are not included in the goal setting calculation (under-construction nuclear and all uprates of nuclear and renewables may still be included as compliance measures to reduce carbon pollution from power plants). Excluding “under construction” nuclear units from the BB is an improvement, the modified approach to

renewables assumes the pace of development of renewables will continue.

BB4 (energy efficiency) – EPA did not use energy efficiency to calculate the emissions performance rate and instead, will allow states the flexibility to use energy efficiency as a compliance tool. The decision to remove energy efficiency was in part due to the Administration’s concerns over the legal viability of this approach.

Clean Energy Incentive Program – The EPA proposes to establish an incentive program to develop renewable resources and conduct energy efficiency improvements (targeted toward “low-income communities”) in 2020 and 2021 to give states a “jump start” on complying with the rule. This is only a proposal at the moment, on which EPA will take comments for 90 days along with the draft Federal Plan. EPA will provide some additional “credits” for RE projects that begin construction AFTER a state plan is submitted and that generate electricity in 2020 and 2021. Likewise for EE, EPA will provide credits for projects that save energy AFTER a state plan is submitted, that save energy in 2020 and 2021. This is clearly intended to be an incentive for states to develop compliance plans. This approach MAY provide co-ops additional tools to reduce the cost of complying with the rule for member-consumers. Much more analysis is needed to provide comments on this proposal.

Reliability Safety Valve – EPA has included a limited Reliability Safety Valve in the final rule. The safety valve allows a power plant to operate outside the parameters set by the state plan for 90 days if the state can meet a high bar of proof and if a reliability coordinator or planning authority signs off. For those 90 days, the excess emissions won’t count against the state’s goal. After 90 days, the EGU can apply for continuing relief, and the state can request to amend its state plan, but any excess emissions from the EGU count against the state’s goal and the state can only amend its compliance mechanism, not the goal itself. This is a modest improvement over the proposal, but does not go nearly as far as NRECA had suggested with a “dynamic” reliability safety valve that would have allowed a state to modify its emissions goals for unexpected events like a nuclear or hydro resource going offline for a prolonged period of time.

UNCHANGED FROM PROPOSED RULE

Overall Structure – the final rule continues the approach of going “outside the fence line” of fossil fuel-based power plants to achieve the majority of the emission reductions. NRECA urged EPA to limit the rules to activities that could be done at existing power plants (keeping the rules “inside the fence-line”). It is troubling that EPA continues with an overall approach that goes further than the Clean Air Act allows.

The plan also continues to be more prescriptive than the Clean Air Act contemplates. Under section 111(d), EPA is supposed to come up with “guidelines” for what the “best system of emission reduction” is, and then let states apply that BSER to reduce emissions as appropriate in that state while considering a number of factors. The final rule continues to be very prescriptive in setting specific, numeric state emission reduction requirements.

UNKNOWNNS

Cost - NRECA will need to conduct independent economic analysis of the final regulation to determine the impact on consumers. EPA maintains that the final rule will save consumers on their electricity bills by 2030. However, EPA also claimed the proposal would have saved consumers money, but NRECA analysis indicated the proposal would result in an average bill increase of 10% in 2025, with some states seeing higher increases and other states seeing lower increases.

Stranded Assets – One of the key issues we raised time and again was the impact the plan would have on existing power plants. The proposal would have resulted in significant premature plant closures (according to EPA’s modelling). We are still trying to determine whether there would be a similar level of premature plant closures under the final rule. The EPA believes the issue of stranded assets will be addressed by the additional compliance time and the use of trading programs.

Remaining Useful Life - The EPA does not allow states to adjust its goal to accommodate the "Remaining Useful Life" of a power plant. The EPA justifies this stance by arguing that the additional compliance time and the use of trading programs will allow plants with remaining debt or useful life to continue to operate.

KEY TAKE-AWAYS AND CONCLUSION

This extremely complex rule will require unprecedented coordination among utilities, state and federal regulators, and consumers. It contains several elements designed to make it easier to achieve the goals of the plan, but also retains some of the fundamental flaws in the original.

On its surface, the rule appears to shift from a “rush to gas” to a “rush to renewable energy” and significant push for widespread end-user energy efficiency improvements. The final rule provides states with different compliance options; one of which is to simply require existing power plants to reduce emissions to meet either a rate-based goal or “mass-based” goal (total tons of CO₂/year). However, the rule is designed in such a way that it will likely push states to adopt more stringent renewable portfolio standards, energy efficiency requirements, and carbon trading programs to reduce the cost of complying with the rule (compared to the option of simply forcing power plants to reduce emissions by running less or shutting down).

NRECA will conduct additional analysis of the rule, but we remain very concerned that the rule will cost consumers more, will likely challenge the reliability of the grid, may result in premature plant closures, and significantly exceeds the authority granted to EPA under the Clean Air Act.

For more information, please contact NRECA’s Government Relations Department.