
EPA 111(D) STAFF ANALYSIS #7: CLEAN ENERGY INCENTIVE PROGRAM

TO: Commissioners
FROM: Public Policy Bureau (Robin Arnold, Bob Decker, Margo Schurman)
SUBJECT: EPA 111(d)—Staff Analysis #7: Clean Energy Incentive Program
DATE: October 1, 2015
CC: PSC Electric

This is the seventh in a series of staff reports to the Commission on EPA’s 111(d) Final Rule, which seeks to reduce carbon dioxide emissions from electric power plants. Each staff report addresses a particular and significant element of the Final Rule.

This report addresses the proposed Clean Energy Incentive Program (CEIP), a concept introduced in the Final Rule that will be open to comments upon publication¹ of the proposed federal implementation plan in the Federal Register. The program was conceived to reward early investments in renewable energy (RE) generation and demand-side energy efficiency (EE) measures that generate carbon-free MWh or reduce end-use energy demand. The early investment rewards will be available to earn in the form of trading units during either 2020 or 2021. State participation in the program is optional.

Additional allowances for mass-based state plans, or emission rate credits for rate-based state plans, will be made available by the EPA to states that encourage early emissions reductions. Additional incentives are provided for EE investments in low-income communities. Upon publication of the Final Rule in the Federal Register, EPA will seek comment on the definition of and eligibility rules for low-income EE investments.

The CEIP is a voluntary “matching fund” program that states can use to incentivize early investment. Any planned projects that meet the requirements will be eligible for early action credits or allowances. This includes any new or currently planned projects, with construction or implementation after 2013, that result in renewable energy generation or energy efficiency savings. According to EPA, the CEIP will:

- Encourage the widespread development and deployment of wind and solar, which is essential to longer term clean energy and climate strategies and consistent with the Clean Air Act’s directive to advance newer technologies;
- Jumpstart job gains that are anticipated from construction and installation of RE and EE projects under the Clean Power Plan (CPP);
- Provide incentives to follow through on planned investments in zero-emitting wind and solar power in advance of the CPP’s first performance period;

¹ Publication in the Federal Register is expected in Oct. or Nov. 2015. The comment window will extend 90 days from publication.

- Provide near-term health benefits from reductions in sulfur dioxide, particulates, and nitrogen oxides;
- Level the playing field for implementing energy efficiency in low-income communities, which has been historically limited by economic barriers, bringing jobs and lower energy costs to consumers in those areas.

Requirements for eligible projects include:

- Located in or benefitting a state that has submitted a final state plan that includes requirements establishing its participation in the CEIP;
- Commence construction (RE projects) or commence operations (EE projects) following the date on which the state submits its final state plan to the EPA. The final date for submission of state plans is September 6, 2018;
- For RE: Generate metered MWh from wind or solar resources. For EE: Result in quantified and verified electricity savings (MWh) through demand-side EE measures implemented in a low-income community;
- Generate or save MWh in 2020 and/or 2021.

EPA will provide matching allowances or credits to states that participate in the CEIP, up to an amount equivalent to a total of 300 million tons of CO₂ emissions. Incentives for project providers are summarized as follows:

- Wind or solar projects will receive 1 credit (or allowance) for every 1 MWh of generation (i.e., one-half early action credit/allowance from the state and one-half matching credit/allowance from EPA).
- Demand-side EE projects implemented in low-income communities will receive 2 credits (or allowances) for 1 MWh of avoided generation (i.e., a full early action credit/allowance from the state and a full matching credit/allowance from EPA).

The CEIP aligns with the flexible compliance pathways that states can choose under the CPP. States that choose mass-based compliance may draw CO₂ emission allowances from their 2022-2029 mass-based goal and award them to eligible projects in 2020 and/or 2021. States that choose rate-based compliance may borrow from the pool of credits they will issue during the 2022-2029 performance period and award them to eligible projects that achieve reductions in 2020 and/or 2021. Allowance and credits issued under the CEIP may be used for compliance by affected Electric Generating Units (EGUs) with their emission standards during the interim and final performance periods. Allowances and credits may also be banked within and between time periods. The CEIP will be available to projects in states where EPA implements a Federal Plan² or states that submit a non-binding statement of CEIP participation in their initial plan submittal to EPA, followed through in a final plan with the required information to EPA.

² The Federal Plan will be an upcoming staff analysis topic.