To: Stuart Spencer, Tricia Jackson, and Eddy Moore
From: Ken Smith, Arkansas Advanced Energy Association
Date: January 12, 2016
Re: Federal Clean Power Plan Comments

The Arkansas Advanced Energy Association (AAEA) provides the following comments regarding the proposed federal plan (FP) and model trading rules (MTRs). Though AAEA supports the proposed plan and trading rules, the association believes the FP and MTRs can be improved.

Mass- vs. Rate-based Approach for Federal Plan. AAEA has no strong preference on which version EPA should pick but does see value in EPA retaining both approaches depending on a state's mix of electric generation units (EGUs) and potential trading partners. On a recent EPA conference Call, AAEA voiced support for retaining both approaches but EPA made it clear that its intent is to finalize a single approach. If confined to a single approach, AAEA will defer to the recommendations of the regional transmission organizations (RTOs) and electric utilities prefer, most likely a mass-based system of compliance. MISO, at the January 5th Arkansas stakeholder meeting, made it clear that its analyses show that a mass-based approach provides it and its generating partners the best chance to achieve least-cost compliance.

Trading. AAEA believes EPA should finalize both mass- and rate-based model trading rules. Model trading rules (MTRs) will demonstrate readily available paths for CPP implementation and will present flexible, affordable options for states. Arkansas should support EPA's proposed approach that allows broad linkages between federal plan states and trading-ready states. The success of a trading program is dependent on having a sufficient number of trading partners, and allowing linkages between state and federal plan states helps to ensure a sufficient pool of these trading partners.

Tracking. As proposed by the MTRs, state trading-ready plans will use an EPA-administered tracking system. AAEA believes the state should support this provision as an efficient method to conduct a broad trading program with less cost and administrative burdens on individual states.

Allocation of Allowances. Under a mass-based federal plan, allocation to existing EGUs based on historical generation is preferable than allocation based on historic emissions. Such an approach allows for distribution of allowances prior to the start of compliance, it is transparent and reliable, and it has been used for other federal trading programs. AAEA does have a concern that free allocation to existing EGUS could result in the problem of windfall profits to generators. EPA has other options such as allocation to all generation, allocation to load-serving entities (LSEs) and states have options including auctions, set-asides to achieve policy goals, allocations to advanced energy, allocations to LSEs, etc. EPA should consider other options for FP allocation and should give states more than one "default" option in the MTRs.

States should be able to retain allowances for some period of time that become available

due to plant retirements and use those allowances for RE set-asides and other advanced energy technologies; perhaps to output-based set asides for existing NGCC; and to remaining EGUs. However, AAEA is not supportive of these allowances being granted in-perpetuity.

Auctions. Allowances have real value and an auction of all or some portion of the allowances should be allowed to achieve wide-spread energy savings and important policy goals including economic development, job growth, and advanced energy technology development.

Set Asides to Address Leakage. AAEA supports the renewable energy set-aside but it should include other technologies that we discussed at the January 5th stakeholder meeting. You may have noted that AAEA and the Arkansas Electric Consumers are in agreement in advocating for CHP, WHR, DR, industrial EE, and other demand side EE as potential set-asides. Under a rate-based federal plan, the FP should allow for inclusion of all eligible advanced energy measures. The current rate-based FP only includes BSER technologies and nuclear power. AAEA also supports counting grid-tied distributed generation should count towards compliance, not just energy delivered back to the grid. States are in a better position to assess energy planning needs than is the EPA, and to the extent that RE, EE, CHP, and other advanced energy technologies can reduce emissions leakage to new sources, states should be allowed to leverage such resources as leakage strategies.

A 5% set aside for renewable energy is not enough nor is it enough should other advanced energy technologies be allowed. Therefore, AAEA supports a higher set aside for RE and advanced energy. Further, any unused allowances from the state's Clean Energy Incentive Program (CEIP), not the EPA match that retires, should flow into the RE set-aside, consistent with the goal of CEIP of incentivizing advanced energy.

AAEA encourages EPA to embrace Integrated Resource Planning (IRP) in the MTRs as a process by which utilities and state regulators must consider a range of cost effective generating resources as a sufficient process for addressing leakage. AAEA has participated in several utility-led IRPs over the past four years and believes IRPs should be an important component of addressing leakage.

Banking and Borrowing. Arkansas should support EPAs position of unlimited banking of ERCs or allowances. As discussed at the January stakeholder meeting, unlimited banking has been successful in other federal trading programs, such as the Acid Rain Program, in that emission reductions continued even as the number of allowances increased due to the existence of banked allowances. Though AAEA heard support at the recent stakeholder meeting for "borrowing," we are not in support of borrowing allowances. Banking means successful efforts to reduce emissions whereas borrowing indicates failure to meet earlier target numbers. Early emission targets are necessary to ensure progress in national efforts to address climate change. Borrowing encourages delay. Also, the MTRs provides for multi-year compliance periods with allowances distributed for the entire compliance period at one time, rather than year by year, which make allowance/ERC borrowing unnecessary.

Industrial Energy Efficiency. In August 2012, President Obama signed an Executive Order to encourage investment in industrial energy efficiency. The primary goal of the order was to achieve a national target of 40 gigawatts of new industrial CHP by the end of 2020. Current CHP capacity in Arkansas is about 497 megawatts at 16 sites. However, there are at least 35 major-source biomass-fired boilers in Arkansas. If these boilers were converted to CHP, it would generate another 617 MWs of new electric capacity. CHP and WHR both offer significant energy savings and carbon reduction opportunities. Additionally, these technologies help to address reliability concerns as the nation transitions to cleaner, more sustainable energy sources. EPA should include both CHP and WHP as eligible measures in both the MTRs and the FP. In the CEIP, EPA also should state that CHP and WHR projects are eligible for participation.