At the January 5, 2016 Clean Power Plan (CPP) stakeholder meeting, the Arkansas Department of Environmental Quality requested that any additional information for their comments to the proposed CPP Federal Plan and Model State Rules be submitted to them by January 12, 2016. Arkansas Electric Cooperative Corporation (AECC) wishes to submit additional information on our two largest concerns with the proposal. Those issues are: (1) Allowance allocations for retired, inactive, modified, and reconstructed units; and (2) the allowance allocation method. Below are AECC's comments on these two topics.

1. **Retired, Inactive, modified, and reconstructed units should continue to receive allowance allocations indefinitely.**

   The U.S. Environmental Protection Agency (EPA) proposes to discontinue allowance allocations to retired electric generating units (EGUs) and EGUs that are inactive for two consecutive calendar years. An affected unit would receive allowances for a limited period after that unit ceases operation, and then its allowances would be allocated to the renewable energy allowance pool.

   For the reasons listed below, AECC believes that retired, inactive, modified, and reconstructed EGUs should continue to receive allowances indefinitely.

   - It is consistent with how retired and inactive EGUs are treated under other allowance-based trading programs such as the Acid Rain Program.

   - Retaining allowances after retirement helps offset the cost of retiring an EGU. The CPP will result in retirement of EGUs and those EGUs have to be replaced with something and at a cost. Continuation of allowance allocations allows retirement of older units to be part of the compliance strategy without creating financial hardships on those that are forced to retire and ultimately on the consumers who must pay higher electric rates.

   - Forced forfeiture of allocations for retired units creates an incentive for the continued operation of less-efficient EGUs simply to retain allocations. This will result in higher emissions.

   - Forced forfeiture of allocations by a modified or reconstructed EGU which would change its status – from a 111(d) unit to a 111(b) unit – creates an incentive for less efficient EGUs to forgo modifications or reconstructions that will reduce emissions. This does not meet the goal of the Clean Power Plan and will result in higher emissions.

   - An EGU that retires after the CPP was proposed should receive an allowance allocation just as an EGU would after the interim compliance period begins. All affected EGUs that were in existence at the time that the CPP was proposed should be accounted for during the distribution of allowances. An existing unit that retires before the initial CPP compliance period begins should receive an allowance allocation to help offset the cost of replacement generation – which is most likely to be more efficient and lower emitting than the retired unit but also more expensive.

2. **The allowance allocation method should be based on historical emissions**

   EPA proposes to allocate allowances based on average historical generation during calendar years 2010 through 2012. EPA requests comment on several alternative allocation methodologies.

   AECC supports allowance allocations based on historic EGU emissions as opposed to EPA's proposed method of historic generation. The cap is based on mass emissions; therefore, AECC believes that the allowance allocation method should be based on the same metric. This is consistent with how allowances were allocated in EPA's Acid Rain Program – which continues to be a successful emissions trading program.

   AECC does not support any type of allowance auctioning. Auctioning allowances would only drive up the cost of allowances, which would directly drive up electricity costs to our member-owners.