Edison Electric Institute

Power by Association[SM]

Leakage & Equivalence:

Context, Concerns & Complements

NARUC 127th Annual Meeting
Austin, Texas
November 8, 2015

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Leakage/Equivalence: Context

- Leakage: Emissions reductions in one place offset by increases elsewhere
  - Example: If control emissions in one country, industry will move to another; total, global emissions are unchanged or increase
    - Emissions intensive trade exposed industries
  - Solution: Under proposed federal legislation, industry allocated allowances (free) to prevent leakage
  - Theory: Allowance allocation would keep industry competitive by offsetting compliance costs, no need to move to country with no carbon limit

Leakage/Equivalence: California

- California imports about 30 percent of its electricity; imported power generally is more carbon intensive
  - Concern: Carbon limits on in-state generators would increase imports and overall emissions ("leakage")
  - Clarification: Importers must report emissions and must obtain allowances to cover those emissions
  - Controversies: Calculating number of allowances needed to cover emissions from imported power; Commerce Clause (Dormant); concerns about "resource shuffling"

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Leakage/Equivalence: CPP

- Mass-based program creates incentives to shift generation between existing and new units
  - Creates "extra" allowances for existing units without reducing total emissions
  - EPA and other economic models show unit owners will close existing NGCCs to free up allowances
  - As a result, EPA concerned that mass-based compliance will not be "equivalent" to rate-based compliance
    - Won't get same amount reductions from existing units under mass-based approach

Leakage/Equivalence: State Options

- EPA provides three options for addressing leakage in state plans
  - Cover both new and existing sources under 111(d) trading program – take the new source complement (extra allowances)
  - Provide extra allowances to existing NGCCs to facilitate competitiveness and continued operation
  - Demonstrate that "unique circumstances" of your state will not result in shifts of generation between existing and new units
- In federal plan, EPA will provide extra allowances to existing NGCCs
  - EPA lacks authority to require new units to participate in trading programs
  - State authority not limited in this way

Leakage/Equivalence: Concerns

- Is leakage a theoretical problem?
- Does EPA have the legal authority to require states to address emissions from new sources?
- Does taking the new source complement limit growth?
- Would providing extra allowances to existing NGCCs really incentivize their continued operation?
- What kind of a showing would actually satisfy EPA that "unique circumstances" prevent leakage in your state?

Leakage/Equivalence: Considerations

- Outside of leakage concerns, practical considerations may make including new units in the 111(d) program a good idea
  - Easier to administer program that applies equally to similarly situated units
  - Future regulatory requirements may require inclusion of what were once “new” units
  - Sends better, more consistent market signals about the value of low and no-emitting generation
  - Potentially addresses the more traditional leakage concerns, if widely adopted

Thank you!

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