

January 21, 2016

The Honorable Regina McCarthy
U.S. Environmental Protection Agency
William Jefferson Clinton Building
1200 Pennsylvania Avenue, N.W.
Mail Code 1101A
Washington, D.C. 20460

Re: Comments on Clean Power Plan Federal Plan Requirements and Model Trading Rules (EPA-HQ-OAR-2015-0199)

Dear Administrator McCarthy:

The Georgetown Climate Center offers these comments in response to the proposed Clean Power Plan Federal Plan Requirements and Model Trading Rules. These comments build on discussions we have had with states as they consider their options for developing plans, and on prior research conducted by the Center on the linking of subnational emissions trading programs,¹ but they do not necessarily reflect the views of individual states.

The Georgetown Climate Center supports the efforts in the federal and model plans to enable interstate compatibility and compliance options. We commend the EPA on its responsiveness to the comments submitted by states and others requesting additional flexibility in plan development. Commenters noted that while collaboration between states is beneficial, development of joint plans would be hard to achieve, particularly in the timeframe presented in the Plan.² The opportunity to develop “ready-for-interstate-trading” plans—in combination with the proposed trading-ready federal and model plans—will make it easier for states to develop compatible programs while focusing on their individual state plans and obligations. These comments address the following: (1) the benefits of compatibility between state plans and of trading-ready federal and model plans; (2) aspects of the federal and model mass-based plans that align with existing state mass-based programs; and (3) opportunities for EPA to continue supporting states interested in greater alignment of their programs with other state programs.

¹ Kathryn Zyla et al., Georgetown Climate Center, *Supporting State Plan Compatibility and Interstate Compliance with the Clean Power Plan* (2015) <http://www.georgetownclimate.org/supporting-state-plan-compatibility-and-interstate-compliance-with-the-clean-power-plan>; Lissa Lynch et al. Georgetown Climate Center, *Single State Clean Power Plan Compliance Approaches with Interstate Elements* (2015) <http://www.georgetownclimate.org/single-state-clean-power-plan-compliance-approaches-with-interstate-elements>; Kathryn Zyla, Georgetown Climate Center, *Linking Regional Cap-and-Trade Programs: Issues and Recommendations* (2010) <http://www.georgetownclimate.org/linking-regional-cap-and-trade-programs-issues-and-recommendations>.

² Joint State Comments in Response to EPA’s Proposed Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units, Docket ID No. EPA-HQ-OAR-2013-0602 (2014) <http://www.georgetownclimate.org/states-voice-strong-support-for-epa-s-proposed-clean-power-plan>.

Benefits of state plan compatibility and the development of trading-ready federal and model plans.

Our research and discussions with states indicate that compatibility between state plans will likely benefit states, regulated parties, and the overall effectiveness of the program. For example, consistent administrative systems can lessen duplication of effort and reduce administrative costs for states, and provide a more consistent set of rules and procedures for regulated entities. Beyond compatibility, states can link their programs by allowing the use of allowances or ERCs from one state to satisfy compliance obligations in another state, and doing so offers a variety of additional benefits. Linking increases compliance flexibility and market liquidity and lowers the overall cost of complying with emissions limits. It can also reduce potential competitiveness concerns and inter-state emissions leakage by ensuring that regulated entities face the same price for greenhouse gas emissions across state boundaries.

In the absence of a ready-for-interstate-trading framework, states would have to coordinate closely with any linking partners. However, the structure of the Clean Power Plan—and the mechanisms identified in the rate- and mass-based federal and model plans—make it significantly easier for states to link. The development of an opt-in, trading-ready framework with associated model plans means that states can allow interstate trading without significant coordination with other states, simplifying the process greatly.

Compatibility with existing programs. Many elements of the federal and model plans already support state plan compatibility and linking. On the administrative side, these include consistent reporting processes and timelines, the proposal that the rate- and mass-based federal plans use the agency's existing allowance tracking and compliance system (ATCS), and the availability of the ATCS for use by ready-for-interstate-trading states. EPA could strengthen this support by ensuring that the tracking platform is flexible enough to be compatible with the systems currently used by states in the Regional Greenhouse Gas Initiative (RGGI) and California, maintaining the option for greater program interactions now or in the future.

Important policy design details are also included in the proposed plans. For example, the plans provide rules for banking and borrowing of allowances and ERCs that are consistent with RGGI's and California's existing approaches. The plans also establish a standard unit of measurement (one short ton, for mass-based programs); RGGI states use the same unit in their program, but a conversion would have to be applied if states using these models chose to link with California, which uses metric tons. EPA has requested comment on how to make that conversion. Our previous discussions with states suggest that it may be preferable to specify a ratio at which allowances will be accepted for compliance at true-up (and make the conversion once), rather than to make a conversion each time allowances are transferred from one program to another.³ This is one example of a flexibility that could be built into the tracking system to enable greater opportunities for linking.

In some cases, program elements need not be consistent in order to link. Two aspects of the model and federal plans are inconsistent with the current design of existing programs (RGGI and California's program)—compliance periods and penalties for non-compliance. However, based on our research and discussions with states, neither of these inconsistencies poses a significant barrier

³ Zyla (2010).

to linking.⁴ In addition, programs that cover new sources as well as existing sources should still be permitted to link with programs using the model or federal plans, as should states that opt for a different allocation methodology.

Future opportunities. States may or may not decide to link at the start of their programs. Compatibility of many of these elements, particularly the administrative systems and processes, will benefit states and regulated parties whether or not states decide to accept each others' allowances or ERCs for compliance. The proposed "ready-for-interstate-trading" model plans make it easier for states to preserve this option, while the proposed federal plan enables regulated entities in states operating under the federal system to benefit from interstate compliance opportunities as well. After considering the model plans, states may decide that they are not a good fit, or that some elements should be modified to fit state needs. However, these choices would then be made deliberately with recognition of the implications of varying from a common approach. Program elements that states do not actively choose to vary would be more likely to be compatible. The Georgetown Climate Center supports the efforts in the federal and model plans to enable interstate compatibility and linking. We encourage EPA to continue developing models and guidance—even beyond the finalization of the federal and model plans—to facilitate even greater opportunities for coordination and compatibility among states as they develop their plans. Thank you for this opportunity to provide these comments. For questions, please contact:

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⁴ *Id.*