

## Multi-State Collaboration & Coordination: Proceedings from State & Power Company Dialogue (April 22, 2014)

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### Introduction

President Obama issued a Presidential Memorandum on June 25, 2013, directing the Environmental Protection Agency (EPA) to take steps to regulate carbon pollution from existing power plants under Section 111(d) of the Clean Air Act (CAA).<sup>1</sup> The Memorandum directed EPA to propose guidelines by June 1, 2014, and to promulgate a final rule by June 1, 2015. States would then be required to submit plans for compliance by June 30, 2016. The statutory language of Section 111(d) is broad, likely providing EPA and states with flexibility to consider a range of program designs. A number of states and other stakeholders have urged EPA to allow states the option of coordinating development of individual state programs or complying through multi-state programs. EPA has indicated that it is open to considering multi-state coordination or collaboration; for example, the agency requested input from states on whether it should facilitate the coordination of multi-state plan submittals.<sup>2</sup>

On April 22, 2014, the Georgetown Climate Center convened a geographically diverse group of U.S. state and power company leaders, along with federal officials, to discuss potential opportunities for interested states to coordinate or collaborate on compliance approaches under forthcoming regulations, and to better understand potential benefits, challenges, and unanswered questions behind such multi-state efforts. Key experts also informed the conversation, including representatives of electric grid operators, NGOs that have conducted relevant analyses, and representatives of other organizations facilitating state discussions.<sup>3</sup>

This document summarizes key themes that arose in conversation during the April 22 dialogue. The contents do not necessarily represent the views of any individual participant.

As reflected in this proceedings document, participants in the dialogue identified a variety of potential types of coordination and collaboration, including: using common analysis among states to inform program development; developing common approaches to measurement or crediting; developing programs that allow averaging or trading between sources among different state programs; or developing multi-state compliance programs with shared targets and compliance mechanisms. Participants also identified potential benefits of multi-state coordination and collaboration, including potential cost savings and reliability benefits; potential challenges, such as increased complexity of some multi-state approaches; and remaining questions, including factors that may be important to consider for multi-state groupings. Throughout the dialogue, participants suggested actions that the federal government and other stakeholders may be able to take to facilitate coordination or collaboration among interested states, including information EPA could include or seek comment on in the proposed rule.

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<sup>1</sup> President Barack Obama, Presidential Memorandum – Power Sector Carbon Pollution Standards (June 25, 2013), <http://www.whitehouse.gov/the-press-office/2013/06/25/presidential-memorandum-power-sector-carbon-pollution-standards>.

<sup>2</sup> U.S. EPA, Considerations in the Design of a Program to Reduce Carbon Pollution from Existing Power Plants (Sept. 23, 2013), <http://www2.epa.gov/carbon-pollution-standards/questions-state-partners>.

<sup>3</sup> An agenda and list of participants is available at <http://www.georgetownclimate.org/state-and-power-company-dialogue-opportunities-for-multi-state-collaboration-under-epas-forthcoming>.

## Potential Types of Multi-State Coordination and Collaboration

State and power company participants discussed a wide range of coordination and collaboration options that interested states may have the option to consider under the forthcoming carbon pollution regulations, including the following illustrative examples:

- States may want to consider using joint analysis to inform their development of individual state plans and further understanding of interactions with other states' plans.
- States may want to consider using common quantification and measurement protocols to ensure consistency within a region.
- In the context of state programs that would require covered facilities to meet an average emission rate (i.e., pounds of CO<sub>2</sub> per megawatt hour), states may want to consider allowing emissions from sources within the state to be averaged with emissions from units owned by the same company in other states.
- In the context of state programs that would allow crediting for demand-side efficiency or zero-carbon generation toward compliance with an emission-rate standard, states may want to consider a mechanism that would allow firms to trade credits across state lines to demonstrate compliance.
- In the context of state programs that would establish a mass-based emission budget (i.e., an aggregate emission limit in tons of CO<sub>2</sub> emitted from covered facilities), states may be interested in implementing individual emission budget programs aligned with other state programs in a way that would allow interstate trading of compliance instruments such as emissions credits.
- Some states might also be interested in developing a joint compliance program, for example with a multi-state emission budget or a central administrative entity.

Each of the illustrative options above has the potential to allow states and affected companies to identify and pursue lower-cost reduction opportunities across a broader set of alternatives. None of the options require participating states to be contiguous, and there may be non-contiguous states interested in coordinating.

## Potential Benefits of Multi-State Coordination and Collaboration

Both coordination of individual state plans and collaboration on multi-state compliance approaches may have significant benefits, including the following highlighted during the April 22<sup>nd</sup> discussion:

- *Reduced compliance and administrative costs.* Multi-state programs have the potential to reduce compliance costs by expanding potential reduction opportunities across multiple states and allowing compliance through the most cost-effective options. Under some multi-state approaches, states and power companies may also be able to reduce administrative costs by using common administrative elements.
- *Increased understanding of program interaction.* As states evaluate options, they may benefit from sharing information, data, and analyses on various compliance options. For example, states within a region or power pool may find it helpful to use the same analysis tools and common assumptions in considering compliance options, or to consider joint analyses. Such coordination could help further understanding of ways that state programs may interact, and may reduce the costs for each state of undertaking analyses.
- *Alignment with the electricity system.* While the language of Section 111(d) contemplates state programs, electricity flows across state lines and is managed, in much of the country, through multi-state electricity markets that do not align with state borders. Coordination of compliance approaches—especially by states that already coordinate electric system planning—may encourage efficient outcomes more closely aligned with the current electricity system than uncoordinated individual state programs.

- *Additional flexibility to accommodate changes in the electric system.* A multi-state compliance program may provide greater flexibility to accommodate unforeseen changes in electricity supply or demand and provide a broader set of options to address any reliability concerns. For example, an outage at a nuclear plant may force a state to rely more on fossil units to meet its electricity demand, increasing that state's emissions. However, a multi-state plan under Section 111(d) could allow the group of states to remain in compliance even if one state's emissions increase. This result is possible through emissions averaging or trading credits across the region to capture the lowest-cost reduction opportunities within the area. Similarly, a broader set of compliance options across states may also enable a group of states to adjust their compliance approach as conditions change over time, such as during times of extreme or unexpected weather.
- *Potential harmonization among different program types.* Multi-state coordination may reduce the risk of perverse market incentives or disincentives that could result from a patchwork of state programs with different compliance frameworks. For example, in an uncoordinated system, a power plant in one state that implements a rate-based program and a power plant in another state that implements a budget-based program may face very different economic signals.

## Questions and Issues to Consider Regarding Multi-State Approaches

While there are substantial potential benefits to pursuing multi-state approaches, there are also unanswered questions and potential challenges for states interested in voluntarily exploring multi-state options. Issues discussed included the following:

- *Implementation complexity and timeline.* Development of multi-state compliance approaches by interested states is likely to involve significant coordination and complexity, and so may take more time. To address this issue, EPA may be able to structure state plan submission guidelines so that states could satisfy the June 30, 2016, deadline while still engaging in multi-state collaborations that may take more time to fully develop.
- *Guidance on approvability.* In order to explore multi-state approaches, interested states may need clear guidance from EPA on what types of multi-state approaches may gain approval and what criteria EPA will use to evaluate plans.
- *State groupings for multi-state approaches.* States interested in multi-state approaches will need to evaluate what state groupings may be beneficial. Existing Independent System Operator (ISO) and Regional Transmission Organization (RTO) footprints, such as MISO or PJM, are one possibility. However, ISO or RTO footprints are not the only option, and not all parts of the country are served by ISOs and RTOs (e.g., much of the west is not served by an ISO or RTO). ISOs and RTOs themselves do not follow state boundaries, so even multi-state approaches based on such groupings will have to consider how to deal with states that are partially within an ISO or RTO. Other factors may merit consideration of different groupings; for example, non-contiguous states may be interested in coordinating approaches if they have similar policy preferences.
- *Are there ways to build on existing planning processes or reduction approaches?* There are a number of existing multi-state electricity planning or coordinating processes or forums, including the Northwest Power and Conservation Council, the Western Regional Air Partnership, and others. Interested states may want to consider whether such processes or forums could play a role in coordinating state approaches in the context of this rule. Existing multi-state partnerships to reduce greenhouse gas emissions, including the Regional Greenhouse Gas Initiative and the Pacific Coast Collaborative, might also serve as the basis for state collaborations or compliance.
- *Addressing equity issues.* States may also have equity concerns that will be important to evaluate. For example, states may want to consider how to address differences in compliance burdens and opportunities within a state and among groups of states and whether multi-state approaches help to minimize those

disparities.

- *How to address seams between multi-state approaches.* States may also want to evaluate how to reduce interstate or inter-region “seams” or boundary issues that result from different programs in adjacent states or regions. For example, states may want to consider how different program types might interact at such “seams” and whether there may be opportunities to promote harmonious interactions through program design choices.

## Supporting Coordination Efforts

Participants discussed actions that the federal government, states, and/or stakeholders could consider to facilitate the exploration of multi-state coordination or collaboration among interested states.

The discussion included the following suggestions for EPA to facilitate such approaches. Some suggestions could be addressed in EPA’s proposed rule, while others could be addressed more generally through the stakeholder outreach process during the comment period and as states develop their compliance plans.

For example, as part of the proposed rule, EPA could:

- Provide a clear signal that the agency intends to allow multi-state coordination or compliance elements as part of approvable state plans;
- Within the context of the timeline articulated in the June 25 Presidential Memorandum, structure the agency’s regulations to recognize the additional complexity and time that may be required to develop a multi-state approach; and
- Request comment on ways to promote harmonious interaction between different types of state plans.

More generally, during the comment process leading up to the final rule and as states develop their compliance plans, EPA could:

- Provide guidance on specific types of multi-state coordination or compliance approaches that could gain approval;
- Potentially work with states and other stakeholders that are developing compliance plans or model rules and consider indicating whether the plans or their components could be approved under Section 111(d);
- Promote consistency across EPA regional offices in their reviews and approval of state plans; and
- Provide clear guidance on options for states that include a multi-state approach in state plans but are ultimately unable to reach a multi-state agreement. Also articulate options for states that submit a multi-state plan that fails to achieve the intended emission reductions.

Additionally, it may be helpful for stakeholders—and potentially the federal government—to provide technical support to states that want to explore multi-state coordination. This support could include analysis of different potential approaches, including interstate dynamics for electricity markets and projected outcomes of different combinations of approaches. States may also be interested in technical support for state-defined analyses and a comparison of reduction opportunities within a state and across a broader group of states.

## Conclusion

The discussion at the April 22 convening reflected the recognition that there may be significant benefits to voluntary multi-state coordination and collaboration in complying with carbon pollution regulations under Section 111(d), including potential reductions in compliance costs for states and stakeholders. Coordination or collaboration could take a variety of forms, ranging from coordinating analysis in the development of individual state plans; to using common measurement protocols, crediting mechanisms, or tradable compliance mechanisms across state programs; to developing fully integrated multi-state programs. Each of these approaches could allow states and affected companies to identify and pursue lower-cost reduction opportunities across a broader set of alternatives. These approaches may also provide other benefits, such as increasing the understanding of interactions among different types of programs, improving efficiency through alignment with the electricity system, and helping to address unforeseen changes in electricity supply or demand. There are also a number of potential questions and challenges to consider, including questions about the complexity of developing such approaches under the current timeline, as well as uncertainty about which approaches will be approvable as elements of state plans. Participants identified a number of steps that EPA and others could take to help facilitate the exploration of multi-state approaches, including clear guidance from EPA on approaches that could be used, how such processes could be structured, and how they would be reviewed for plan approval. Participants also suggested that it would be helpful for the federal government or other stakeholders to provide technical support, including analysis, to states and stakeholders as they consider different compliance options.

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