



## ENERGY EFFICIENCY IN THE CLEAN POWER PLAN

The Clean Power Plan puts energy efficiency front and center because it is an important, proven strategy widely used by states that can substantially and cost-effectively lower carbon dioxide emissions from the power sector. And while the final state goals don't include energy efficiency as a building block, this does not limit the ability of states to use energy efficiency to meet their clean power goals.

The Clean Power Plan offers a wide array of flexible compliance approaches for states to fully deploy energy efficiency to meet their state goals. Here are ten ways that the Clean Power Plan encourages and supports energy efficiency:

**1. The Clean Power Plan encourages states to select energy efficiency as a compliance path to meet the goals of the Plan, leading to cost savings for consumers.**

EPA anticipates that, due to their low costs and large potential in every state, demand-side energy efficiency policies and programs will be a significant component of state compliance plans. EPA's analysis projects that the Clean Power Plan will spur a 7 percent reduction in electricity demand by 2030 from demand-side energy efficiency, reducing electricity bills in 2030 by \$7/month on average for American families and businesses.

**2. Under a mass-based approach, energy efficiency automatically "counts" toward compliance and states can use an unlimited amount to help achieve their state goals.**

Energy efficiency automatically "counts" toward compliance under a mass-based approach since it displaces fossil generation and emissions under the cap, freeing up allowances for emitting sources to trade. There is no limit on the use of energy efficiency programs and projects, and energy efficiency activities do not need to be approved as part of a state plan - therefore, Evaluation, Measurement and Verification (EM&V) is generally not required for mass-based approaches under the Clean Power Plan.

States can further incentivize energy efficiency under mass-based approaches by allocating emission allowances for energy efficiency activities, including activities that occur prior to 2022. States can also auction allowances and decide to use portions of the revenue to support demand-side energy efficiency programs.

**3. Under a rate-based approach, the final Clean Power Plan enables states to get credit for all eligible energy efficiency projects installed after 2012, a longer time frame than what was proposed.**

Under the proposal, only energy efficiency implemented after June 2014 would be eligible for credit during the compliance period. However, in the final Clean Power Plan, EPA is allowing credit for energy

efficiency implemented earlier. This means that energy efficiency measures implemented after 2012 may be able to receive emission rate credits (ERCs) for quantified and verified megawatt hour (MWh) savings that occur in 2022 and beyond, regardless of where the emissions impacts occur. In other words, emissions reductions from projects installed today that are still achieving quantifiable and verifiable energy savings in 2022 may be applied toward adjusting a CO<sub>2</sub> emission rate during the compliance period.

**4. Under a state measures approach, the Clean Power Plan allows state energy efficiency policies and programs to be used to meet the emissions guidelines, without requiring the state measures to be federally enforceable.**

Unlike the proposed rule which called for state energy efficiency policies and programs to become federally enforceable if a state didn't meet its goal, the final Clean Power Plan created a state measures approach. This approach gives states the flexibility to choose a mixture of energy efficiency policies and programs run by a variety of provider types that are enforceable by state laws but are not subject to federal enforcement if a state fails to meet its Clean Power Plan goal.

**5. The Clean Energy Incentive Program (CEIP) provides additional incentives for early investment in demand-side energy efficiency in low-income communities.**

The CEIP provides an additional incentive for energy efficiency efforts in low-income communities. For every one MWh saved in 2020 or 2021, low-income energy efficiency programs that begin any time after the final state plan has been submitted can receive two ERCs or allowances equivalent to two MWh saved.

**6. EPA proposed model rule text for how states could credit energy efficiency.**

The model rule includes presumptively approvable provisions for emission rate credits (ERCs) to be issued for energy efficiency under a rate-based trading program. We are also seeking comment as to whether or not the final mass-based model rule should include presumptively approvable provisions for energy efficiency set asides, when states set aside a certain number of mass allowances to reward energy efficiency actions.

**7. Draft EM&V Guidance is available to help states effectively credit demand-side energy efficiency.**

The final Clean Power Plan guidelines establish a number of EM&V requirements for demand-side energy efficiency measures under a rate-based approach. (EM&V is not required for state plans under a mass-based approach.)

With the proposed model rule, EPA issued draft supplemental EM&V guidance to help states successfully implement EM&V for demand-side energy efficiency measures under a rate-based approach. This supplemental guidance includes EM&V definitions, best practices for applying quantification protocols and methods, procedures for determining appropriate baselines and other information necessary for quantifying and verifying energy efficiency savings under the Clean Power Plan.

**8. The final Clean Power Plan simplifies interstate accounting for energy efficiency compared to the proposal.**

After receiving numerous comments, EPA changed the approach to interstate energy efficiency crediting under the Clean Power Plan. The final Plan does not require complex air quality modeling to identify the location of emission impacts from energy efficiency nor adjustment or discounting of energy efficiency impacts that cross state lines.

Under rate-based plans, quantified and verified MWhs from eligible energy efficiency measures in a rate-based state can be used to generate ERCs and adjust a CO<sub>2</sub> emission rate of an affected EGU, regardless of where the emission reductions occur. Individual rate-based state plans may provide for the interstate transfer of ERCs, which would enable an ERC issued for energy efficiency savings by one state to be used for compliance by an affected EGU with a rate-based emissions standard in another state.

The impacts of energy efficiency measures implemented by mass-based states don't need to be measured under the Clean Power Plan but are automatically reflected in their reported stack emissions.

**9. The Clean Power Plan's Trading-Ready concept facilitates interstate trading of ERCs – including those issued for energy efficiency – without requiring formal agreements between states.**

The final Clean Power Plan gives states with rate-based plans the ability to design their programs so that they are ready for interstate trading of ERCs, including those issued for energy efficiency, without the need for formal arrangements between individual states. These state plans recognize ERCs issued by any state that also uses a specified EPA-approved or EPA-administered tracking system.

**10. The [Clean Power Plan Toolbox](#) offers resources to help states implement proven, cost-effective energy efficiency strategies.**

The Clean Power Plan Toolbox includes a variety of resources from EPA and DOE that can help states learn about, design and implement proven, cost-effective energy efficiency strategies to meet their Clean Power Plan targets, including best practices implemented by other states and through EPA's ENERGY STAR Program.