



# THE ROLE OF STATES

## *STATES DECIDE HOW TO MEET THEIR GOAL*

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On August 3, President Obama and EPA announced the Clean Power Plan – a historic and important step in reducing carbon pollution from power plants that takes real action on climate change. Shaped by years of unprecedented outreach and public engagement, the final Clean Power Plan is fair, flexible and designed to strengthen the fast-growing trend toward cleaner and lower-polluting American energy. With strong but achievable standards for power plants, and customized goals for states to cut the carbon pollution that is driving climate change, the Clean Power Plan provides national consistency, accountability and a level playing field while reflecting each state’s energy mix. It also shows the world that the United States is committed to leading global efforts to address climate change.

### STATES CHOOSE THEIR OWN PATH

- With strong but reasonable and achievable standards for power plants, the Clean Power Plan provides national consistency, accountability and fair goals for emissions reductions.
- The final Clean Power Plan provides guidelines for the development, submittal and implementation of state plans that establish standards of performance or other measures for affected power plants in order to implement the interim and final carbon dioxide CO<sub>2</sub> emission performance rates.
- Those performance rates have been translated into goals that will be easier to reach due to the inherent flexibility in the way the power system operates. That system, combined with the tools EPA now provides – like trading-ready mechanisms, a model rule that relies on trading, incentives for early investment, and phased-in reductions – means that standards are more affordable and achievable.
- The final Clean Power Plan gives each state a choice in how they will meet their goals, but they do not have to rely on achieving the full measure of reductions under these standards individually. Rather, mirroring the interconnected operations of the electric grid in which all power plants currently operate, states can work in concert, using mechanisms like emissions trading, to lower the overall carbon intensity of electricity generation.

- State plans will be developed and implemented in a future that is changing so quickly that it is already projected to be cleaner than we anticipated at proposal. Utilities are rapidly moving toward a cleaner future, so the amount of work states have left to do is less than before, with the Clean Power Plan securing the progress already being made and adding to it in the years to come.

## EMISSIONS TRADING

- One cost-effective way that states can meet their goals is emissions trading, through which affected power plants may meet their emission standards via emission rate credits (for a rate-based standard) or allowances (for a mass-based standard).
- Trading is a proven approach to address pollution and provides states and affected plants with another mechanism to achieve their emission standards. Emission trading is a market-based policy tool that creates a financial incentive to reduce emissions where the costs of doing so are the lowest and clean energy investment enjoys the highest leverage.
- Market-based approaches are generally recognized as having the following benefits:
  - Reduce the cost of compliance
  - Create incentives for early reduction
  - Create incentives for emission reductions beyond those required
  - Promote innovation, and
  - Increase flexibility and maintain reliability
- In addition to including mass-based state goals to clear the path for mass-based trading plans, the final rule gives states the opportunity to design state rate-based or mass-based plans that will make their units “trading ready,” allowing individual power plants to use out-of-state reductions – in the form of credits or allowances, depending on the plan type – to achieve required CO<sub>2</sub> reductions, without the need for up-front interstate agreements.
- EPA is committed to supporting states in the tracking of emissions, as well as tracking allowances and credits, to help implement multi-state trading or other approaches.

## STATE PLANS

- States must develop and implement plans that ensure the power plants in their state - either individually, together, or in combination with other measures - achieve the equivalent, in terms of either rate or mass, of the interim CO<sub>2</sub> performance rates between 2022 and 2029 and the final CO<sub>2</sub> emission performance rates for their state by 2030.
- States may choose between two plan types, expressed as emission rate or mass, to meet their goals:

- Emission standards plan – includes source-specific requirements ensuring all affected power plants within the state meet their required emission performance rate- or a mass-based equivalent.
- State measures plan – includes a mixture of measures implemented by the state, such as renewable energy standards and programs to improve residential energy efficiency that are not included as federally enforceable components of the plan. The plan would include a backstop of federally enforceable standards on affected power plants that fully meet the emission guidelines and that would be triggered if the state measures fail to result in the affected plants achieving the required emissions reductions on schedule. States may use the proposed model rule also issued on August 3 for their backstop.
- In developing its plan, each state will have the flexibility to select the measures it prefers in order to achieve the CO<sub>2</sub> emission performance rates for its affected plants, or meet the equivalent statewide rate- or mass-based CO<sub>2</sub> goal.
- States will also have the ability to shape their own emissions reduction pathways over the 2022-29 period since their affected sources together must only meet the states' interim goals "on average" over the eight-year span.
- States, through various state plan types, can utilize the reduction methods outlined in the Best System of Emission Reduction (BSER) (i.e., increasing coal plant efficiency, shifting coal generation to natural gas generation, and increasing renewable power generation) or they can choose to rely upon other measures such as demand-side energy efficiency programs or increased nuclear generation.
- EPA is providing a Clean Energy Incentive Program to reward early investments in certain renewable energy (RE) and demand-side energy efficiency (EE) projects that generate carbon-free MWh or reduce end-use energy demand during 2020 and 2021.
  - State participation in the program is optional.
  - Recognizing that low-income communities are often under-represented in RE and EE investment, EPA is providing additional incentives to encourage such investments that are implemented in low-income communities.
- The final rule also gives states the option to work with other states on multi-state approaches that allow their power plants to integrate their interconnected operations within their operating systems and their opportunities to address carbon pollution.
- The flexibility of the rule allows states to reduce costs to consumers, minimize stranded assets and spur private investments in renewable energy and energy efficiency technologies and businesses.

- States can tailor their plans to meet their respective energy, environmental and economic needs and goals, and those of their local communities by:
  - relying on a diverse set of energy resources;
  - protecting electric system reliability;
  - providing affordable electricity; and
  - recognizing investments that states and power companies are already making.