EPA proposal puts states with abundant green power in catbird seat

Nick Juliano, E&E reporter

Published: Tuesday, June 3, 2014

The sweeping proposal to limit the power sector's contribution to climate change unveiled yesterday could pay dividends for states that embraced wind and solar power early on.

In seeking to provide as much flexibility as possible for states to craft plans to reduce greenhouse gas emissions from existing power plants, U.S. EPA recommended policies to expand renewable energy generation as one of four building blocks that states should include in the plan. It also contemplates the creation of multi-state trading programs that would facilitate cross-border opportunities to maximize emissions reductions.

"Extra renewables in one state could be used to offset emissions in another state," said Kate Zyla, deputy director of the Georgetown Climate Center.

The approach could be a lucrative opportunity for states that already have aggressive renewable energy targets to effectively export the emissions reductions associated with that activity. Some of this already occurs -- for example when Midwestern wind farms sell renewable energy credits (REC) to utilities in states like Maryland or Delaware, which have their own renewable portfolio standards but less land on which to generate wind power within their borders.

Interstate REC trades create a "win on both sides" because it is cheaper to build wind farms in the Midwest than the Mid-Atlantic, while there also is a glut of wind generation compared to renewable energy targets in states like Iowa, so Midwestern wind farms can find additional demand for their power while purchasing utilities get a cheaper option to meet their own renewable portfolio standard goals, said William Nelson, of Bloomberg New Energy Finance.

"These rules will probably incite more of that," Nelson said in a brief interview yesterday.

However, cross-state renewable purchases also allow for a "transfer of wealth" from one state to another, and they could dampen support for RPS programs designed to boost the local economy, said Ken Nelson, senior vice president for renewables at Element Markets, a clean energy development firm. That could create a conflict between utilities seeking to reduce their compliance costs and developers trying to build more renewable energy within a given state, for example by outfitting rooftops with solar panels.

In the preamble to its proposed rule, EPA recommends nonbinding targets for the level of renewable energy generation it believes each state will need by 2030 to comply with the reduction targets in the rule, compared with its current level of generation. For some states, the target EPA recommended is below existing RPS targets they expect to hit by that year.

Four states already are generating more renewable energy than the target EPA sets in the proposed rule. Both Iowa and South Dakota got about a quarter of their electricity from renewables in 2012, but each has a target of 15 percent in 2020. Maine and Minnesota also currently exceed their future targets by about 3 percentage points each, according to the preamble to EPA's proposed rule.

Expanded renewable generation was one of four "buckets" from which EPA said states should draw in crafting their climate plans. The others involved improving the heat rate at existing coal-fired power plants, relying more on natural gas and improving demand-side efficiency.

"The key is that there's a lot of flexibility," Zyla said, although it's too soon to say how states will use the flexibility they have and how many would decide to form multistate compacts. For renewable-heavy states, "maybe it means collaborating with a different state; maybe it means just shifting" emissions reductions away from the other buckets.

EPA's renewable projection "suggests that some states with renewable portfolio standards that exceed the EPA's [best system of emission reductions] estimates will be able to use these higher renewable power deployments to offset existing and modified fossil-fuel units or monetize their progress in a regional program," ClearView Energy Partners LLC, a Washington-based research firm, said in an analysis of the proposal today.

Before the proposed rule's release, renewable energy advocates were optimistic that it would be a boon for their industries.

The solar industry says EPA's rule provides an opportunity for states to build on existing policies to boost renewables.

"Presently, there is a wide range of smart public policies and programs contributing to the successful deployment of solar nationwide," said Rhone Resch, president of the Solar Energy Industries Association. "Following up on this success, we are urging state regulators and legislators to adopt and/or expand renewable portfolio standards and net energy metering programs; provide expedited siting and permitting for solar projects; incorporate more solar development into integrated resource plans; and open markets to third-party ownership."

The American Wind Energy Association last month released a white paper outlining its contribution to emissions reductions, and AWEA President Tom Kiernan lauded the rule in a statement following its release.

"The good news is that meeting this new rule is very doable," Kiernan said. "Wind energy is already affordably and reliably reducing power sector emissions by more than five percent nationally -- reducing carbon dioxide emissions by more than 10 percent in 11 states so far, and making some reductions in nearly every state."

To be sure, EPA's proposal is not a panacea for renewable developers, who continue to battle at the state level to protect and expand RPS requirements and at the federal level to renew or expand vital tax credits. But it gets closer to a vision some have long held of an expanded national push for their products.

"A lot of us were hoping ... we'd get closer to this whole carbon marketplace," said Harold Pryor, former executive director of the Iowa Wind Energy Association. "Where those huge sources of carbon pollution would be required to buy more renewable energy, reduce their footprint and create some extra value in the REC marketplace."