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Introduction

The Western Power Trading Forum (WPTF) is pleased to provide this statement on the implications of the Environmental Protection Agency's (EPA) proposed Clean Power Plan (CPP). WPTF is an organization of power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the Western United States. WPTF has over 80 members participating in power markets within California and the western states, as well as other markets across the United States.

The impacts of the CPP wholesale electricity markets, electrical system operations and grid reliability will be determined as much by the compliance choices made by individual states as by the targets and timelines established in EPA's final rule. Uncoordinated implementation by individual states in the same regional interconnection could distort electricity markets, increase risks to system reliability and increase costs. In contrast, regionally coordinated market-based approaches that impose a consistent carbon price signal on generation would align with wholesale electricity markets and security-constrained economic dispatch, and maintain electrical system operations.

Many stakeholders advocate for a reliability 'safety-valve' to be included in the CPP. WPTF does not advocate for a safety-valve of the type that was developed under the Mercury and Air Toxics rule, but rather a process for assessing potential reliability impacts of state compliance plans.. We believe that that the risk of the CPP to resource adequacy and system reliability would be greatly mitigated by smart compliance choices by states. Specifically, regional, market-based compliance approaches pose less risk to reliability than individual state compliance approaches.

FERC is well-placed to encourage states to make 'smart' choices. FERC can do this by recommending that EPA require reliability assessment of proposed compliance plans and by encouraging states and reliability organizations to consider regional, market-based approaches.

Uncoordinated implementation of EPA's rule by individual states would distort electricity markets, increase risks to grid reliability and increase compliance costs

The proposed CPP is unprecedented in the degree of compliance flexibility it provides to states. The wide variation in the level of individual state targets and the diversity of potential implementation strategies encompassed by EPA's best system of emission reductions means that individual states may take very different compliance approaches. Different compliance approaches would result in divergent economic signals on fossil generating units that differ not by the emission intensity of the units, but by their location:

- Some states may be able to meet their emission performance goal solely through outside-the-fence measures (i.e. by increasing in-state renewable energy consumption or energy savings from demand side energy efficiency), and would not need to implement measures to directly reduce emissions from fossil electric generating units (EGUs). In contrast, other states will need to implement measures to restrict emissions from EGUs in order to achieve their emissions goals.

- States that will need to reduce emissions from EGUs in order to meet their emission performance goal can do so in different ways. Options include facility-level emission caps or performance standards; utility emission budgets; and market-based approaches, such as carbon taxes, and emissions trading programs.

- States have discretion as to whether to include new generating units (sources regulated under EPA's 111(b) GHG rule) in their compliance plans.

Where states share the same bulk power interconnection, different GHG compliance costs for similarly situated resources in different states would distort the wholesale electricity markets and generation-siting decisions:

- EGUs in states that do not require reductions in emissions from these facilities would be competitively advantaged vis-à-vis EGUs in states that directly regulate emissions from these sources. All else being equal, this would shift generation to the states where EGUs are not directly regulated and could increase congestion. Similarly, if market-based approaches are implemented by some states but not all, or if the market-based approaches are not harmonized, the different carbon prices internalized in operating costs for generators across states would again result in a shift in generation to the states with relatively lower carbon costs. This shift in generation could again increase transmission congestion.

- New resources would face lower operating costs in states that do not regulate these sources under their compliance plans than in states that do. Developers would thus have a strong incentive to site new fossil generation in states that do not include new resources in their plans.

- Individual states may prioritize in-state emission reductions without consideration of the impacts on the broader electrical grid region. For instance, a state might impose run-time limits on in-state coal resources in order to achieve its emission target, without consideration of the role of those resources in serving load in another state or providing reliability services. While one incident may not be problematic, the potential impacts on the grid would be exacerbated by implementation by multiple states of uncoordinated plans.

Market-based, multi-state approaches would align better with electricity markets and systems

Market-based, multi-state approaches that provide a uniform carbon price signal to all fossil generating units in a grid-connected region would have significant advantages compared to uncoordinated, individual state implementation plans. These advantages include:

- Lower overall costs to industry and to states due to the ability to reduce emissions across a wider geographic region. Even states with relatively less stringent targets would benefit from cooperation.

- Market-based approaches are consistent with economic dispatch, since the carbon price is internalized in generator operating costs. Further, market-based approaches would be the *only* means of efficiently achieving emission reductions under building block 2 (re-dispatch of coal to natural gas combined cycle). Alternative measures to force re-dispatch, such as run-time limits, would interfere with economic dispatch and could raise reliability concerns.

- A single, market-based approach implemented by all states within an electrical interconnection would send a uniform carbon price signal to all EGUs within the region. This would ensure a level playing field for similarly situated resources, and avoid electricity market distortions and seams issues.

- Imposition of a carbon price would incent emission reductions across all four building blocks, without the need for separate implementation program elements targeted at each building block. It would alter the relative prices of high and low emission generation (including renewables) and increase the value of energy savings achieved through energy efficiency programs.

FERC should encourage regional, market-based compliance approaches

Although there is growing recognition among stakeholders of the benefits to regional, market-based compliance approaches, there are also substantial obstacles to such approaches, particularly in the West with its diversity of generation resources and lack of widespread organized wholesale markets. We believe that FERC can play a role in overcoming these obstacles by encouraging consideration and evaluation of regional, market-based approaches.

There are several ways that FERC Commissioners and staff could be helpful in this regard. First, FERC should advise EPA to consider the potential reliability impacts of proposed state compliance plans, individually and collectively for all states within a grid-connected region, prior to compliance plan approval. As an input to this exercise, EPA should require states to assess the impacts of their compliance plans on system reliability.

Second, FERC could encourage NERC and the Regional Reliability Organizations to evaluate regional, market-based approaches under the CPP and to assist states in their evaluations of the potential reliability impacts of their compliance plans.

Finally, FERC should encourage inter- and intra-state dialog between state energy and environment agencies, industry stakeholders and with other relevant interests and expertise, such as Regional Planning organizations, ISOs/RTOs and balancing area authorities.