

## EPA'S COSTLY POWER PLAN

# Governors Have A Better Choice

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The U.S. Environmental Protection Agency's (EPA) proposed regulations for carbon dioxide emissions from existing power plants embody an unprecedented and, by many accounts, an unlawful plan to transform America's electricity grid by making it less diverse, less reliable and more expensive. While the costs are real, the benefits are not: EPA acknowledges the climate effects cannot be quantified. Under the Clean Air Act (CAA), governors have a choice whether to foist this risky and costly power plan on their citizens.

### **EPA's Reduction Targets Rest on a Weak Foundation**

EPA prescribes an "electricity emission budget" for each state. The emission budgets are based on a complex web of assumptions—what EPA calls "building blocks"—about future electricity demand, dramatic shifts in electricity supply sources, the addition of intermittent generation sources and the reduction of energy use.<sup>1</sup> In sharp contrast stands the CAA which authorizes EPA to prescribe a "standard of performance" for individual sources of emissions which must consider the remaining useful life of the sources.<sup>2</sup> Most of the reductions EPA requires (>80%) rely upon actions unrelated to individual sources of emissions. Instead, they rely on actions EPA believes states should pursue in changing demand, generation sources, economic dispatch and transmission of electricity within their borders.

### **EPA's Plan Is Risky and Expensive**

Apart from its weak legal underpinning, EPA's "building block" approach rests upon an implausible technical and practical foundation. According to the experts who oversee and operate the electric grid, EPA's plan will be difficult, if not impossible, to implement without weakening grid reliability and substantially increasing the cost of the nation's electricity supply.

1. "Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units," U.S. Environmental Protection Agency Proposed Rule, 79 Fed. Reg. 34830, June 18, 2014.

2. Clean Air Act, "Standards of Performance for New Stationary Sources," 42 U.S.C. §7401 et seq. (1970), Section 111 (a).

**EPA Clean Power Plan Costs**

State	Building Block 1 (Plant Efficiency 1.1%) (\$2013 M)	Building Blocks 1-4 (\$2013 million)
AL	\$127	\$8,772
AK	\$0	\$192
AZ	\$4	\$21,630
AR	\$47	\$6,309
CA	\$2	\$38,404
CO	\$63	\$9,093
CT	\$0	\$2,245
DE	\$39	\$674
DC	\$0	\$596
FL	\$213	\$15,287
GA	\$60	\$12,315
HI	\$0	\$12
ID	\$0	\$3,301
IL	\$317	\$18,150
IN	\$407	\$12,375
IA	\$152	\$6,068
KS	\$185	\$4,613
KY	\$403	\$7,886
LA	\$119	\$18,870
ME	\$0	\$437
MD	\$97	\$3,367
MA	\$0	\$3,613
MI	\$114	\$12,511
MN	\$56	\$10,917
MS	\$87	\$4,520
MO	\$163	\$5,428
MT	\$48	\$2,382
NE	\$25	\$3,227
NV	\$23	\$4,344
NH	\$24	\$1,551
NJ	\$101	\$5,591
NM	\$46	\$7,551
NY	\$11	\$15,577
NC	\$232	\$11,503
ND	\$192	\$2,129
OH	\$196	\$12,315
OK	\$123	\$6,590
OR	\$0	\$6,664
PA	\$111	\$10,742
RI	\$0	\$606
SC	\$61	\$6,906
SD	\$21	\$1,354
TN	\$46	\$8,205
TX	\$367	\$40,379
UT	\$39	\$4,951
VT	\$0	\$278
VA	\$31	\$8,216
WA	\$0	\$11,337
WV	\$31	\$2,759
WI	\$128	\$6,978
WY	\$132	\$1,735
<b>US</b>	<b>\$4,644</b>	<b>\$411,454</b>

Source: Energy Ventures Analysis

The North American Electric Reliability Corporation (NERC)—the regulatory body charged with assuring the adequacy of our electric power system—finds that EPA underestimates the number of power plants that will be closed and overestimates the amount of new power sources and energy efficiency available to offset them.<sup>3</sup> Regional power authorities, public utility commissions and utilities all warn that EPA’s plan will imperil the electric grid with some forecasting cascading outages and voltage collapse as power reserves fall below safe margins.<sup>4</sup>

Two analyses of the EPA plan conclude that there are no low cost options available to states. One analysis finds that the cost of the rate based option could be as much as \$366 billion in higher electricity and natural gas prices.<sup>5</sup> A second analysis of the mass based option finds it would cost consumers \$411 billion.<sup>6</sup> More than 40 states would face double digit increases in electricity prices.

**A Safer and Less Expensive Choice**

Roman emperors made their architects sleep under the bridges they built, just to be sure. Today, the nation’s governors are being asked to sleep under the bridges EPA builds. But governors have a choice that should not keep them awake at night: they can decline to submit state plans modeled after EPA’s flawed design.

States that decline to submit a state plan face only one risk—one that is less dangerous and less expensive for its citizens than attempting to satisfy EPA’s implausible reduction targets. EPA’s only recourse, according to the agency, is imposing a federal plan. But a federal plan would be far less costly than the state plan EPA will insist achieve the emission target the federal agency set relying upon state actions that go beyond regulating the individual sources of emissions. This is because EPA lacks both the legal authority and technical competence to go beyond individual sources of carbon dioxide emissions to mandate some power plants to run less, others more, build new generation sources, add transmission and pipelines and force households and businesses to use less energy. In sum, EPA is asking states to do more than the federal agency can do on its own.

As a consequence, the emission target in a federal plan would need to be reduced to match what the CAA actually authorizes EPA to do—set

3. “Potential Reliability Impacts of EPA’s Proposed Clean Power Plan: Initial Reliability Review,” North American Electric Reliability Corporation, November 2014.
4. Southwest Power Plan Reliability Assessment of the EPA’s Proposed Clean Power Plan, Oct. 8, 2014; PJM Interconnection Clean Power Plan Preliminary Analysis, Nov. 17, 2014; Electric Reliability Council of Texas Analysis of the Impacts of the Clean Power Plan, Nov. 17, 2014.
5. “Potential Energy Impacts of the EPA Proposed Clean Power Plan,” NERA Economic Consulting, October 2014.
6. “EPA Clean Power Plan: Costs and Impacts on U.S. Energy Markets,” Energy Ventures Analysis, October 2014.

technically and economically feasible performance standards for individual emission sources. EPA implicitly recognizes this limitation when it acknowledges that if one or more of its “building blocks” are deemed unlawful, the state targets would be adjusted downward.<sup>7</sup>

EPA's Regulatory Impact Analysis estimates the cost of implementing building block 1 (power plant efficiencies)—the only one arguably authorized under the CAA—at \$17.6 billion<sup>8</sup> as compared to the \$366-\$411 billion cost to implement all four building blocks. In fact, the real cost would be much lower since, as most energy experts and states agree, EPA grossly overestimated (6%) the potential improvement in power plant efficiencies. A more realistic estimate (1.1%) would reduce the cost of a federal plan to \$4.64 billion.<sup>9</sup>

State plans expose states to the real threat of surrendering control over their energy futures. Accepting EPA's invitation to submit a state plan opens the gates for allowing EPA to wrest control of the state's energy policy when the state is unable to deliver the reductions EPA demands initially or over the longer term. The gap between what EPA asks states to do and what the federal agency can do on its own accord would be bridged through state legislation, rules and institutional arrangements adopted as part of a state plan. The state would also live under the constant threat of lawsuits from environmental activist groups dissatisfied with the measures and pace of states' progress in meeting the targets in a state plan.

EPA agrees noting that “measures included in an approved 111(d) state plan would be federally enforceable by EPA, and that citizens would also have the ability to file citizen suits to compel enforcement of plan obligations.”<sup>10</sup> In other words, the masters of a state's energy future will be EPA, environmental activist groups and the courts.

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7. “Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units,” U.S. Environmental Protection Agency Proposed Rule, 79 Fed. Reg. 34830, June 18, 2014, page 34892, section 11 “Severability.”

8. “Regulatory Impact Analysis for the Proposed Carbon Pollution Guidelines for Existing Power Plants and Emission Standards for Modified and Reconstructed Power Plants,” U.S. Environmental Protection Agency, EPA-452/R-14-002, June 2014, pages 3-24.

9. “EPA Clean Power Plan: Costs and Impacts on U.S. Energy Markets,” Energy Ventures Analysis, October 2014, page 13.

10. “Technical Support Document (TSD) for Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units – State Plan Considerations,” U.S. Environmental Protection Agency, June 2014.