

Date: August XX, 2016

Re: Comments on Proposed Rule About Clean Energy Incentive Program Design Details Docket ID No. is EPA-HQ-OAR-2016-0033

Dear Administrator McCarthy,

Thank you for the opportunity to comment on the proposed rule about Clean Energy Incentive Program (CEIP) design details (81 FR 42940, June 30, 2016). Recognizing the importance of the CEIP as an opportunity to spur early investment in low-cost emission reduction strategies, we recommend that the Renewable Energy Reserve (RER) be expanded to include energy efficiency policies and measures.

Energy efficiency is a zero-emission and least-cost option for states to use in complying with the Clean Power Plan (CPP) while supplying affordable, reliable electricity to their residents and businesses. To ensure that early action is rewarded and that the momentum of efforts in states is not stymied, we recommend that early investments in energy efficiency receive at least the same incentive as early investments in renewable energy. This can be achieved by expanding the scope of the RER so that, like all renewables, all early investment in energy efficiency can receive allowances or emission rate credits (ERCs) with a federal match at a ratio of 1:1.<sup>1</sup>

Although EPA's cost-benefit analysis shows that energy efficiency is the cheaper path for compliance, by incentivizing renewable energy over energy efficiency EPA will in effect be making the CEIP more expensive for states to implement.<sup>2</sup> This will particularly impact communities with high energy burdens and those most vulnerable to climate change.<sup>3</sup>

By excluding energy efficiency in this early action program, EPA runs the risk of undermining energy efficiency as a compliance approach for states throughout the compliance period. As we have seen with past air regulations, administrative uncertainty surrounding compliance approaches is highly discouraging to states. Even though every state implements utility-run energy efficiency programs, only a handful of states have taken credit for energy efficiency in their past state implementation plans (SIPs).<sup>4</sup> Providing a clear path for energy efficiency to receive credit as an early action compliance approach will offer certainty to states considering energy efficiency as a compliance strategy. Allowing energy efficiency to receive a federal

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<sup>1</sup> Throughout this document we use the phrase *energy efficiency* to refer to demand-side energy efficiency measures, programs, policies, and projects.

<sup>2</sup> EPA. 2015. *Regulatory Impact Analysis for the Clean Power Plan Final Rule*. <https://www.epa.gov/cleanpowerplan/clean-power-plan-final-rule-regulatory-impact-analysis>.

<sup>3</sup> A. Drehobl and L. Ross. *Lifting the High Energy Burden in America's Largest Cities: How Energy Efficiency Can Improve Low-Income and Underserved Communities*. (ACEEE, 2016). <http://aceee.org/research-report/u1602>.

<sup>4</sup> S. Nowak, A. Gilleo, and T. Bailey, "Utility and Public Benefits Programs and Policies," in *The 2015 State Energy Efficiency Scorecard* (ACEEE, 2015). [aceee.org/research-report/u1509](http://aceee.org/research-report/u1509).

S. Hayes and R. Young, *Energy Efficiency: The Slip Switch to a New Track Toward Compliance with Federal Air Regulations* (ACEEE, 2012). [aceee.org/research-report/e122](http://aceee.org/research-report/e122). See discussion of states' experience with energy efficiency in SIPs beginning on page 11.

match of 1:1 in the CEIP will help to pave the way for states to implement the lowest-cost approach throughout compliance.

EPA outlines four criteria that renewable energy technologies must meet to qualify for 1:1 credit. Energy efficiency meets all of these criteria:

1. **Zero-emitting resource:** Energy efficiency reduces energy demand, offsetting the amount of electricity that must be generated from existing emitting sources such as coal and natural gas. As a zero-emissions resource, energy efficiency has a long history of achieving significant emissions reductions from the power sector.<sup>5</sup>
2. **Essential to longer term climate strategies:** Energy efficiency is essential to longer term climate strategies, and is a source of multiple benefits to ratepayers and program participants.<sup>6</sup> By implementing energy efficiency policies and programs, communities will benefit from sustained emissions reductions, improved resiliency, more reliable and affordable energy, and enhanced flexibility in meeting long-term climate goals.<sup>7</sup>
3. **Counteract the potential shift in investment from renewable energy to natural gas in the lead up to the start of the interim performance period:** Energy efficiency reduces overall electricity demand, obviating the need for large-scale gas-fired power plants to meet demand.<sup>8</sup> Efficiency also helps with renewable energy deployment because it can be used to address intermittency concerns that are sometimes raised in connection with large-scale renewable energy deployment.<sup>9</sup>
4. **Requires investment and deployment lead times of relatively shorter duration:** Energy efficiency requires investment and deployment lead times of relatively short duration that would be achievable in the timeframe of the CEIP. Energy efficiency investments can be procured relatively quickly, compared with the longer lead time required for permitting new generation sources or transmission lines. It can take more than a decade to bring a new generation source online and any number of pitfalls can delay the project, such as issues in securing financing or the necessary permits, market volatility, and construction delays. In contrast, energy efficiency comes in fairly small portions, so investments can be spread out over time or deployed quickly as needed.<sup>10</sup>

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<sup>5</sup> M. Molina, P. Kiker, and S. Nowak, *The Greatest Energy Story You Haven't Heard: How Investing in Energy Efficiency Changed the US Power Sector and Gave Us a Tool to Tackle Climate Change* (ACEEE, 2016). [Link forthcoming](#).

<sup>6</sup> EPA, *Demand-Side Energy Efficiency Technical Support Document* (2015), p 6. <https://www.epa.gov/sites/production/files/2015-11/documents/tsd-cpp-demand-side-ee.pdf>. EPA notes that energy efficiency can play a critical role in enhancing the flexibility and reducing the costs of meeting long-term climate goals.

<sup>7</sup> D. Ribeiro et al., *Enhancing Community Resilience through Energy Efficiency* (ACEEE, 2015). [aceee.org/research-report/u1508](http://aceee.org/research-report/u1508).

<sup>8</sup> C. Russell et al., *Recognizing the Value of Energy Efficiency's Multiple Benefits* (ACEEE, 2015). [aceee.org/research-report/ie1502](http://aceee.org/research-report/ie1502).

<sup>9</sup> J. Lazar, *Teaching the Duck to Fly* (Regulatory Assistance Project, 2016). [www.raponline.org/wp-content/uploads/2016/05/rap-lazar-teachingtheduck2-2016-feb-2.pdf](http://www.raponline.org/wp-content/uploads/2016/05/rap-lazar-teachingtheduck2-2016-feb-2.pdf).

<sup>10</sup> R. N. Elliott, R. Gold, and S. Hayes, *Avoiding a Train Wreck: Replacing Old Coal Plants with Energy Efficiency* (ACEEE, 2011), p. 7. [aceee.org/white-paper/avoiding-a-train-wreck](http://aceee.org/white-paper/avoiding-a-train-wreck).

Energy efficiency meets all of the criteria for eligible technologies outlined by EPA in this proposal. Like renewable energy, energy efficiency is a zero-emitting resource that contributes to long-term climate change strategies, and it can be implemented on the time-scales needed under the CEIP. Given that energy efficiency is on par with renewable energy under EPA's criteria, it should be treated as an additional resource eligible to receive 1:1 credit under the RER. Energy efficiency is a cost-effective resource, however it will not automatically be deployed due to several existing barriers to implementation.<sup>11</sup> To help offset the upfront cost associated with energy efficiency, we request that EPA offer the same incentive to energy efficiency that renewable energy receives under the CEIP.

Since the original CEIP proposal was released along with the final Clean Power Plan emissions guidelines (EGs), the Investment Tax Credit (ITC) and Production Tax Credit (PTC) for renewable energy have been extended. EPA points out in this proposal that combining the RER incentive with the extended federal tax credits for wind and solar may be problematic due to the fact that the tax credits will help to meet the CEIP's objectives with respect to promoting increased deployment of renewable energy. By dividing the RER between renewable and energy efficiency projects, this problem is mitigated. We support a mechanism to limit the number of early action allowances or ERCs available to wind and solar projects that also qualify for the ITC or PTC. EPA suggests apportioning less than 50 percent of the 300 million short ton matching pool to eligible renewable energy projects through the RER. We support limiting the RER matching pool for renewable energy projects to 25 percent. This would leave the remaining 25 percent of the RER matching pool available for qualifying energy efficiency projects on a 1:1 basis. Similar to renewable energy projects, energy efficiency projects eligible to receive 1:1 matching credits or allowances through the RER could commence operations on or after January 1, 2020. This date would create consistency with renewable energy projects and would sufficiently limit eligible energy efficiency projects to take advantage of 25 percent of the allowances or credits available through the RER matching pool.<sup>12</sup>

We stand ready to discuss this recommendation further.

Sincerely,

American Council for an Energy-Efficient Economy (ACEEE)  
Steven Nadel  
Executive Director

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<sup>11</sup> S. Vaidyanathan et al., *Overcoming Market Barriers and Using Market Forces to Advance Energy Efficiency* (ACEEE, 2013). [aceee.org/research-report/e136](http://aceee.org/research-report/e136). Existing market barriers to energy efficiency include upfront cost, imperfect information, and split incentives, among others.

<sup>12</sup> A. Gilleo et al., *The 2015 State Energy Efficiency Scorecard* (ACEEE, 2015). [aceee.org/research-report/u1509](http://aceee.org/research-report/u1509). Savings from utility-run electricity efficiency programs totaled approximately 25.7 million megawatt-hours (MWh) in 2014, a 5.8% increase over the prior year. We are proposing to make available 75 million allowances for energy efficiency in each year of the CEIP through the RER (this includes state and federal matching allowances), which would create an incentive to maintain current programs, but also increase energy efficiency savings significantly.