



Southwest Power Pool, Inc.

STRATEGIC PLANNING COMMITTEE TASK FORCE – Clean Power Plan

Thursday, October 15, 2015

2 PM – 5 PM

SPP Corporate Office, Little Rock, Arkansas

• A G E N D A •

1. Call to Order Mike Wise
2. Review of Past Action Items Michael Desselle
3. Reliability Issues Identified Sam Ellis
4. Qualitative Assessment of Federal Plan Sam Ellis
5. Mass- v. Rate-Based Survey Results Dustin Smith
6. Status of Stakeholder Discussions Lanny Nickell
7. Next Steps..... Mike Wise
8. Action Items Michael Desselle

Southwest Power Pool
SPCTF CLEAN POWER PLAN
Friday, September 18, 2015
Teleconference

• M I N U T E S •

Agenda Item 1 – Call to Order and Administrative Items

SPCTF Clean Power Plan Chairman Mike Wise called the meeting to order at 9:00 AM. Other Task Force members on the teleconference included: Richard Ross (AEP); Burton Crawford (KCPL); Lauren Quillian (Xcel); Dennis Florom (LES); Wayne Penrod (Sunflower); and Dale Niezwaag (BEPC). SPP Staff included Lanny Nickell, Michael Desselle, Bruce Rew, Nick Brown, Sam Ellis, Jay Caspary, Sam Loudenslager, and Dustin Smith. Other participants dialed in to the call (Attendance – Attachment 1).

Agenda Item 2 – Review Task Force Scope

Mike Wise reviewed the Task Force Scope of activities (Clean Power Plan Review Task Force Charter – Attachment 2). In response to an inquiry about the Task Force focus being quantitative or Qualitative in nature, Lanny noted that it would depend upon what is being requested of the Task Force. Staff would provide quantitative support to the extent resources are available. The concept of coordinating with other working group efforts was discussed and an addition to the scope was added by consent of the Task Force. The new item would be “8. Ensure coordination with other SPP Working Groups”.

Agenda Item 3 – Summary of Federal Plan

Sam Ellis presented a summary of the Proposed Federal Plan (Clean Power Plan Proposed Federal Plan – Attachment 3) and responded to questions throughout his presentation. Sam committed to compile a list of all reliability issues related to the concern expressed that EPA may not have considered all interactions between the Federal plan and the potential state plans for the region. Task Force members expressed their appreciation for the summary and review and noted that the information was generally consistent with their own companies’ internal assessments of the Rule.

Agenda Item 4 – Preview Webinar Content

Lanny Nickell previewed the planned Clean Power Plan Webinar content (SPP’s Webinar on the EPA’s Clean Power Plan – Attachment 4). He noted that the purpose of the webinar was to:

1. Introduce SPP to the Air Regulators in the SPP states;
2. Describe the previous analyses SPP performed;
3. Describe SPP’s Reliability role as contemplated in the Final Rule; and,
4. To encourage cooperative working relationship amongst SPP and the state air regulators.

Task Force members supported the introduction of SPP to the intended air regulator audience and cautioned SPP to avoid the notion that SPP is responsible for resource planning. Stakeholders provided advice and suggestions on how to tailor and improve the presentation for the intended audience.

Agenda Item 5 – Next Steps

Mike Wise noted that the Task Force has 2 deliverables:

1. Policies/recommendations to the SPC; and,
2. Comments of the Federal Implementation Plan.

The Task Force agreed to a recommendation from Burton Crawford to ask the members regarding the question of supporting either the Mass Based versus Rate Based approach. Staff committed to perform a survey. Richard Ross expressed AEP’s expectation is that a “qualitative” assessment of the Mass versus Rate-based approach would be appropriate and is not interested in a quantitative assessment.

Agenda Item 6 – Summary of Action Items

Action Items are:

- Modify the Scope per discussions;
- Develop list of reliability issues;
- Modify Webinar content consistent with Task Force discussions;
- Conduct member survey on Mass- versus Rate-Based approach preferences;
- Schedule follow-up meeting.

Respectfully Submitted,

Michael Desselle
Secretary

Southwest Power Pool, Inc.
Clean Power Plan Review Task Force Charter
Organizational Group Scope Statement
August 25, 2015

Purpose

The Clean Power Plan Review Task Force (CPPRTF) is responsible for reviewing the EPA's Clean Power Plan (CPP) and proposed Federal Plan (FP), recommending the role that SPP should play in assisting states' compliance approaches, and informing Staff and Member dialogue with environmental regulators.

Scope of Activities

In carrying out its purpose, the CPPRTF will:

1. Review the CPP and the EPA's proposed FP.
2. Summarize grid reliability, energy market, and strategic implications within SPP and between SPP and its neighbors resulting from:
 - a. Development of state plans across the SPP region in an uncoordinated and inconsistent fashion, given the options afforded states by the EPA in the final rule.
 - b. Implementation of proposed carbon trading market rules contained in the EPA's proposed FP.
3. Qualitatively assess implications of rate-based versus mass-based compliance approaches and the interoperability between the two approaches.
4. Recommend any comments SPP should submit in response to the proposed FP.
5. Evaluate opportunity for SPP to facilitate or play a role in formation of a regional carbon trading market.
6. Recommend SPP's role in assisting states' compliance approaches.
7. Develop educational materials for the members, RSC and environmental agencies.

8. Ensure Coordination with other SPP Working Groups

Representation

CPPRTF membership consists of up to 7 representatives from the Strategic Planning Committee, including the chair. Meetings are open, however by sufficient notice; the CPPRTF may limit attendance during specific portions of a meeting by an affirmative vote of the CPPRTF for reasons that are consistent with the SPP Bylaws.

Duration

Temporary

Reporting

The CPPRTF reports to the Strategic Planning Committee.

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Clean Power Plan: Qualitative Assessment of Proposed Federal Plan

CPPTF 10/15/2015



Helping our members
work together to
keep the lights on...
today and in the future

Key questions from Federal Plan review

1. Should the mass-based approach include a reliability set-aside?
2. Are there relative reliability advantages from a mass-based or rate-based approach?
3. Should planning authorities weigh in the process of subjecting a state to the FIP?
4. Should the federal plan (FIP) include a reliability safety valve?
5. Are there other qualitative considerations related to the FIP?

1. RELIABILITY SET-ASIDE

Reliability Set-Aside

- EPA to consider comments about providing for a reliability set-aside in the FIP for mass-based plans
- Should allocation of allowances under FIP consider an EGUs need to remain online for reliability needs?
- If so, who and how would reliability set asides be determined?
 - Potential planning authority/RC involvement
- Potential issues
 - Who determines application?
 - What happens to unused allowances?

Reliability Set-Aside

- **Reliability Set-Aside is not necessarily a reliability issue**
 - “Trading ready” plan gives flexibility for reliability
 - Integrated Marketplace mechanisms can compensate for existing costs for reliability units
- **The FIP as proposed does not factor an EGUs need to run for reliability reasons into the allocation of allowances**

2. MASS-BASED VERSUS RATE-BASED (RELIABILITY)

Mass-Based versus Rate-Based

- **EPA accepting comments on whether FIP should be mass-based or rate-based**
 - **No reliability advantages with either basis so long as allowances or credits may be freely traded**
- **Consistency of plans amongst the SPP region would benefit reliability**
 - **Particularly of plans allowed for broader (e.g., interstate) trading of allowances or credits**

3. PLANNING AUTHORITY INVOLVEMENT IN FIP

PLANNING AUTHORITIES/RCs

- **EPA should consult with Planning Authorities in conjunction with implementing FIP for a particular state**
 - **Discussion of reliability must-run impacts**
 - **Allocation of reliability set-asides (if any exist)**
 - **Interoperability of state within region and multi-region view**

4. RELIABILITY SAFETY VALVE

Reliability Safety Valve (RSV)

- Included in final rule to address many commenters
- Provides ability for EGU to not be required to meet emissions standard under certain reliability-critical conditions
- EPA believes need for RSV is “highly unlikely,” but possible for states have “inflexible requirements on specific EGUs”
 - EPA believes most events would be short-duration and that emissions standards will not require adjustment
- To be used for an “unforeseeable . . . extraordinary, unanticipated, potentially catastrophic event”

Reliability Safety Valve, cont'd

- States must submit initial notification within 48 hours
 - Identify effected EGU or EGUs
 - Identify modified emissions standards
- “The EPA will consider this notification to be an approved short-term modification to the state plan”
- Within 7 days after initial notification additional documentation required
- EGUs not required to meet standard for 90 days
- Provisions for RSV to be applied greater than 90 days
 - Excess emissions after 90-day period will count against state’s overall goal

RSV and the Federal Plan

- EPA believes FIP provides sufficient flexibility to mitigate any reliability concerns
 - Additional allowances or credits can be procured
 - No RSV proposed
- SPP staff believes some reliability backstop would be beneficial
 - Clarify the role of FERC, EPA and DOE coordination
 - Extreme unforeseen disasters (major hurricanes, earthquakes, etc.)
 - Responsibilities for how a reliability backstop for FIP would be activated should be identified
 - Potential planning authority/reliability coordinator involvement?

5. OTHER QUALITATIVE CONSIDERATIONS

Mass-Based versus Rate-Based (Economic)

- **Mass-based approach may have more advantages**
 - Ability to anticipate economic impacts leads to better planning assumptions
 - Easier to factor into wholesale markets
 - Tend to form more liquid trading markets
 - One preliminary study suggests mass-based compliance can be less expensive
 - More industry experience with mass-based programs
 - Easier to measure and verify with existing equipment

State Plans versus Federal

- **Analyses by others indicate state plan flexibility could result in less costly compliance**
 - **Custom set-asides and incentives**
 - **More options to address leakages**
 - **Auction revenues**
 - **Energy efficiency programs**
 - **More flexibility in timelines to meet goals**
 - **So long as overall goals are achieved**

ADDITIONAL CONSIDERATIONS?

Additional Considerations

- Are there particular areas that staff should investigate for reliability impacts?
- Other topics that should be considered or discussed?

CPPRTF Member Survey Results

CPPRTF 10/15/2015



CPPRTF Member Survey

- CPPRTF directed SPP staff to conduct a survey of SPP members to gauge member preference of the rate-based or mass-based compliance approaches offered in the CPP final rule.
- Survey recipients were instructed that their responses would not be considered binding and would not be disclosed on an individual basis.
- The goal of the survey is to inform the CPPRTF of SPP membership preferences and thoughts, which will help shape SPP's dialogue with environmental regulators and other stakeholders.
- Survey conducted via email September 23 – October 7, 2015

Survey Recipients

- **CPPRTF Members**
- **SPC Members**
- **MOPC Members**
- **SPP Government Affairs Group**

Survey Questions

1. Does your company prefer a rate-based or mass-based approach to comply with the EPA's CPP? Why?
2. Please discuss any pros, cons, advantages, and disadvantages of rate-based and mass-based compliance approaches.

Survey Respondents

20 Respondents (12 Transmission Owners)

Types of Respondents:

- 6 Investor Owned
- 6 Cooperatives
- 4 Municipals
- 2 State Agencies
- 2 Independent Power Producers

Survey Results: Question 1

Does your company prefer a rate-based or mass-based approach to comply with the EPA's CPP?

- 10 prefer mass-based approach
- 2 still evaluating, but identified advantages of a mass-based approach
- 1 prefers rate-based approach
- 7 still evaluating/too early to commit/offered no preference, but discussed pros and cons of both approaches

Survey Results: Question 2

Please discuss any pros, cons, advantages, and disadvantages of rate-based and mass-based compliance approaches.

- Mass-Based Pros/Advantages
- Mass-Based Cons/Disadvantages
- Rate-Based Pros/Advantages
- Rate-Based Cons/Disadvantages

Mass-Based Pros/Advantages

- Allows more flexibility for accommodating various generation technologies, and is easier to monitor and measure
- Consistent with other current emission compliance approaches/mechanisms
- Trading between mass-based plan states could be accomplished following already established criteria from similar programs
- Will likely lead to a more robust allowance trading program
- Emission allowance prices are easier to reflect in wholesale energy prices than emission rate credits
- Allows for credit toward CPP compliance to be given for retirements/conversions

Mass-Based Cons/Disadvantages

- Does not accommodate growth in energy use over time as much as a rate-based approach
- Leakage will complicate trading and could complicate addition of new sources under 111(b)
- Finite number of allowances based on EPA goals—a utility cannot create its own allowances, this could lead to scarcity of allowances
- Potential for subsidization of inefficient coal EGUs through allowances

Rate-Based Pros/Advantages

- Allows for energy growth over time as long as the renewables proportion represented by the average rate is maintained
- Makes direct use of renewables and energy efficiency programs
- Provides the option for a utility to produce its own Emission Reduction Credits
- Provides for straightforward trading with other rate-based states

Rate-Based Cons/Disadvantages

- Compliance documentation necessitates expensive and more difficult evaluation, monitoring, and verification methodologies, especially for energy efficiency, not needed under mass-based approach
- Limited trading opportunities; uncertainty regarding tradability of rate-based credits
- More difficult to achieve in compliance timeframe and more costly due to the increased need for gas pipeline as well as wind and transmission infrastructure
- Marginal compliance benefits for coal-fired EGU retirements
- Determining dispatch order on a regional basis could be more complicated when attempting to satisfy rate-based limits

Broad Consensus Among Respondents

- **Whichever compliance approach a state chooses, a robust emission trading program is paramount**
- **States should develop SIPs rather than have a FIP imposed upon them—respondents believe SIPs provide more flexibility**

Additional Comments

- Some respondents submitted additional comments/questions regarding ISO/RTO coordination, seams issues, renewables, etc.
- SPP staff is reviewing these additional comments/questions

Disclaimer

Respondents indicated that their views are subject to change and that the outcomes of the proposed model rules, the final Federal Implementation Plan, and the size of prospective trading markets could influence their preferences.