U.S. ESCO Market and Potential for State Utilization Under the EPA Clean Power Plan (CPP)

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Benefits for States to Leverage ESCO Market Under the CPP

- ESCO Market offers a well-established mechanism for leveraging third-party financed energy efficiency and renewable energy under the Clean Power Plan.
- Provides for quantifiable, measureable and verifiable electricity savings in States.
- Provides an effective low-cost compliance option that is deployable and carbon-trading eligible.
- Applicable under both mass-based and rate-based plans.
- Provides persistence of electricity savings and annual M&V.

ESCO Projects & Potential for Use Under CPP

- EPA included Energy Savings Performance Contracting (ESPC) in the final Clean Power Plan as an eligible demand-side energy efficiency compliance measure.
- Such projects (with appropriate EM&V protocols) will also be eligible for Emission Rate Credits (and set-aside allowances) should states pursue carbon-trading.
- The EPA also included ESPC in the proposed Federal Implementation Plan (FIP).
- Projects would also be eligible for the proposed Clean Energy Incentive Program (CEIP) which provides certain incentives to states for specific early investments in EE & RE.

Potential for Incentives and Drivers for ESCO Projects under CPP

- Depending on the type of state plan, ESCO projects could benefit from new (or continued) policies and incentives.
- Policies could include: Executive Orders promoting the use of ESPCs in states; Energy Efficiency Resource Standards (EERE); Renewable Portfolio Standards (RPS); Property Assessed Clean Energy (PACE)
- Incentives could include: Emission Rate Credits (ERC) under Rate-Based Plans; Set-Aside Allowances under Mass-Based Plans; Renewable Energy Credits (REC); Net-Metering Credits; Utility Rebates & Incentives; Other Monetary Incentives/Arrangements Developed for Electricity Generating Units to “purchase” compliance

Energy Efficiency (EE) Under CPP

- EPA encourages states to consider the role of EE and stresses importance of utilization.
- New incentives for EE depend on the type of state plan (Mass vs. Rate). States should not delay action on new EE under either plan, especially Energy Savings Performance Contracts (due to cycle-time).
- Mass-Based: EE automatically counts because it is reducing emissions from the affected power plants. States can provide additional incentives or policies to drive EE*(such as allocating allowances towards EE, and/or auction allowances and utilize proceeds towards EE investments).*
- Rate-Based: EE implemented after 2012 may be able to receive Emission Rate Credits (ERCs) for quantified and verified MWh electricity savings that occur in 2022-Beyond (not before). States can also align other policies towards EE.

Renewable Energy (RE) under CPP

- States have significant discretion to utilize RE(utility-scale, non-utility scale, and distributed generation) towards CPP.
- States can utilize existing and new policies to increase RE generation. States could also choose to allow Emission Rate Credits (ERCs) and set-aside allowances and interstate-trading.
- Proposed Clean Energy Incentive Program (CEIP) offers an opt-in incentive for solar and wind (only) in years 2020 and 2021. Systems would need to be constructed *after* states submit final plan to EPA. States could receive credit for these early investments.
- Distributed Generation (customer-sited RE systems) are eligible to produce MWh for affected EGUs when properly accounted for and verified. Use of distributed generation for CPP will depend on the State plan and State policies.

State of Play & Looking Ahead

- Too early to understand the interplay and scale of potential carbon-trading market and monetization opportunity.
- Emission Rate Credits (ERC) will require a registry of projects to be established, and will require project-level M&V requirements which meet EPA standards. DOE e-Project Builder tool may be able to assist states in supporting a registry.
- States will be required to persist their final goal (CO2 emission reduction) beyond 2030; States will verify compliance every two years, unless EPA changes the requirements in the future.
- It's really up to States to choose how to align their policies with the CPP. There is significant potential for low-cost demand-side EE options under mass- and rate-based plans.

Thank-you

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