



STATE TECHNICAL FORUM ON EE/RE
Call #2 Summary - November 18, 2004
NOx Budget Allowance Set-Aside for EE/RE

Participants: 49 state officials participated in the call (see the attached participant list)

Goals for the Forum, Julie Rosenberg, EPA State & Local Capacity Building Branch, EPA reiterated that the goal for the Forum is to facilitate collaboration among states and between energy, environmental and utility policy thinkers within states.

Forum procedures and ground rules, Catherine Morris, The Keystone Center, reviewed some of the procedures for the calls, including:

- Participants should RSVP by email to Mkelly@keystone.org in advance of calls and identify themselves when speaking. This will allow the calls to proceed without taking “roll call” at the beginning of each Forum.
- Background material will be provided via an FTP link. Some participants mentioned difficulty accessing the site and downloading materials, so Keystone agreed to investigate posting the documents to the Keystone website.
- Summary of calls will capture the general discussion but will not include attribution of comments to individuals.

Overview of NOx Budget Set Aside for EE/RE, Bill Balcke and Steve Keach, PQA
Refer to PowerPoint presentation entitled “NOxEERE set aside overview 11-18-04” and PDF file entitled “Discussion Questions-State Forum”

Massachusetts’ Experience with EE/RE Set Aside Approach, Sharon Weber, MA DEP
Refer to PowerPoint presentation entitled “Massachusetts EE/RE_Nov 18 04”

Discussion & Questions

Correction to Overview –Inclusion of GA in NOx SIP Call is currently being challenged; therefore they may not be a participating state. Also, MO is now expected to initiate their program in 2005.

Is one allowance equal to one ton of NOx reduced?

Not necessarily. Project applications can be discounted/ prorated if not enough allowances are available.

Was the calculation of emissions reductions (1.5 lbs/MWH) based on the amount of electricity backed down? Did EPA approve the approach?

EPA leaves the method for awarding allowances to the states; they just cannot exceed the total state budget. MA chose to use an output-based factor that corresponds to a 0.15 lb/mmBtu emission rate at a heat rate of 10,000 Btu/kWh. It was not intended to represent actual

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emissions avoided. MA average NOx emission rates have been declining over time because of increased generation from natural gas-fired units.

Validation of the estimated emissions avoided is much more important for states that award credits for EE/RE outside of a cap. In states like IN that depend predominantly on one fuel source (coal), the estimation of avoided emissions is relatively straightforward, but may not be for many other states.

Once people get credits what do they do with them?

Allowances can be sold to emitting sources in the market or purchased by entities (e.g. Ms. Smith's 4th grade class) that retire the allowances and effectively tighten the annual NOx cap.

What do you do if two entities submit an application for the same projects?

In MA, the State Energy Office submitted the largest percentage of projects; in some cases, another private entity submitted an application for the same projects. Both applications are rejected and the applicants are expected to sort out the problem.

Did you look at typical days or extreme days in determining energy savings and emission reductions? MA did not base its analysis on peak day data. TX noted that in some cases, if you don't normalize for weather, it can double your NOx levels.

How much marketing did MA put into getting applications?

MA relied entirely on the interest of stakeholders that participated in the regulation-setting process. In their first year, they were undersubscribed (15% of the 5% set-aside in 2003). In the second year of the program, 32% of the 2004 set-aside was allocated to applicants. IN has had the program in place for 2 years and has had no applicants. Recently sent out direct mail marketing to try to boost participation.

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What happens to unclaimed allowances in the set-aside?

Under-subscription is a problem in many places. (e.g. NJ: 3-4 EE applications, 1 land fill gas application / year.) Some states roll over unclaimed allowances to following year's set-aside. Some states reallocate the remaining allowances to the emitting sources. In Indiana, 50% of unclaimed allowances in a given year are rolled over for next year, and remaining 50% goes back to existing units. Other states allow the excess to build up over time. One state pointed out the importance of agreeing to return unused allowances to gaining the support of the emitting sources for the set-aside program.

Administrative costs?

In NJ, cost has been slight. Active marketing would require more resources.

What is the value of the program allowances?

The value of allowances is determined by the market. Recent market prices have remained close to \$3,000 per ton. At \$3,000 per ton the value of all the state set-aside allowances would be approximately \$13 million/yr. In NJ alone, if recipients had sold allowances since the beginning of the program, they would have been worth \$490,000.

What effect has the program had on relationship/interaction with outside entities?

States indicated that the general public has little or no awareness of the program. MO expressed a desire to have more support from environmental organizations.

Why did some states within the NOx budget region decide not to use set aside?

MI no political interest in NOx set aside at the time of decision so it was not written into the regulations. Could be possible to make changes, given new governor and newly expressed interest in concept. States like MA felt that the set-aside is a complementary activity to the state's restructuring regulations which require utilities to arrange for EE and RE projects.

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Do states perform site visits for verification on the bigger projects to ensure the credited activities actually happened?

In general, MA does not verify the projects, but the largest share of allowances were awarded to the state energy office for programs which had been developed through extensive public mtgs regarding the correct amount of savings that should be credited to various projects (a light bulb vs. weather stripping, etc). But the state does not verify whether the light bulbs were actually installed. IN has proposed a verification plan in their programs for the largest projects – envision joint energy and environmental agency site visits. NJ requires applicants to sign agreement attesting to the accuracy of the estimates, but does not do site visits.

Methods for calculating energy savings:

When financing comes through banks, there are standard calculations required. Utility programs also have traditionally required extensive savings evaluations and protocols do already exist. NY has awarded credits to new building projects and have relied on standards for calculating savings developed by American Council for an Energy Efficient Economy (ACEEE) or internally. RE generation is much more straightforward when you require utility-grade metering of generation. Others pointed out that there is still disagreement about how to credit EE retrofits. Software, weather data, etc. can lead to inaccuracies of 20-50%. ASHRAE Guideline 14 is one of the more accurate methods for calculating savings, according to one state.

Another state noted that very rigorous monitoring and verification regimes which require a lot of time and resources on the part of the applicant, undermine the purpose of the program by eroding the financial benefits of the allowances and discouraging applications. It takes a lot of light bulbs to equal one ton of NOx, so even on a sizable project; companies are getting only a couple thousand dollars worth of benefits.

Topics for future Forum calls:

A brief discussion of the list of proposed topics highlighted interest in the following:

- monitoring and verification and costs involved in different levels of verification;
- the emissions value of Renewable Energy Credits both in states with and without RPS, and
- the use of Supplemental Environmental Projects (SEPs) to advance EE/RE.

NEXT CALL: Tues., Dec. 16th, 2PM EST. Third party monitoring and verification (M&V) of energy efficiency projects and translating savings to emissions benefits. (NY) Discussion of other states' approaches to M&V and the associated trade-offs.