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Attn: **Docket ID No. EPA-HQ-OAR-2016-0033**

U.S. Environmental Protection Agency

Re: State of Iowa joint comments on EPA proposed 111(d) Clean Energy Incentive Program (CEIP) Design Details

Dear Administrator McCarthy:

The following comments are from the State of Iowa, specifically, from the Iowa Department of Natural Resources (DNR), the Iowa Utilities Board (IUB), and the Iowa Economic Development Authority (IEDA). We appreciate the opportunity to comment on the proposed Clean Energy Incentive Program (CEIP) Design Details. Given the complexity of implementing the Clean Power Plan (CPP) in aggressive timeframes, maximum flexibilities for the states become even more important. Further, the CEIP Design Details must fairly incentivize further economic development in renewable energy. Because the CPP final rule penalized the State of Iowa for its early leadership in renewable energy by not awarding ERCs for renewable energy constructed before 2013, state leaders are especially sensitive to appropriately rewarding clean energy investments in the CEIP.

The DNR implements state and federal laws that protect air, land and water through technical assistance, permitting, and compliance programs. DNR has authority through both a delegation agreement with EPA and state statute to implement 111(d) regulations in the State of Iowa.

The IUB regulates public utilities in Iowa, including electric utilities that own and operate electric generating plants in Iowa. The IUB makes decisions that balance the interests of all parties to ensure that utilities provide adequate, reliable, environmentally responsible, and safe service to Iowa consumers at reasonable prices. Therefore, the IUB has an interest in ensuring that the requirements EPA chooses to apply to existing electric generating plants be written and implemented without creating disruptions in the provision of electric service to consumers and without generating significant, unnecessary increases in the cost of electric service to customers.

The IEDA assists economic development projects in the State of Iowa with financial and technical assistance. IEDA oversees job creation programs, business recruitment programs, community development programs, housing programs, workforce training programs, foreign trade programs, tourism programs, and energy programs. IEDA is the parent agency of the Iowa Energy Office and the Iowa Tourism Office. IEDA has an interest in ensuring that the use, cost, and regulation of energy in Iowa facilitate economic growth in the State.

In these comments, we refer to these three agencies jointly as the State of Iowa.

EPA's Clean Energy Incentive Program (CEIP) is a voluntary program within the Clean Power Plan (CPP) that is designed to reduce obstacles to investment in new energy efficiency and solar projects in low-income communities and incentivize early investments in new renewable energy generation.¹ The incentive is in the form of early action allowances or emission rate credits (ERCs) from the state, as well as additional matching allowances or ERCs from EPA. The State of Iowa supports EPA's overall CEIP objective of developing a voluntary program that provides incentives for energy efficiency and renewable energy projects. Iowa has long been a leader in these areas. In 1983, Iowa passed the first renewable portfolio standard in the United States. In 2015, Iowa became the first state to pass the 30% mark for energy produced by wind, generating 31.3% of its energy from wind², and is on track to reach 40% in the next five years.³ In addition, Iowa has required its utilities to implement energy efficiency programs since 1990, and Iowa has already achieved significant savings from energy efficiency programs. In 2015, Iowa's investor-owned utilities had electric savings of 482,145 megawatt hours and natural gas savings of 1,165,163 million cubic feet.⁴ Additional savings are also achieved from energy efficiency programs administered by Iowa municipal utilities and rural electric cooperatives. Iowa's deployment of solar energy is also growing. Twenty-nine megawatts of solar energy is currently installed in Iowa, and Iowa is expected to install 170 megawatts of solar electricity capacity in the next five years.⁵ The Iowa Department of Transportation and IEDA are also currently leading a statewide effort to develop a comprehensive Iowa Energy Plan which will set state energy priorities and provide strategic guidance for decision-making while working to encourage energy, economic, and environmental benefits through the goals and recommendations it sets forth.⁶

While the State of Iowa supports the overall goals of the CEIP, the State of Iowa has some trepidation in encouraging project providers, particularly those in low-income communities, to invest the time and resources necessary to participate in the CEIP if the allowances and ERCs

¹ <https://www.epa.gov/cleanpowerplan/clean-energy-incentive-program>

² *Electric Power Monthly*. U.S. Energy Information Administration - <http://www.eia.gov/electricity/monthly/>

³ <https://governor.iowa.gov/2016/02/branstad-reynolds-announce-over-31-percent-of-iowa-electricity-now-supplied-by-wind>

⁴ Energy efficiency annual reports filed in Dockets EEP-2012-0001 (May 2, 2016), EEP-2012-0002 (May 2, 2016), and EEP-2013-0001 (April 29, 2016).

⁵ Solar Spotlight: Iowa. Solar Industries Association - http://www.seia.org/sites/default/files/IA%20State%20Factsheet_6.15.2016.pdf#overlay-context=state-solar-policy/iowa

⁶ <http://www.iowaenergyplan.org/>

will have little value in the trading market. Modeling studies conducted by several groups including the Bipartisan Policy Center and Midcontinent Independent System Operator (MISO) show that allowances and ERCs will have little or no trading value during the first CPP compliance period (2022-2024).

Overall Complexity and Timing of the Clean Energy Incentive Program (CEIP)

The program should be implemented in the least complicated manner possible to ease the burden on both project providers and states. The State of Iowa is concerned by the amount of time and resources required for states to develop the infrastructure and add programs needed to implement the CEIP (e.g. tracking systems, credits desks, emissions measurement and verification (EM&V), etc.) while concurrently developing a state implementation plan. EPA can lessen the burden to states by supporting the collaborative development of a common tracking system(s) that each participating state could use. The EPA should also provide state agencies with training on how to evaluate project applications for early action and matching allowances and ERCs.

Projects Eligible for the CEIP

EPA proposes several significant changes to the eligibility criteria for projects seeking to participate in the CEIP. The State of Iowa believes that two of these changes are positive changes that will improve implementation of the CEIP:

1. **Renewable Energy Projects and Low-Income Community Projects**

The State of Iowa supports the creation of two classifications of eligible projects — renewable energy projects and low-income community projects — and the addition of geothermal and hydroelectric projects to the renewable energy classification. Encouraging the development of these zero-emitting projects throughout the U.S. will help reduce the demand for electricity generated from fossil fuels. The State of Iowa also supports the addition of solar projects — such as distributed, rooftop, or community solar — to the low-income community classification, as these projects may not otherwise be economically feasible. In addition, the State of Iowa encourages EPA to add projects converting qualified biomass feedstocks or biogenic portions of waste-derived feedstocks to the list of eligible renewable projects.

2. **Definition of “Low-Income Community”**

The State of Iowa supports the flexibility provided to states to select a definition(s) of “Low-Income Community” from any existing definition under a federal law, a state law, a local law in the state, or a utility-administered program in the state as of October 23, 2015. This will allow the State of Iowa to craft a state plan with a CEIP that best serves all of Iowa’s citizens, both urban and rural, as well as Iowa’s diverse energy mix.

Eligibility Dates for the CEIP

The State of Iowa **does not support** EPA's proposed changes to the eligibility dates for CEIP projects. The original eligibility date proposed in the model rules was September 6, 2018. In EPA's proposed CEIP Design Details, the September 6, 2018 eligibility date remains for energy efficiency projects in low-income communities, but the eligibility date for renewable energy projects and solar projects in low-income communities has been pushed back to January 1, 2020. As currently proposed, energy efficiency projects become eligible nearly fifteen months before renewable energy projects and renewable energy projects become eligible only after the current production tax credit (PTC) and solar investment tax credit (ITC) expire in 2019.

The State of Iowa again recommends that the CEIP eligibility date for both renewable energy and low-income community projects be changed to September 6, 2016. In its January 14, 2016 comments on the proposed model rules,⁷ the State of Iowa recommended that the eligibility date for the CEIP be changed from September 6, 2018 to September 6, 2016 for both energy efficiency and renewable energy projects. This will appropriately incentivize early construction of renewable energy projects and allow renewable energy and energy efficiency projects — planned to begin operating in 2016-2019 and continuing to operate in 2020-2021— to utilize both the PTC/ITC and CEIP. If the PTC and ITC are extended beyond 2019, projects should continue to be able to utilize the PTC/ITC and participate in the CEIP.

Demonstrating “Direct Electricity Bill Benefits”

EPA should provide illustrative examples of how solar project providers can prove “*direct electricity bill benefits*”. The proposal requires in §60.5373(e)(8) that eligible solar projects in low-income communities demonstrate “*direct electricity bill benefits to low-income community ratepayers*”. This topic should also be included in the training EPA provides to state agencies on how to evaluate project applications for early action and matching allowances and ERCs.

Proposed State Shares of Matching Pool

The State of Iowa recommends that states be allowed to determine the division of matching allowances or ERCs between the Renewable Energy Reserve and the Low-Income Community Reserve and be allowed to reapportion or redistribute allowances or ERCs between the two reserves in the event that one of the reserves is over-subscribed. The proposed 50/50 split between the reserves is not appropriate as each state has different capacity for additional renewable energy and energy efficiency deployment as well as a different number of low-income communities. The characteristics of low-income communities also vary from state-to-state, as do their potential to add solar projects and energy efficiency projects in their communities. Furthermore, some low-income communities may already be covered by existing energy efficiency projects. Like the flexibility given in the definition of “*low-income community*”, allowing states to determine the division between the two reserves and reapportion/redistribute them as needed will give states the flexibility to craft a state plan with a CEIP that best serves all of Iowa's citizens, both urban and rural, as well as Iowa's diverse energy mix.

⁷ Docket ID No. EPA-HQ-OAR-2015-0199

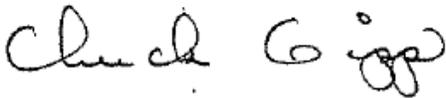
In addition, EPA should add language to the final CEIP Design Details that allows states submitting “split” state plans (plans that regulate some affected units under a rate-based approach and other affected units under a mass-based approach) to work with EPA to re-calculate the state’s matching pool of allowances and ERCs, so as long as the re-calculation equals the same total CO₂ reduction as originally proposed by EPA. EPA’s proposal does not include a mechanism to determine the matching pool for split state plans even though EPA has indicated that a split state plan would be approvable if the state can demonstrate that it can meet its overall emissions reduction goals.

Adjustment Factor in a Rate-Based State Plan

The State of Iowa recommends that the presumptively-approvable “adjustment factor” prescribed for a rate-based plan be eliminated in the final CEIP Design Details rule for two reasons. First, under a rate-based program, the CEIP incentivizes early action by awarding “bonus” ERCs to early actors from 2020-2021, but then penalizes renewable energy and energy efficiency projects during the CPP compliance periods from 2022-2031 by adjusting the value of an ERCs down, so that less than one ERC would be awarded for one megawatt hour of zero-emitting generation. Second, the adjustment factor does not help maintain stringency in a rate-based plan because there is no cap or limit on the number of ERCs a state can award during the CPP compliance periods from 2022 – 2031. In a rate-based plan, any increase in CO₂ emissions must be balanced by an increase in ERCs from zero-emitting generation in order for states to meet their CO₂ emission rate goals.

Thank you very much for your consideration of Iowa’s comments. If you have questions, please feel free to contact Marnie Stein at Marnie.Stein@dnr.iowa.gov.

Sincerely,



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