

Status of Multi-Emissions Requirements for the Power Industry

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As the power generation industry continues to prepare for compliance with one of the most significant emissions control programs implemented under the 1990 Clean Air Act amendments, the outline of what may be the next generation of air control requirements is beginning to take shape. And unlike the NO_x Budget Programs that focused on a specific environmental concern, this next phase of requirements promises to be much larger in scope. Rather than continuing to regulate the power sector in a piecemeal approach, support is gaining for the next generation of requirements to be a single, comprehensive air emissions strategy. Emissions to be covered by this type of program would include sulfur dioxide (SO₂), nitrogen oxides (NO_x), and possibly mercury (Hg) and carbon dioxide (CO₂). From an industry perspective, a well-designed multi-emissions program has many advantages to the existing regulatory approach.

A national multi-emissions program enacted through legislation provides the vehicle to streamline existing regulations that are duplicative and, at times, counter-productive to overarching environmental goals. By incorporating the myriad of future requirements currently under development into one program, industry will be able to plan for investments in a way that maximizes efficiencies, minimizes costs, and provides greater benefits for the environment. A coordinated approach to future air quality requirements for the power sector will provide our industry with regulatory certainty about the amount of and timetable for future emissions, which can be factored into investment decisions and emission control strategies. One of the necessities for an effective multi-emissions program is that it be implemented through federal legislation. Only federal legislation can successfully harmonize the existing and future requirements authorized by the current Clean Air Act.

That being said, multi-emissions initiatives are underway at both the federal and state levels. In fact, a number of states have already enacted or are poised to enact multi-emissions programs. These programs have varied significantly in their scope of emissions, degree of emissions reductions and the flexibility of their compliance options. States with final multi-emissions programs include Connecticut, Massachusetts and New Hampshire. The Connecticut regulation, scheduled for implementation in 2003, is more limited in reach than the Massachusetts and New Hampshire programs by only targeting SO₂ and NO_x. The Massachusetts regulation and the New Hampshire legislation include requirements for all four emissions. Although the programs vary in terms of compliance flexibility for SO₂, NO_x, and mercury, both programs allow the use of off-system

reductions to meet the CO₂ limits. The Massachusetts program is scheduled for implementation between 2004 to 2008 while the New Hampshire program will be phased in between 2006 and 2010.

At the federal level, proposals have been introduced by Senator Jeffords, President Bush and several industry coalitions. Senator Jeffords' proposal, S. 556, is the most aggressive in terms of both timelines and levels. The bill would implement nation-wide caps for all four pollutants using a hybrid approach of emissions markets as well as command-and-control measures. With regard to CO₂, S. 556 is the only proposal that would require substantial reductions in CO₂ emissions from the power sector without the flexibility of allowing generators to use off-system greenhouse gas offsets for compliance. President Bush's Clear Skies Initiative would establish national caps for SO₂, NO_x and mercury. Although the program does not explicitly address CO₂, President Bush did introduce a proposal for a voluntary CO₂ program at the same time the Clear Skies Initiative was introduced. The mandatory components of the President's proposals would be implemented through national cap-and-trade programs very similar in design to the existing Acid Rain SO₂ Trading Program.

Certain segments of the power industry have also played active roles in the multi-emissions debate. Although the various proposals have differed in terms of scope, levels, and timing, all of the proposals emphasize market-based principles and the need for regulatory certainty. PG&E National Energy Group is an active member of one of the industry coalitions, the Clean Energy Group. This coalition has developed a proposal that is positioned as a "middle-of-the-road" approach to multi-emissions legislation. The program would establish national cap-and-trade programs for all four emissions. Recognizing that CO₂ emissions are currently regulated in a number of states and that the pressure for CO₂ requirements continues to spread, the Clean Energy Group believes that the multi-emissions legislation cannot provide the desired regulatory certainty without including CO₂ requirements. At the same time, it is essential that the CO₂ requirements include reasonable timelines and targets along with maximum compliance flexibility. With a balanced approach, multi-emissions legislation that includes CO₂ can achieve cost-effective emissions reductions while promoting a smooth transition to a cleaner, less-carbon intensive generating fleet.

Although it is impossible to predict when or even if multi-emissions legislation will be enacted, the economic and environmental benefits of this approach are becoming increasingly clear. The existing regulatory engine continues to churn out piecemeal requirements. Whether it is federal mercury or regional haze command-and-control requirements, or additional state-level multi-emissions programs, each new regulatory layer represents another lost opportunity. Federal multi-emissions legislation provides the opportunity to achieve maximum air quality benefits while injecting certainty and rationality into business planning and investment decisions.