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Comments of the Appalachian Power Company on 9 VAC 5-140 - Regulation for Emissions Trading Programs

Introduction

The Appalachian Power Company (APCo) appreciates the opportunity to offer comments on the proposed regulation establishing a CO_2 emission trading program for electric generators within the Commonwealth of Virginia. Appalachian Power serves about 1 million electric customers in Virginia, West Virginia and Tennessee. Its headquarters is in Charleston, West Virginia, with regulatory and external affairs offices in both Charleston, West Virginia and Richmond, Virginia.

While there is considerable uncertainty over the future of federal carbon regulations and the fate of the Clean Power Plan, APCo has demonstrated considerable leadership in making carbon reductions over the past decade-plus and will continue to deploy clean energy sources over the coming decades. As such, we feel that it would not be in the best interest of the Commonwealth of Virginia to develop incremental carbon policies to intervene in an already ongoing transformation of the electric sector.

APCo Carbon Emissions and Planning Process

APCo has taken numerous actions over the past few years that have resulted in a dramatic reduction in its carbon footprint. Within Virginia, APCo recently retired three coal units, Glen Lyn Units 5 & 6 and Clinch River Unit 3. Additionally, APCo recently converted the remaining Clinch River Units 1 and 2 to run on natural gas, which results in approximately 40% less CO_2 per megawatt hour than prior operation on coal.

APCo's other generating and capacity resources located in Virginia are mix of hydroelectric and pumped storage, which generate electricity with zero carbon emissions. As such, APCo's Virginia carbon footprint is only a small fraction of what it was just a few years ago. In 2017, APCo's Virginia-domiciled CO_2 emissions were approximately 164,000 tons, which represented a 97% reduction in CO_2 emissions from 2005 levels. To put APCo's current emissions in appropriate context, the Commonwealth of Virginia has 7.5 million registered vehicles. APCo's 2016 emissions represented the equivalent annual emissions of less than 40,000 passenger vehicles.

In May 2018, APCo will be filing its annual Integrated Resource Plan (IRP) with the Virginia State Corporation Commission (SCC). An IRP represents a line-of-sight projection that is intended to inform utility management as to the potential future resource profile necessary to meet the projected capacity (i.e., peak demand) and energy needs of its customers. In addition to projected load changes, IRPs are updated at regular intervals for changing market conditions as well as other external factors, including achieving potential environmental requirements. Such long-term plans ---beyond any near-term 'actionable period'--- can and do shift as such conditions warrant.

The upcoming 2018 APCo IRP suggests that APCo will not be integrating any new fossil resources into its system over the next 15 years. All incremental load increases are assumed to be met through installation of cost-effective wind and large-scale solar, both of which would provide customers with emissions-free energy, as well as the prospect of additional demand side management measures. Furthermore, the IRP also suggests that APCo may retire its remaining fossil units within Virginia (Clinch River 1-2) by 2026. At such point that the Clinch River units would be retired APCo would be left with a Virginia-domiciled generating fleet that is 100% carbon emissions free.

In light of the transition that APCo has made and will continue to make in its generating fleet with respect to emission reductions and generation diversification, APCo encourages the Commonwealth to continue to rely on the electric sector planning practices already in place, such as the IRP process, as an appropriate means to assess carbon reduction possibilities. The IRP process is well orchestrated and involves least cost planning as well as stakeholder input via a formal procedural review process before the Virginia SCC.

General Comments on the Proposed Regulation

Given that the current Virginia regulatory process is robust and that CO2 emissions have trended significantly downward, advancing additional restrictions on carbon emissions could put Virginia at a competitive disadvantage with respect to economic development. Unlike the Clean Power Plan, which included all states, a Virginia-specific carbon strategy would distort economic decisions. This competitive disadvantage could present itself in several different ways. First, carbon restrictions that are more stringent that the national standards could lead to existing generating facilities being closed or new facilities constructed elsewhere, leading to a loss of both employment opportunities and tax revenue. Second, the emission limitations will also result in higher customer rates. The increased customer rates would place additional stress on the finances of both households and business and influence where businesses chose to locate. Additionally, the Commonwealth has not provided adequate analysis supporting that benefits of the proposed regulation for Virginia citizens would outweigh the costs. As such, we do not feel it is in the Commonwealth's best interest to take individual state action on a small subset of emissions sources to address a concern that is global in nature.

Specific Comments on Proposal

Notwithstanding the general comments on the utility of the proposed regulation, APCo has some specific comments related to the proposed regulatory structure. APCo is encouraged by the fact that the Commonwealth has proposed a cap and trade program as the regulatory structure for the emission reductions. Cap and trade programs have long been documented as able to effectuate emission reductions at the lowest possible cost to consumers. APCo is also supportive of the use of allowance banking and the use of a cost containment reserve allowance should allowances costs exceed projections. APCo views this as fair way to ensure than Virginia consumers and businesses are not unduly burdened by this proposed regulation.

APCo does recommend that several aspects of the proposed regulation be modified. First, the Commonwealth has not provide adequate rational for use of a consignment auction. Cap and trade programs have been overwhelmingly successful with a direct allocation to affected sources. Second, the allocation mechanism for allowances, on the basis of updating net generation output does not acknowledge the inherent differences in carbon emissions between units utilizing different fossil fuels. As such, units using fuels with a higher carbon content are unfairly disadvantaged by the allocation process, even as they are subject to a declining carbon cap. APCo therefore recommends directly allocating allowances to affected generators on the basis of actual emissions.

APCo also does not support allocation of conditional allowances to the Department of Mines, Minerals and Energy for the abatement and control of air pollution, specifically, CO2. The Commonwealth has not adequately supported a rationale for this set-aside. Under a cap and trade program affected sources and other parties are incented to utilize the most cost effective way to comply with the program and/or associated costs. Proposed set-aside effectively represents a 5% tax on affected sources and ultimately consumers and there is no justification that the benefits of this "tax" will justify any benefits that may be provided.

With respect to program coverage, APCo would encourage Virginia not to include new fossil fueled electric generating units within the program. Inclusion of new units within the program cap will provide a disincentive to siting new fossil generation within the state of Virginia as these units would be subject to an incremental cost associated with complying with the regulatory program. As such, units could be more cost effectively sited and built in adjoining states not covered by the unilateral Virginia only program, thus depriving the Commonwealth of jobs and tax revenue associated with new generation facilities. That being said, APCo currently does not have any plans to construct new fossil generation.

APCo also has concerns with the need to maintain a new Virginia-specific database for greenhouse gas (GHG) emission reporting, operating and maintaining a new database and software program for allowance trading, and maintaining records associated with CO_2 emissions and accompanying reports for 10-years. APCo already maintains systems for emissions reporting and record retention per Federal requirements, which differ significantly from those Virginia has proposed. As such, better aligning the proposed Virginia CO_2 reporting, trading and compliance programs with the Federal systems already in place would reduce the administrative burden of the rule.

With respect to the two carbon caps proposed, APCo recommends the higher starting emission cap of 34 million tons of CO_2 be used to mitigate the economic impact of the regulation. The use of the higher cap would have imperceptible impact on the environmental effectiveness of the program with the benefit of lower resulting compliance costs.

Summary

APCo has achieved substantial emission reductions over the course of the past decade-plus and will continue to pursue low and no-carbon generation options to serve its customers going forward. APCo does not believe this regulatory program will result in meaningful economic benefits for the Commonwealth of Virginia even though it will subject its citizens to higher electricity bills. We appreciate your consideration of our comments and please feel free to reach out to us with any questions or concerns.

Respectfully submitted,

Chris Beam

President – Appalachian Power Company