



Status of Federal and State Energy Policy

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Outline

- State of Carbon Policy
- The EPA as Energy Policy Arm
- Role of Natural Gas



Carbon Policy in the U.S.

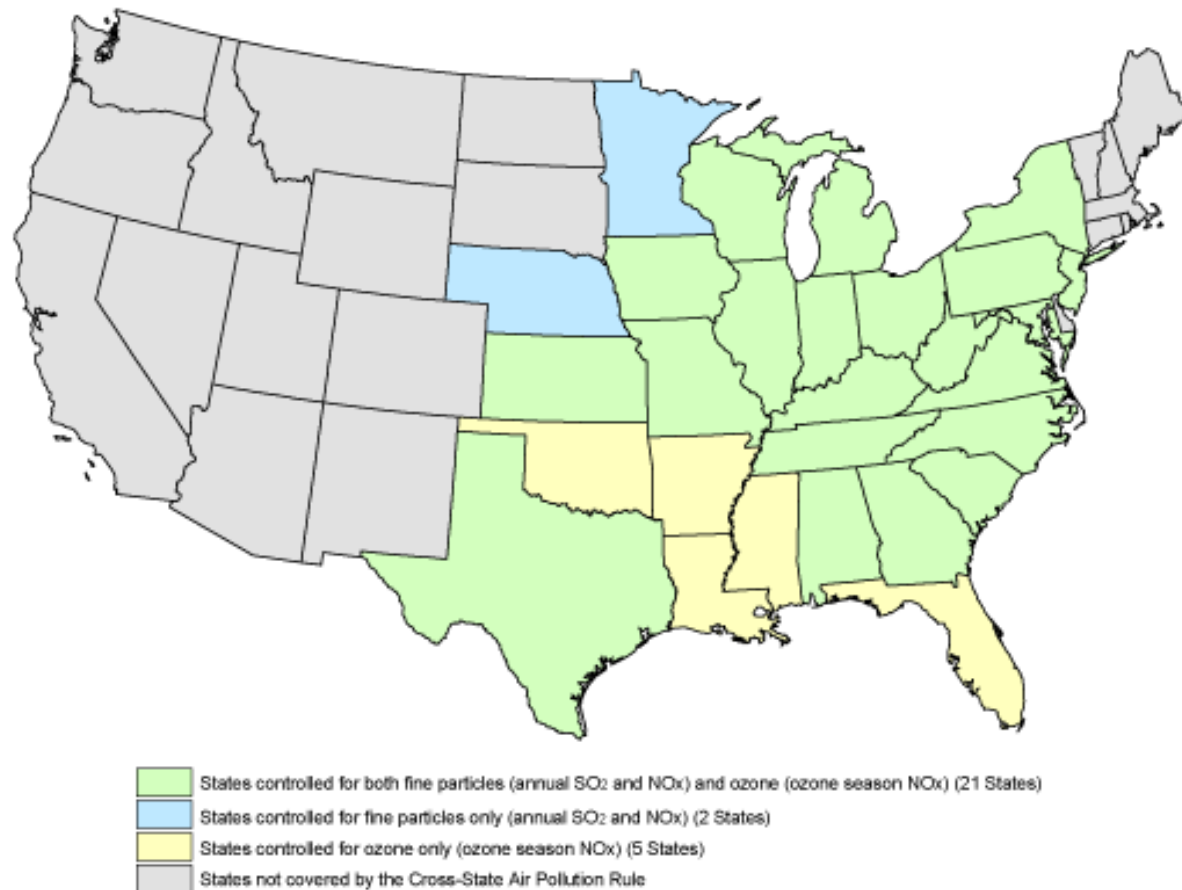
- No further movement since Waxman-Markey and Kerry-Boxer bills died
- State of the economy has reduced the willingness of the administration to address emissions reduction through an explicit carbon tax
- Likely no movement until the economy begins to show improvement
- Likely no movement with a change in administration
- Significant long term investments are being made, making some assumption about carbon prices
- Some are going to be wrong, leading to stranded assets



Cross-State Air Pollution Rule

- Revised rule to control SO₂ and NO_x emissions, replacing CAIR
- Initial allowance allocation this past summer caused significant outcry, most notably in ERCOT
- EPA revised allowance allocation in the fall, but some states remain in significant short positions
- With stay from DC court, CAIR is still in place with CSAPR implementation now delayed from 2012 until 2014

EPA Map of Transport Rule States





Balance between 2012 Allowance Allocation and 2010 Emissions

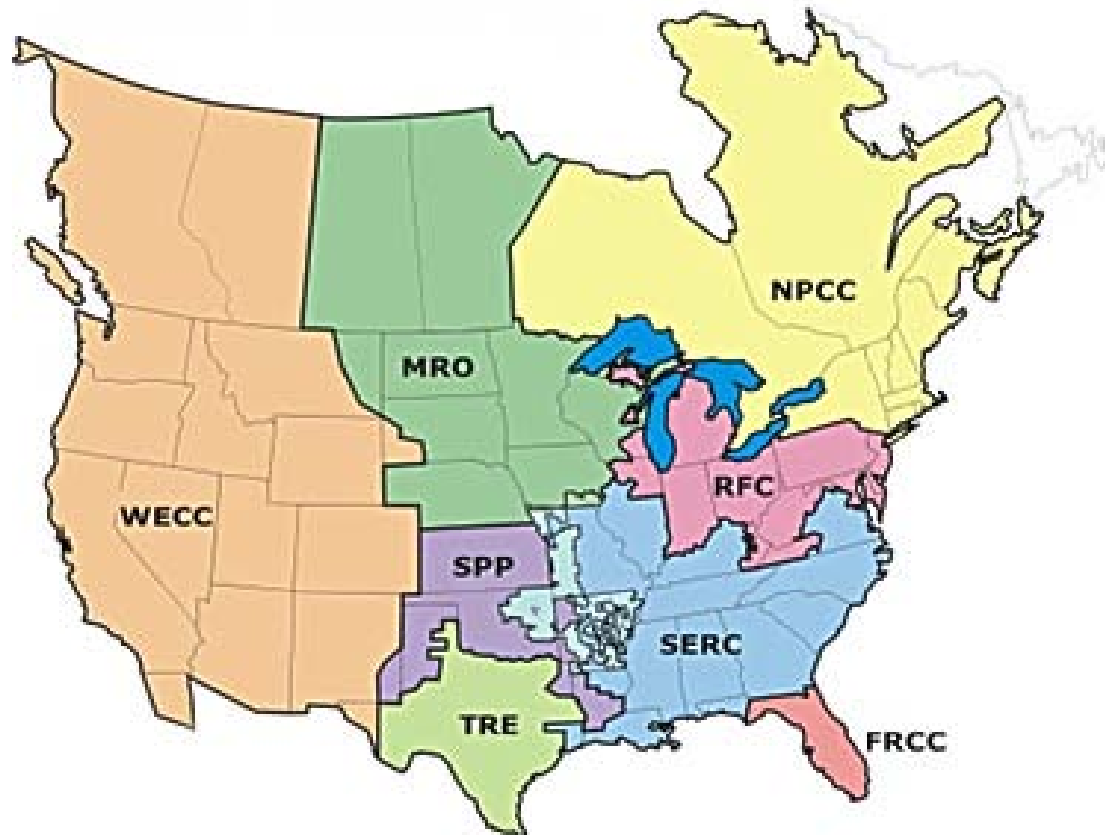
State	SO ₂	State	NO _x
West Virginia	26,877	South Carolina	4,257
Tennessee	26,466	Alabama	3,618
Alabama	7,518	West Virginia	3,198
North Carolina	5,540	Georgia	185
Illinois	3,047	Tennessee	-55
Iowa	278	New Jersey	-1,297
Maryland	-433	Minnesota	-2,196
Minnesota	-435	New York	-2,859
Nebraska	-1,736	Maryland	-3,146
Kansas	-4,558	Wisconsin	-3,579
New Jersey	-7,756	Arkansas	-3,636
South Carolina	-7,808	Indiana	-3,692
Michigan	-18,707	Mississippi	-4,040
New York	-19,342	Kentucky	-4,350
Virginia	-25,403	Louisiana	-6,040
Missouri	-32,881	Texas	-6,045
Wisconsin	-33,136	Virginia	-6,724
Kentucky	-52,681	North Carolina	-7,078
Georgia	-63,566	Missouri	-7,426
Indiana	-135,697	Iowa	-7,480
Pennsylvania	-140,368	Ohio	-8,319
Texas	-162,586	Kansas	-9,072
Ohio	-268,097	Florida	-9,254
		Nebraska	-15,621
		Pennsylvania	-15,765
		Michigan	-21,402
		Illinois	-32,267
		Oklahoma	-71,433



Mercury and Air Toxic Standards

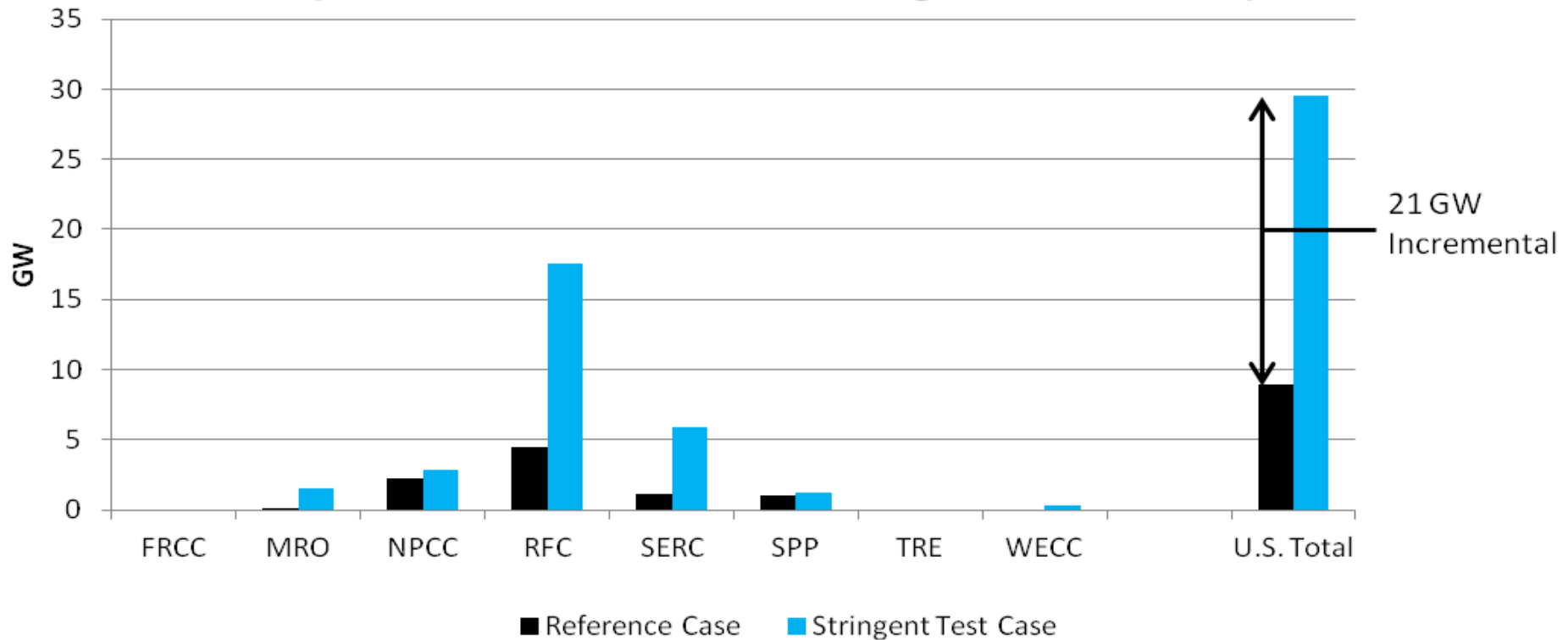
- Apply to all coal and oil-fired units 25 MW or greater
- Compliance scheduled to begin in 2015, but state authorities can authorize an additional year
- New construction must be as effective as *any* current comparable unit
- Existing construction must be as effective as the top 12% of existing comparable units
- EPA may regulate beyond these standards

NERC Planning Regions



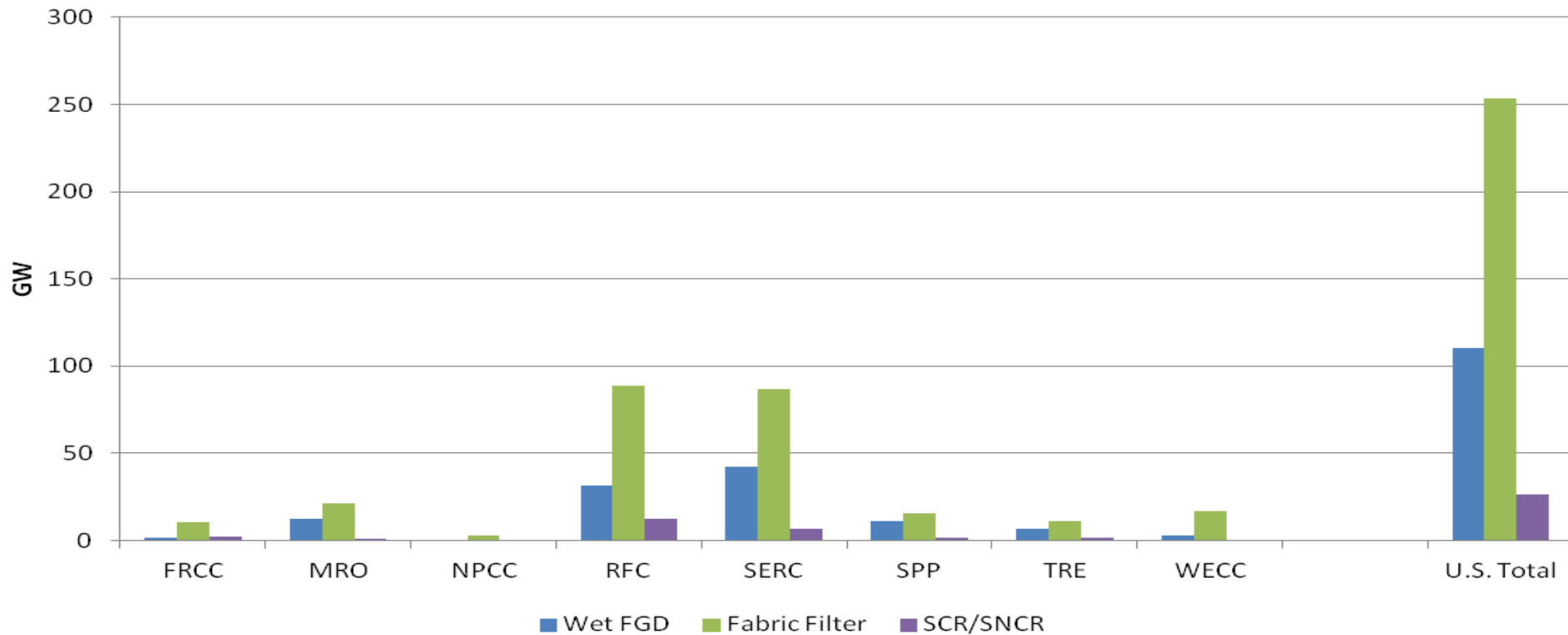
DOE Impact Assessment

Cumulative Coal Retirements by 2015 (Reference Case and Stringent Test Case)



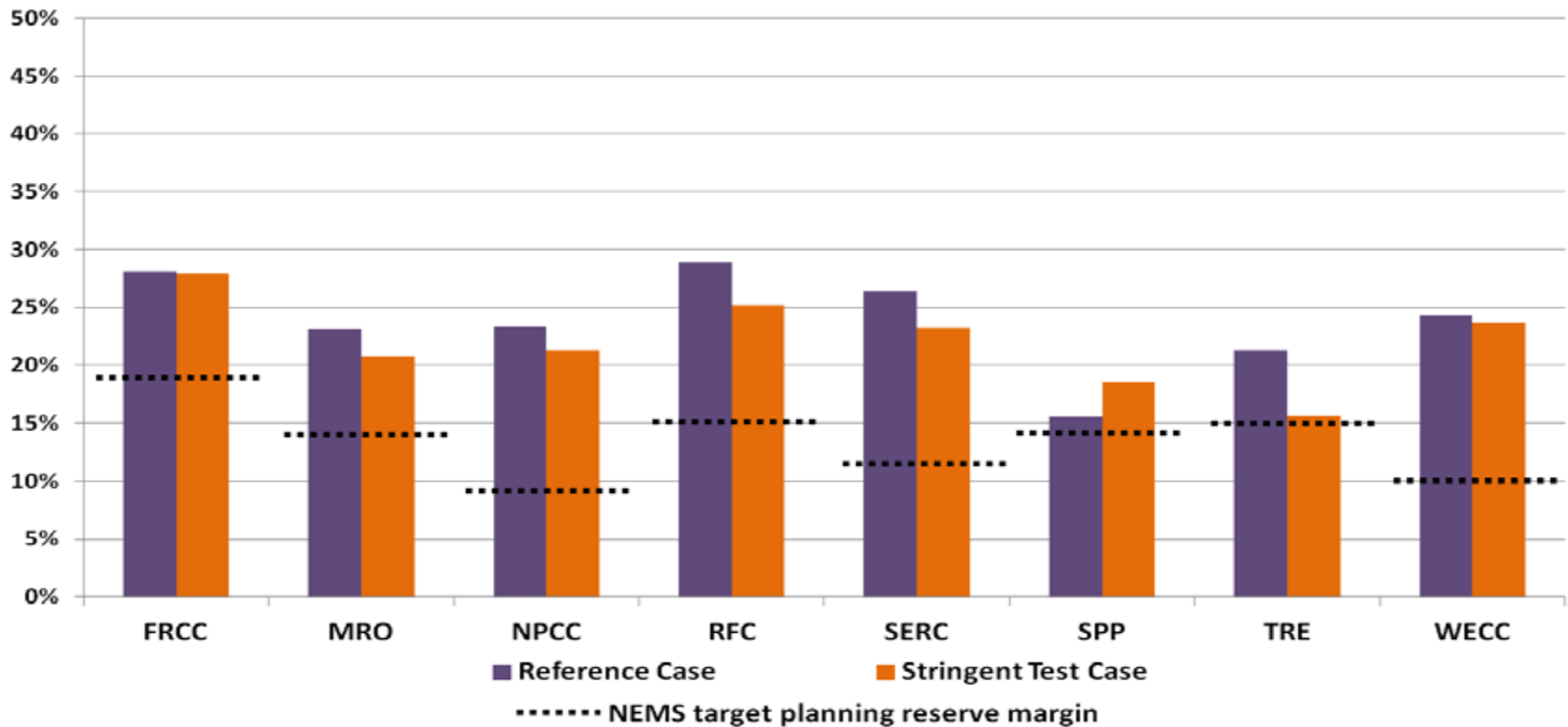
DOE Impact Assessment

Cumulative Retrofitted Capacity by 2015 (Stringent Test Case)



Impact on Reserve Margins

2015 Planning Reserve Margins by NERC Region and Scenario
(Reference Case and Stringent Test Case)





EPA Regulation of Coal Ash

- Coal ash regulation in the wake of the 2008 containment failure at TVA's Kingston plant
- Two proposals for regulation
 - Ash as hazardous waste; provide standards for disposal
 - Ash as non-hazardous waste; supply guidelines for disposal, but states establish guidelines
- Environmental groups recently sued EPA over 'refusal' to regulate coal ash

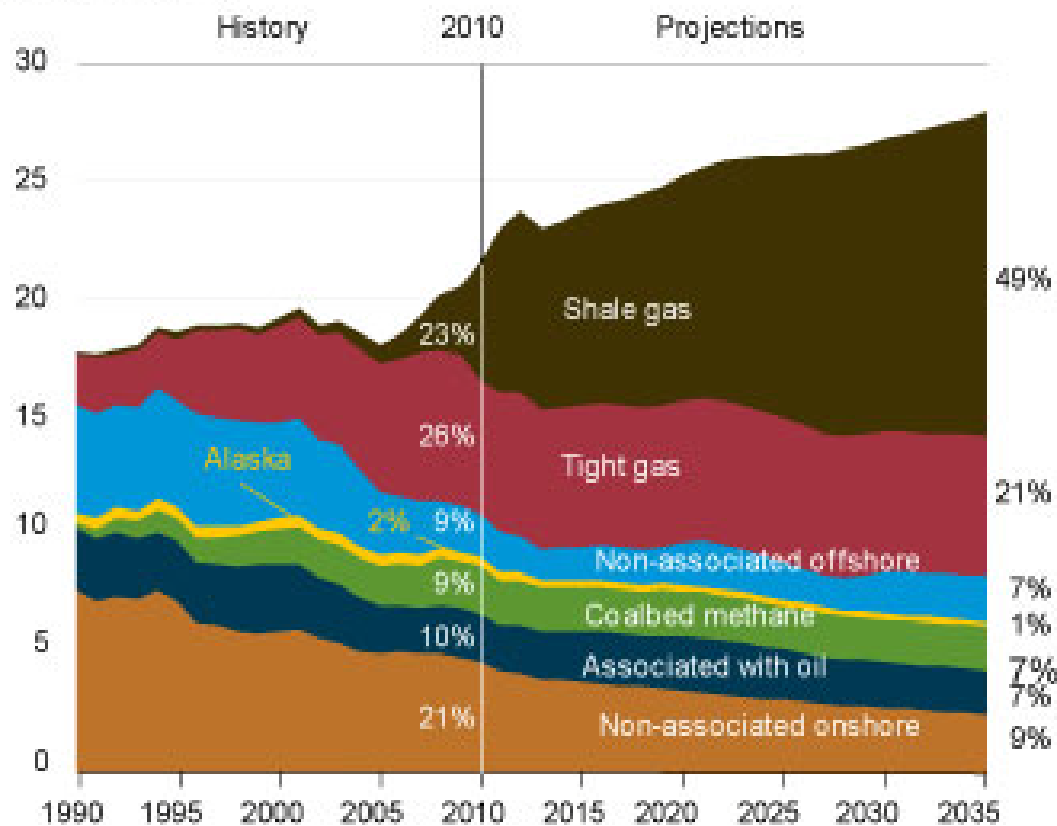


EPA Draft Emissions Rule for New Power Plants

- Draft rule issued on March 25
- Would limit CO₂ emissions from new power plants to 1,000 pounds per MWh
- Plants must achieve emissions standard *on average* over 30 years
- Criticism stems from current problems with CCS technology
- Possible precedent in new natural gas rules



Figure 2. natural gas production, 1990-2035
(trillion cubic feet)





Natural Gas

- U.S. now expected to become net exporter of LNG around 2016, and net exporter of all natural gas in 2021
- New rules for natural gas drilling on Federal lands could surface shortly from Department of the Interior, but were expected last fall
- Focus on chemical disclosure requirements, well integrity, and well construction
- Difficult to assess costs before rules are known, but certain to increase
- New EPA rule focuses on air pollution at well sites
 - Requires capture by 2015, allows flaring until then



Conclusions

- EPA continues to develop policy initiatives
- Uncertainty around the form that environmental regulations will eventually take
- Concern over the cost of the regulation without regard for the fact that delay costs money as well
- Flexibility and communication are essential to addressing the challenges



Thank You

- Ted Kury

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