



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF AIR AND RADIATION

FACT SHEET

Energy Efficiency and Renewable Energy Set-Aside in the NOx Budget Trading Program

What is an Energy Efficiency/Renewable Energy Set Aside?

An Energy Efficiency/Renewable Energy (EE/RE) Set-Aside is an option states have to reward energy efficiency and renewable energy projects with NOx allowances from their state NOx Budget set by the NOx SIP Call. The Set-Aside option was initiated by the Environmental Protection Agency (EPA) as an effort to help states include the emissions reductions achieved through voluntary actions, such as energy efficiency and renewable energy projects, in SIPs. This is because EPA believes there is a large potential for greater adoption of energy efficiency and renewable energy, and that a set-aside will help catalyze these investments and at the same time help states reduce emissions more cost-effectively. As such, in providing the Set-Aside option, EPA intends to provide states with additional flexibility for implementing their NOx attainment strategy, while meeting regional and national air quality standards.

In September 1998, EPA promulgated a rule to address regional transport of ground-level ozone. The final rule, commonly known as the NOx SIP Call, required eastern states and the District of Columbia to submit state implementation plans (SIPs) that address the regional transport of ground-level ozone through reductions in NOx. By reducing emissions of NOx, the actions directed by these SIPs will decrease the transport of ozone across state boundaries in the eastern half of the United States.

An EE/RE Set-Aside is a pool of allowances created by the state that comes from within its NOx budget and is used to award energy efficiency and renewable energy projects that are implemented in the state that reduce or displace electricity generation. EPA believes that a set-aside can deliver significant environmental and economic benefits to a state. These include: prevention of emissions of other criteria air pollutants, reduced compliance costs for electricity generators, savings for electricity consumers, and creation of new jobs.

Who and What are Eligible for EE/RE Set Aside Allowances?

Eligibility is determined by the state, based upon its individual priorities. In general, EPA recommends that EE/RE allowances be awarded to end user projects that reduce/displace electrical generation during the ozone season. EPA also recommends that awards be closely linked to the party assuming responsibility for the project, or to an entity that can aggregate a number of small projects. These parties may include energy service companies, home builders, government agencies, retailers or manufacturers, and electrical generation companies.

What Would a State Need to Submit in their Initial SIP to Institute an EE/RE Set-Aside?

To include an EE/RE set-aside as part of their NOx reduction strategy, states need to submit the

following set-aside program elements in their initial SIP:

- Identification of the state's intent to include an EE/RE set-aside;
- The size of the state's EE/RE set-aside;
- Statement of whether early credit for actions taken prior to 2003 will be rewarded; and
- An allocated NO_x budget that accommodates the EE/RE set-aside.

What Should a State Do Next?

After the initial SIP submittal, states should develop a plan outlining how their EE/RE Set-Aside will be run. This plan should answer the following questions:

- Which state office(s) will administer the allowances from an EE/RE set-aside?
- What information is needed from program participants (EE/RE project sponsors) to apply for set-aside allowances, and how will it be collected?
- What protocols will the state use to measure and verify EE/RE projects?
- How will the NO_x emissions associated with the energy saved/displaced be determined?
- When and how will states inform EPA about the EE/RE set-aside allowance claims?

These are the critical considerations that states should account for in determining how they will design, and eventually administer, their set-aside. A well operated set-aside will provide the greatest market certainty and will be more effective in catalyzing new investments in EE/RE technologies, and in delivering the associated environmental and economic benefits for the state. With adequate planning, EPA believes that states will be able to design effective programs that can be operated with administrative ease.

Each state has the opportunity to design and administer a set-aside program suited to its particular needs and interests.

Are there Guidance Documents Available that Can Assist States?

Yes. EPA is issuing three non-prescriptive guidance documents to explain and assist states in designing a set-aside. Although the guidance documents provide EPA's recommendations on how to design a set-aside, states have the flexibility to adopt the recommendations provided or to develop design elements different from those recommended.

The first guidance document, *Creating an Energy Efficiency and Renewable Energy Set-Aside in the NO_x Budget Trading Program: Establishing a Set-Aside*, focuses on the elements necessary to include in a state's initial SIP submission. (March 1999) The second guidance document, *Creating an Energy Efficiency and Renewable Energy Set-Aside in the NO_x Budget Trading Program: Designing the Administrative and Quantitative Elements*, explains the essential design elements for quantifying and allocating allowances under an EE/RE set-aside. (April 2000) The third guidance document, *Creating an Energy Efficiency and Renewable Energy Set-Aside in the NO_x Budget Trading Program: Measuring and Verifying Electricity Savings*, explains how to measure and verify the energy savings and emissions reductions from EE/RE projects in a NO_x Budget Trading Program set-aside. (Expected Summer 2000)

Where Can You Find the Guidance Documents and Additional Information?

Copies of the guidance documents can be downloaded from the EPA's Climate Protection Division website at http://www.epa.gov/appdstar/appd/stat_pub.html. For further information, contact Edgar Mercado at mercado.edgar@epa.gov or Chloe Weil at weil.chloe@epa.gov.