CLEAN AIR TASK FORCE

Clean Electricity Performance Program: A Primer

The House Energy and Commerce Committee passed the Clean Electricity Performance Program (CEPP) as the first part of "Subtitle D--Energy" of the Build Back Better Act. **Here's how it works.**

Overview

The CEPP uses financial incentives – both 'carrots' and 'sticks' – to encourage eligible suppliers of retail electricity to increase their share of clean electricity from baseline levels by 4 percentage points (pp) each year, starting in 2023 and running through 2030. For example, a supplier that increases its clean electricity share from 40% to 44% from one year to the next would meet the 4 pp goal. Suppliers that meet or beat the 4 pp yearly increase receive a Department of Energy (DOE) grant to protect electricity customers and offset the costs of increasing clean electricity supply; suppliers that fall short must make a payment for each megawatt-hour short of the 4 pp goal. Grants and payments are determined using formulas.

Formula to calculate CEPP grants after the first year (2024-2030)[1]:

$150 × (annual pp increase in qualified clean electricity - 1.5%) × total retail sales (MWh)

So, if the annual increase in the supplier's share of clean electricity relative to the highest clean electricity percentage the supplier had achieved to date was exactly 4 pp, the supplier would receive $150 × 2.5% x total retail sales in MWh. Only suppliers that achieve an annual increase of 4 pp[2] or more are eligible for these grants.

[1] Note that the first-year equation uses 2.5% in place of 1.5%.

[2] Plus any make-up amount from underperformance in the prior year, as described in the next section.

Formula to calculate CEPP payments (2023-2030):

$40 × (4 pp - annual pp increase in clean share) × total retail sales (MWh)

In a calendar year, if the increase in the supplier's share of clean electricity was 3 pp relative to the highest clean electricity percentage the supplier had achieved to date, the supplier would pay $40 × 1% x total retail sales to the DOE. Additionally, any electricity supplier that makes a payment to DOE for falling short in one year will have to make up that shortfall to qualify for a grant in the next year. For example, if the supplier increased its share of clean electricity in the first year by 3 pp, it would need to increase its clean electricity by 5 pp the following year to benefit from the grant program (1 pp shortfall + 4 pp yearly increase).

CEPP Flexibility

An electricity supplier can elect to defer tallying up of their performance by up to two years, which allows the supplier to average its percentage increases in clean electricity relative to total retail electricity sales over a longer period, either 2 or 3 years. In this case, the threshold to qualify for grants becomes 8 pp for a two-year performance period or 12 pp for a three-year period. This can be beneficial if annual increases in clean electricity are uneven but expected to reach 4 pp on average over a 2- or 3-year period and provides flexibility for suppliers to manage year-by-year variation in demand, weather, maintenance outages, and the 'lumpiness' of new clean electricity projects.

Definition of "Clean Electricity"

Clean electricity is defined using an emission rate: any source of electricity that produces not more than 0.10 metric tons of CO_2-equivalent[3] greenhouse gas emissions per MWh of electricity generated is considered clean. This would include all forms of renewable and nuclear energy as well as fossil sources that capture and use or sequester nearly all the CO_2 that would otherwise have been emitted. A supplier's ***share of clean electricity*** is the total MWh of qualified clean electricity supplied divided by total retail electricity sales.

Baseline Calculation

For 2023, the first performance year of the program, the annual growth in clean electricity is compared to a 'baseline,' which is calculated as the average clean electricity share for that supplier in 2019 and 2020 plus a share of any unallocated clean electricity for those years (e.g., clean electricity sold in the spot market). For new electricity suppliers, their first performance year is measured against a baseline that is determined by the Secretary of Energy considering the prevailing average of comparable eligible electricity suppliers in the area.

Exception for Clean Suppliers

A supplier with a certified clean electricity percentage of 85% or greater is exempt from making any payments for failing to increase its share of clean electricity by 4 pp year on year, so long as there is no backsliding. They still need to improve by 4 pp or more annually to qualify for grants.

Use of Grant Funding

Eligible electricity suppliers must use grants received under the CEPP exclusively for the benefit of their ratepayers, including direct bill assistance to ratepayers, investments in qualified clean electricity and energy efficiency, and worker retention.

[3] Using a 20-year global warming potential for equivalence