Insight

What's in a Baseline?

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Summary

- The Trump Administration has proposed its replacement rule for the Clean Power Plan (CPP), known as the Affordable Clean Energy (ACE) rule.
- The estimated benefits under ACE are very small, particularly when compared to CPP, and this has created a whorl of critiques against ACE as leading to more pollution than the rule it replaces.
- Critiques focused on the differences in estimated benefits lack substance, though. The reason ACE claims so little benefit is because its updated baseline assumes far lower future power sector pollution than the CPP did, thanks to market shifts away from coal. Basically, ACE assumes that all the benefits of the CPP will be achieved even without new regulation, so ACE does not claim the benefits.

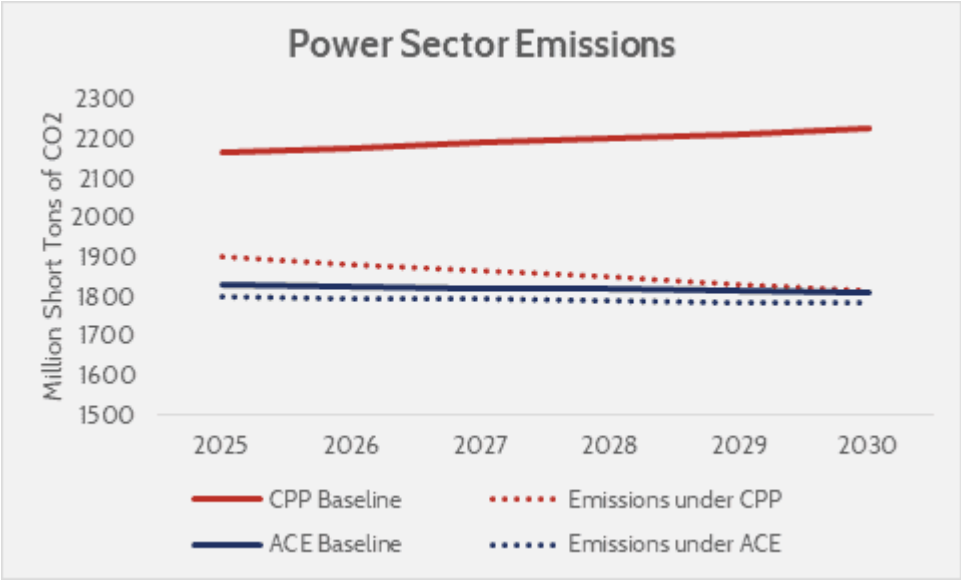
Introduction

The Environmental Protection Agency (EPA) recently released its replacement for the Clean Power Plan (CPP), the Affordable Clean Energy (ACE) rule. Because of significant structural differences, ACE's promised emissions cuts are quite small compared to those promised by the CPP. Directly comparing the projected emissions reductions under the CPP and ACE can be misleading, however, because the baselines are dramatically different.

Put simply, the most recent EPA projections show that the power sector will release much lower levels of greenhouse gases without any regulation than what the EPA expected back in 2015. As a result, the EPA is assuming that regulation can have much less benefit, as the starting point is lower. In fact, the EPA's latest projections show that the CPP's hoped-for emissions reductions will be achieved even without regulation.

Comparing Baselines

The graph below shows the projected power sector emissions, with and without regulation, under both the CPP and ACE for 2025-2030 (the CPP estimates run from 2020-2030, while ACE estimates encompass 2025-2035). The data show that even without regulation, the EPA's projections for ACE are assuming that the trends in the power sector will stimulate reductions in power sector emissions.



Source: CPP Regulatory Impact Analysis and ACE Regulatory Impact Analysis (proposed rule). Note that Y axis does not begin at zero.

The EPA expects that the power sector will achieve the emissions reductions hoped for under the CPP, with or without ACE. If the CPP's objective was to reduce power sector emissions by 32 percent relative to 2005, that goal will be achieved no matter which regulatory pathway is chosen (CPP, ACE, or no regulation at all).

The EPA has shifted its baseline because of changing trends in the power sector. Cheaper natural gas is displacing coal, the cost of renewable energy is falling, many states are themselves regulating greenhouse gas emissions from the power sector, and, last but not least, utilities acting on the assumption that greenhouse gasses will be regulated over the long lifespan of their power plants.

When calculating benefits, though, the EPA only considers how far changes are from the current baseline. As a result, it does not estimate the monetized benefits of reduced pollution from any cause, only those that are a result of ACE's effect on the new and lower baseline. Some are critiquing ACE by saying that the CPP's promised monetized benefits

will not be achieved, but this claim is not true in the eyes of the EPA. Those benefits will be achieved, but as the EPA no longer believes they are achieved on account of regulation, it does not claim them as benefits of its new regulation.

The Upshot

Simply comparing the factsheets of the CPP and ACE could lead one to believe that pollution is going to get worse under the new regulation. Comparing the baselines along with the projected effects of the two regulations, however, shows that the EPA assumes the same benefits of greenhouse gas reduction at a reduced burden ($6.4 billion less annually compared to the CPP). The accuracy of the EPA's new baseline is certainly worthy of scrutiny, but critiques of the new rule based purely on the reported distance from the rules' baselines ignore that the starting point behind those 2015 and 2018 calculations are totally different.