

# **PolicyPerspective**

# An Executive Summary of the Clean Power Plan Court Briefings

Special to the Texas Public Policy Foundation

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# **Key Points**

- Twenty-eight states and over 120 companies and organizations are challenging the Environmental Protection Agency's (EPA's) Clean Power Plan regulations.
- This summary is an attempt to make more accessible what was covered in briefing that reached 4,225 pages, inclusive of the Stay Motion briefing, but not counting the voluminous appendices or the amicus briefs filed by hundreds of individuals and groups on both sides.
- Although this summary by no means provides an exhaustive discussion of the extensive legal briefing, it addresses the arguments and counter-arguments that will most likely form the basis of the decisions rendered by the D.C. Circuit and Supreme Court.

#### Introduction

Twenty-eight states and over 120 companies and organizations are challenging the Environmental Protection Agency's (EPA's) Clean Power Plan regulations. On February 9, 2016, the United States Supreme Court issued an unprecedented stay of the rule pending review by the U.S. Court of Appeals for the District of Columbia. Arguments were scheduled in front of a three-judge panel June 2-3, 2016. However, in an unexpected move, the Court announced that the battle over the Clean Power Plan will skip customary review by the three-judge panel and instead go before the full court in September. Consideration by all active judges—known as "en banc" review—is extremely rare at the D.C. Circuit, especially on the Court's own motion. The announcement took most litigants on both sides by surprise. While the timing of oral arguments has changed, the legal status of the rule and merits of the case have not.

This executive summary is an attempt to make more accessible, in eight pages, what was covered in briefing that reached 4,225 pages, inclusive of the Stay Motion briefing, but not counting the voluminous appendices or the amicus briefs filed by hundreds of individuals and groups on both sides. The legal briefing is summarized here as a series of the nine key legal issues that were the focus of the main parties. Petitioners divided the issues into:

- (A) Core Legal Issues (those that would strike down the Rule)(the first four issues summarized here), and
- (B) Procedural/Record-Based Issues (those that could be fixed on remand)(the final five issues summarized here).

Although this summary by no means provides an exhaustive discussion of the extensive legal briefing, it addresses the arguments and counter-arguments that will most likely form the basis of the decisions rendered by the D.C. Circuit and Supreme Court.

#### (A) Core Legal Issues

#### I. Outside the Fence

"Generation shifting" from coal-fired electric generating units (EGU) to gas-fired EGUs and renewable sources of energy is not a valid system of emission reduction.

#### Statute (CAA § 111(a)(1)):

The term "standard of performance" means a standard for emissions of air pollutants which reflects the degree of emission limitation achievable through the application of the best system of emission reduction which (taking into account the cost of achieving such reduction and any nonair quality health and environmental impact and energy requirements) the Administrator determines has been adequately demonstrated.

#### Petitioners Argument:

- Standards of performance and emission reduction measures have to be implementable at individual sources. EPA is inappropriately applying its standards to a combination of "sources" and other "non-sources" in which a utility could invest (like renewable energy), rather than individual sources. Also, the existing-source limits are lower than the limits for new sources and cannot be met with control technology by any existing sources.
- Under *ASARCO, Inc. v. EPA*, 578 F.2d 319 (D.C. Cir. 1978), a "source" is limited to one facility, not a combination of facilities. EPA's prior regulations and practice are inconsistent with EPA's interpretation. Further, it is no answer to say emissions credits can be purchased when those programs do not exist/may never exist for some.
- Generation shifting and regulating the electric grid as a "system" is inconsistent with the definition of standard of performance and there is no limiting principle on how many energy and infrastructure "systems" EPA might try to regulate in this fashion. The Supreme Court's recent decisions in *UARG v. EPA*, 135 S. Ct. 2427 (2014) and *King v. Burwell*, 135 S. Ct. 2480 (2015) (the Affordable Care Act case) have found that courts should "greet ... with a measure of skepticism" claims by EPA to have "discover[ed] in a long-extant statute an unheralded power to regulate a significant portion of the American economy" and make "decisions of vast economic and political significance," especially in areas outside an agency's "expertise."

#### EPA Argument:

- Generation shifting is "adequately demonstrated" and "system" is a very broad term that can mean an interconnected electric grid.
  - o States can decide if they would like to implement at-the-source limitations (run less, install carbon capture utilization and sequestration ("CCUS")).
  - o The numerical limits in the Rule do not actually apply to sources. They are "effective" emissions limits. It is up to states to come up with actual emission limits for sources.

#### II. 112 Preemption

CAA § 111 precludes regulation of existing sources already regulated under CAA § 112.

#### Statute (CAA § 111(d)(1)):

The Administrator shall... establish[] standards of performance for any existing source for any air pollutant (i) for which air quality criteria have not been issued or which is **not** included on a list published under section [108(a)] of this title **or emitted from a source category** which is regulated under section [112] of this title... (as codified in the U.S. Code).

#### Petitioners Argument:

- The statute is clear: EGUs are regulated under CAA § 112 by the Mercury and Air Toxics Standards Rule, and therefore, cannot be subject to standards of performance under CAA § 111(d).
- *AEP v. Connecticut*, 564 U.S. 410, 448 n.7 (2011): "EPA may not employ \$[111](d) if existing stationary sources of the pollutant in question are regulated under the national ambient air quality standard program, \$\$[108-110], or the "hazardous air pollutants" program, \$[112]. See \$[111](d)(1)."
- The Senate's "conforming amendment" in the 1990 CAA was not codified. Even if there are two versions, they should be reconciled, which would still prohibit regulation. See FDA v. Brown & Williamson Tobacco Co., 529 U.S. 120, 133 (2000).
- EPA does not have authority to choose which "version" to make legally operative; this is a lawmaking power not entitled to agency deference. See *Whitman v. American Trucking Ass'ns, Inc.*, 531 U.S. 457, 473 (2001).
- EPA's more recent (raised for the first time in their final brief) argument creates confusion in the statute, rather than using the plain reading it has relied upon for years.

#### EPA Argument:

- The Rule is ambiguous and, thus, EPA should be given discretion to apply it as it sees fit.
- A separate "conforming amendment" creates a "second version" of CAA § 111(d)(1) which makes it ambiguous and EPA's interpretation is entitled to *Chevron* deference.

- Because the word "not" is absent from the third item in the 111(d) list, the statute's literal reading does not make sense because it would provide that "the Administrator shall...establish[] standards of performance for any existing source for any air pollutant...emitted from a source category which is regulated under section [112]..."
- In other words, read literally, the third alternative would not preclude regulation under CAA § 111 of source categories regulated under CAA § 112—it would require regulation under CAA § 111 of all pollutants emitted from source categories that are regulated under CAA § 112. This doesn't make sense, so the statute is ambiguous.

#### III. Commandeering

The Rule commandeers states and state officials into carrying out federal law and policy in violation of the 10th Amendment.

#### Petitioners Argument:

This is coercive federalism, not cooperative federalism. If states do not capitulate and implement this rule for EPA, EPA has threatened imposition of a federal plan to tell coal plants to run less. States are then put in the position of (a) ordering other sources to make up the difference or (b) doing nothing and facing the politically unpalatable possibility of blackouts. Intervenor-Petitioners highlighted how the rule forces states to implement EPA's Rule—to enact new state legislation, to promulgate new state rules, and to create entirely new state regulatory structures to carry out the Rule's mandate.

#### EPA argument:

The Rule is textbook cooperative federalism. EPA imposed overall emissions limits and made a number of suggestions, but states are free to meet the guidelines in any way.

#### IV. EPA Regulation of State Utility Markets

In enacting Clean Air Act ("CAA") § 111, Congress did not authorize EPA to engage in state utility regulatory action like this.

#### Petitioners Argument:

The Rule asserts novel and vast authority never before claimed by EPA. EPA also seeks to invade a traditional state regulatory domain—electric power generation and transmission. EPA does not have the Congressional authorization to take these actions.

#### EPA Argument:

The Rule is not nearly as far reaching as Petitioners contend. It merely builds on existing industry trends and is within EPA's authority to regulate carbon emissions.

#### (B) Procedural/Record-Based Issues

#### V. <u>Inadequate Notice of Changes Between the Proposed and Final Rules</u>

EPA inappropriately finalized a rule that is simply too different from the Proposed Rule.

#### Petitioners Argument:

The final Rule is fundamentally different from the Proposed Rule and is reversible error warranting vacatur (e.g., EPA's changes from state-based emission rates to a nationally uniform rate and the expansion of the Rule to impact multiple additional units).

#### EPA Argument:

The final Rule is a logical outgrowth of the proposed Rule because affected parties should have anticipated that the relevant modification was possible. There is not a "substantial likelihood" that different procedures would have "significantly changed" the Rule.

#### VI. Flawed BSER

EPA's Best System of Emissions Reduction (BSER) is not "adequately demonstrated" or "achievable" and is based on a flawed administrative record.

#### Petitioners Argument:

EPA has not met its burden to demonstrate that the best system of emissions reduction ("BSER") is "adequately demonstrated" and that the performance standards derived from the BSER are "achievable."

• The Rule is based on three building blocks: 1) coal-fired units will be able to meet certain heat rate improvements; 2) natural gas units will be able to reach a 75% utilization target; and 3) a significant amount of new renewable–energy

units will be constructed. All of these are based on false modeling, inaccurate assumptions, and other erroneous actions by EPA.

- EPA has failed to account for grid reliability or infrastructure needs. EPA failed to ensure a reliable electric supply in the Electric Reliability Council of Texas ("ERCOT") region and to account for the disproportionate impact on cooperatives (e.g., EPA fails to account for single-unit cooperatives that service poor rural members).
- EPA's BSER is not "demonstrated" or "achievable" by individual sources and is not "flexible." Reliance on the availability of a trading program is not sufficient to save the Rule.

#### EPA Argument:

The CAA's use of "system" is expansive and includes the Rule's BSER approach. EPA looked to technological means to achieve emissions reductions (co-firing, carbon sequestration) but found that Building Block 2 (coal-to-gas switch) and Block 3 (huge expansion of renewables) would be less expensive and would better meet statutory factors.

#### VII. Inadequate Credit for Investments Already Made

The Rule penalizes low- and non-emitting generation sources and companies/states that have already reduced emissions.

#### Petitioners Argument:

EPA excludes large portions of the electricity grid (existing renewable, nuclear, hydroelectric, co-generation, waste-to-energy) as compliance options. EPA also arbitrarily discriminates against low- and zero-emitting sources built before January 1, 2013, resulting in the punishment of early investors in these resources. Factoring these sources into the baseline is not enough; nothing in the Rule indicates that any early-adopting States' 2012 emission baseline was adjusted to account for low- or zero-emission generation.

#### EPA Argument:

EPA appropriately imposes a January 1, 2013 cut-off because only facilities that commence operation or increase generation capacity on or after January 1, 2013, can be assumed to reduce fossil fuel-fired emissions from the baseline level. Pre-2013 reductions have already been accounted for in the baseline and enhance the states' ability to comply.

#### VIII. One Size Does Not Fit All

The Rule should have been tailored to individual state issues.

#### Petitioners Argument:

The Rule will result in unique harms to numerous states, including: Wisconsin (failed to consider nuclear plant's imminent retirement); Arizona and Utah (failed to account for trading between states and Indian Tribes); Wyoming (EPA doubled limits in final rule, failed to consider endangered species act issues, etc.); Utah (imposed limits unrepresentative of historic emissions, which impedes state's ability to protect its most sensitive air shed); New Jersey (failed to account for deregulation of energy services); and North Carolina (exclusion of prior emissions reductions). See also the Texas-specific discussions regarding impacts to ERCOT and transmission planning, referenced above and below.

#### EPA Argument:

The Rule provides states considerable flexibility to design standards tailored to their individual circumstances. EPA also rebuts the other state-specific claims.

### XI. Laundry List of Additional Errors

The Rule has several other important shortcomings.

#### Petitioners Argument:

EPA has arbitrarily and capriciously: 1) required mass-based state plans to include provisions to prevent "leakage," which effectively makes new units subject to the Rule; 2) failed to create subcategories for various coal types, including lignite; 3) failed to consider limitations on renewable energy, including transmission planning, with Texas as a key example (and nothing supports EPA's prediction that sufficient transmission can be in place by 2022 and EPA did not otherwise respond to concerns expressed by the North American Electric Reliability Corporation ("NERC") and regional transmission organizations); and 4) relied on a fundamentally flawed cost-benefit analysis.

- 1) Allowing "leakage" would undermine the purpose of the Rule—the Rule's anti-leakage requirements safeguard emissions performance equivalent to the uniform rates;
- 2) The two subcategories in the Rule (steam units and combustion turbines) are sufficient and there is no mandate for EPA to create additional subcategories, and because EPA had subcategorized for lignite in the past (MATS Rule) does not compel EPA to subcategorize in this Rule;
- 3) EPA determined that Building Block 3 (renewable generation) would not result in significant additional transmission capacity needs; and
- 4) Petitioners' challenges to EPA's cost-benefit analysis are irrelevant because EPA did not (nor was it required to) use that analysis when considering costs and EPA found that the costs were reasonable.

# APPENDIX – Table of Key Participants (Organized by Party or Joint-Party) Clean Power Plan (111(d) Rule) Litigation, Docket 15-1363 and Consolidated Cases, D.C. Circuit Court of Appeals

PETITIONERS (Oral Argument 9/27/2016)	
States:	
1. Alabama	15. Nebraska
Arizona (Corporation Commission)	16. New Jersey
3. Arkansas	17. New Jersey 17. Nevada (as Amicus only)
4. Colorado	18. North Carolina (Dept. of Env. Quality)
5. Florida	19. North Dakota
6. Georgia	20. Ohio
7. Indiana	21. Oklahoma
8. Kansas	22. South Carolina
9. Kentucky	23. South Carolina
10. Louisiana (State and Dept. of Env. Quality)	24. Texas
11. Michigan	25. Utah
12. Mississippi	26. West Virginia
13. Missouri	27. Wisconsin
14. Montana	28. Wyoming
	20. Wyoming
Electric Cooperatives:	21 North Carolina Floatric Mambarchia Caro
National Rural Electric Cooperative Association     Asizona Electric Rower Cooperative Inc.	21. North Carolina Electric Membership Corp. 22. Northeast Texas Electric Cooperative, Inc.
2. Arizona Electric Power Cooperative, Inc.	22. Northeast Texas Electric Cooperative, Inc. 23. Northwest Iowa Power Cooperative
<ul><li>3. Associated Electric Cooperative, Inc.</li><li>4. Basin Electric Power Cooperative</li></ul>	24. Oglethorpe Power Corporation
•	25. Powersouth Energy Cooperative
<ul><li>5. Big Rivers Electric Corporation</li><li>6. Brazos Electric Power Cooperative, Inc.</li></ul>	26. Prairie Power, Inc.
7. Buckeye Power, Inc.	27. Rushmore Electric Power Cooperative, Inc.
S. Central Montana Electric Power Cooperative	28. Sam Rayburn G&T Electric Cooperative, Inc.
Central Montana Electric Power Cooperative     Central Power Electric Cooperative, Inc.	29. San Miguel Electric Cooperative, Inc.
10. Corn Belt Power Cooperative	30. Seminole Electric Cooperative, Inc.
11. Dairyland Power Cooperative	31. South Mississippi Electric Power Association
12. Deseret Generation & Transmission Co-Operative	32. South Texas Electric Cooperative, Inc.
13. East Kentucky Power Cooperative, Inc.	33. Southern Illinois Power Cooperative
14. East River Electric Power Cooperative, Inc.	34. Sunflower Electric Power Corporation
15. East Texas Electric Cooperative, Inc.	35. Tex-La Electric Cooperative of Texas, Inc.
16. Georgia Transmission Corporation	36. Upper Missouri G. &T. Electric Cooperative, Inc.
17. Golden Spread Electrical Cooperative, Inc.	37. Wabash Valley Power Association, Inc.
18. Hoosier Energy Rural Electric Cooperative, Inc.	38. Western Farmers Electric Cooperative
19. Kansas Electric Power Cooperative, Inc.	39. Wolverine Power Supply Cooperative, Inc.
20. Minnkota Power Cooperative, Inc.	57

#### **Public Power:**

- 1. American Public Power Association
- 2. Kansas City Board of Public Utilities
- 3. Minnesota Power
- 4. Municipal Electric Authority of Georgia

#### Labor:

- 1. International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers, AFL-CIO
- 2. International Brotherhood of Electrical Workers
- 3. United Mine Workers of America

## **Other Utility And Coal Interests:**

- 1. Utility Air Regulatory Group
- 2. American Coalition for Clean Coal Electricity
- 3. American Coke and Coal Chemicals Institute
- 4. Alabama Power Company
- 5. Big Brown Lignite Co., LLC
- 6. Big Brown Power Co. LLC
- 7. CO2 Task Force of the Flor. Elec. Pwr. Coord. Grp.
- 8. Georgia Power Co.
- 9. Gulf Power Co.
- 10. LG&E Energy LLC
- 11. Lignite Energy Council
- 12. Luminant Big Brown Mining Co. LLC
- 13. Luminant Mining Co., LLC
- **Other Trade Groups:**
- 1. American Chemistry Council
- 2. American Foundry Society
- 3. American Forest & Paper Assoc.
- 4. American Fuel & Petrochemical Manufacturers
- 5. American Iron & Steel Institute
- 6. American Wood Council
- 7. Association of American Railroads
- 8. Brick Industry Assoc.
- 9. Buckeye Institute for Public Policy Solutions
- 10. Chamber of Commerce of the USA
- 11. Competitive Enterprise Institute
- 12. Electricity Consumers Resource Council
- 13. Energy & Environmental Legal Institute

- 14. Luminant Generation Co., LLC
- 15. Mississippi Power Co.
- 16. Mont.-Dakota Util. Co. (div. of MDU Res. Grp., Inc.
- 17. Murray Energy Corporation
- 18. National Mining Association
- 19. Newmonth Nevada Energy Investment
- 20. Newmont USA Limited
- 21. NorthWestern Corp. (dba Northwestern Energy)
- 22. Oak Grove Management Co., LLC
- 23. Prairie State Generating Co.
- 24. Sandow Power Co. LLC
- 25. Westar Energy, Inc.
- 26. West Virginia Coal Association
- 14. Energy-Intensive Manuf. Work. Grp. on GHG Reg.
- 15. Entergy Corporation
- 16. Independence Institute
- 17. Local Government Coalition for Renewable Energy
- 18. National Assoc. of Home Builders
- 19. National Assoc. of Manufacturers
- 20. National Federation of Independent Business
- 21. National Lime Assoc.
- 22. National Oilseed Processors Assoc.
- 23. Portland Cement Assoc.
- 24. Rio Grande Institute
- 25. Sutherland Institute
- 26. Tri-State Generation & Transmission Assoc. Inc.

#### PETITIONERS' MOTIONS TO HOLD ISSUES IN ABEYANCE

- 1. Am. Forest & Pap. Assoc. Inc. and Am. Wood Council
- 2. Biogenic CO2 Coalition
- 3. National Alliance of Forest Owners

#### INTERVENORS FOR PETITIONERS

- 1. Dixon Bros., Inc.
- 2. Gulf Coast Lignite Coalition
- 3. Joy Global, Inc.

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4. Nelson Bros. Inc.

- 5. Norfolk Southern Corp.
- 6. Peabody Energy Corp.
- 7. Wesco International, Inc.

#### **AMICUS CURIAE FOR PETITIONERS**

205 Members of Congress – 34 senators and 171 representatives led by Senate Majority Leader Mitch McConnell (R-Ky.). The law-makers are all Republicans with the exception of West Virginia Democratic Sen. Joe Manchin

#### Legal nonprofits, other challengers:

- 1. 13 individual scientists and economist
- 2. 60Plus Association
- 3. 166 State and Local Business Associations
- 4. Former State PUC Commissioners
- 5. Hispanic Leadership Fund
- 6. Landmark Legal Foundation
- 7. The Loggers Assoc. of Northern California
- 8. Merit Oil Co.
- 9. Morning Star Packing Co.

- 10. Municipal Electric Authority of Georgia
- 11. National Black Chamber of Commerce
- 12. Pacific Legal Foundation
- 13. Pedernales Electric Cooperative, Inc.
- 14. Service Employees International Union
- 15. Southeastern Legal Foundation
- 16. State of Nevada and Consumers' Research
- 17. Texas Public Policy Foundation

#### **RESPONDENT - EPA**

#### **INTERVENORS FOR RESPONDENT (EPA)**

#### States:

- 1. California (& California Air Resources Board)
- 2. Connecticut
- 3. Delaware
- 4. Hawaii
- 5. Illinois
- 6. lowa
- 7. Maine
- 8. Maryland
- 9. Minnesota (Minnesota Pollution Control Agency)
- 10. New Hampshire

#### **Counties, Cities:**

- 1. Broward County, Florida
- 2. City of Austin d/b/a Austin Energy
- 3. City of Boulder
- 4. City of Chicago
- 5. City of New York

- 11. New Mexico
- 12. New York
- 13. Oregon
- 14. Rhode Island
- 15. Vermont
- 16. Washington
- 17. Massachusetts
- 18. Virginia
- 6. City of Philadelphia
- 7. City of Seattle
- 8. City of South Miami
- 9. District of Columbia

#### **Environmental & Public Health Groups:**

- 1. Advanced Energy Economy
- 2. American Wind Energy Association
- 3. American Lung Association
- 4. Center for Biological Diversity
- 5. Clean Air Council
- 6. Clean Wisconsin
- 7. Coal River Mountain Watch
- 8. Conservation Law Firm
- **Pro-CPP Utilities and Industry Groups:**
- Calpine Corporation
   National Grid Generation, LLC
- 3. Nextera Energy, Inc.

- 9. Environmental Defense Fund
- 10. Kanawa Forest Coalition
- 11. Keepers of the Mountains Foundation
- 12. Mon Valley Clean Air Coalition
- 13. Natural Resources Defense Council
- 14. Ohio Valley Environmental Council
- 15. Sierra Club
- 16. West Virginia Highlands Conservancy
- 4. NY Power Authority
- 5. Pacific Gas and Electric Co.
- 6. Southern California Edison Co.

#### **AMICUS CURIAE FOR RESPONDENTS**

#### Counties, Cities:

1.54 Cities, Counties and Mayors

#### **Environmental & Public Health Groups:**

1. American Academy of Pediatrics

2. American College of Occ. & Envir. Medicine

3. American College of Preventive Medicine

4. American Medical Association

5. American Public Health Association

6. American Thoracic Society

7. Citizens Utility Board

8. Consumers Union

#### Other EPA Allies:

1. Adobe, Inc.

2. Amazon.com

3. Apple.com

4. Blue Cross and Blue Shield of Mass., Inc.

5. Climate Scientists

6. Catholic Climate Covenant, et al.

7. Current & BiPart. Former Members of Cong.

8. Former EPA Admins. Ruckelshaus and Reilly

9. Inst. for Policy Integrity at NY Univ. School of Law

10. National League of Cities

11. National Medical Assoc

12. Nat. Assoc. for Medical Direction of Respiratory Care

13. Public Citizen, Inc.

14. Sustainable Business Organizations

15. U.S. Conference of Mayors

9. Former State Energy & Env. Officials

10. Google Inc.

11. Grid Experts

12. Idea North America Services, LLC

13. Mars, Inc.

14. Microsoft Corp.

15. Union of Concerned Scientists

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