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Spatial and Temporal Heterogeneity of Marginal Emissions: Implications for Electric Cars and Other Electricity-Shifting Policies

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ABSTRACT

In this paper, we develop a methodology for estimating marginal emissions of electricity demand that vary by location and time of day across the United States. The approach takes account of the generation mix within interconnected electricity markets and shifting load profiles throughout the day. Using data available for 2007 through 2009, with a focus on carbon dioxide (CO₂), we find substantial variation among locations and times of day. Marginal emission rates are more than three times as large in the upper Midwest compared to the western United States, and within regions, rates for some hours of the day are more than twice those for others. We apply our results to an evaluation of plug-in electric vehicles (PEVs). The CO₂ emissions per mile from driving PEVs are less than those from driving a hybrid car in the western United States and Texas. In the upper Midwest, however, charging during the recommended hours at night implies that PEVs generate more emissions per mile than the average car currently on the road. Underlying many of our results is a fundamental tension between electricity load management and environmental goals: the hours when electricity is the least expensive to produce tend to be the hours with the greatest emissions. In addition to PEVs, we show how our estimates are useful for evaluating the heterogeneous effects of other policies and initiatives, such as distributed solar and real-time pricing.

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1. Introduction

Electricity generation is the primary source of carbon dioxide (CO₂) emissions worldwide and accounts for more than 40 percent of domestic emissions in the United States (EPA, 2012). Climate policies designed to reduce these emissions from electricity generation include those that seek to change the sources of energy toward lower carbon intensities (*e.g.*, coal to natural gas, fossil fuels to renewables) and those that attempt to reduce demand for electrical power (*e.g.*, efficiency standards, building energy codes). In contrast, the recent focus on climate policies that promote plug-in electric vehicles (PEVs) aim to increase demand for electricity, but the claim is that electricity used for charging PEVs will generate less CO₂ emissions at power plants than at the tailpipes of conventional gasoline-powered vehicles.

Despite such claims, quantifying the change in emissions for any activity that affects electricity demand is more complicated than it might first appear. There is significant variation in the types of electric power plants across the United States, and the emission rates differ greatly among them. Coal-fired units emit considerable CO₂ compared to natural gas units, and even these have significantly higher emission rates than units based on wind, solar, hydro, or nuclear energy. The change in emissions due to a change in electricity demand thus depends on which plant is providing the power—that is, the plant “on the margin.” Several factors complicate the task of identifying the marginal plant that corresponds to a change in electricity demand at a particular time and place. Not only is the composition of electricity generating units highly variable both across and within regions of the United States; the utilization of many units fluctuates with aggregate load on the electricity grid, which changes through the day (peak versus off-peak) and times of year (seasonal differences). Importantly, the electricity grid is also comprised of interconnected networks where electricity is traded over large distances, and there is no definitive way of locating where the electricity demanded at a particular time and place is actually generated.

Attempting to overcome these challenges, the present paper makes two primary contributions. First, we develop and implement a methodology for estimating marginal emissions of electricity demand across the United States. The method produces estimates that vary by location and time of day. The results, as we will discuss, are essential inputs for

understanding the environmental implications of many climate and energy policies. We focus on CO₂ emissions throughout the paper but also provide an appendix with results for sulfur dioxide and nitrogen oxides. Second, we demonstrate the usefulness of our estimates with a detailed application to PEVs. In particular, we evaluate the implications of PEVs on CO₂ emissions and find that greater caution is warranted when considering the supposed environmental benefits: given current technology and patterns of electricity generation, PEVs in some regions will generate more CO₂ emissions per mile traveled than the average vehicle currently on the road.¹

Our approach for estimating the marginal emissions of electricity demand exploits several government datasets on hourly emissions, consumption, and generation across the United States. For each hour between January 2007 and December 2009, we aggregate CO₂ emissions up to three broad regions based on grid interconnections that account for all possible sources of emissions associated with a change in electricity demand at a particular location. We then regress the hourly emissions of each interconnection on the hourly electricity consumption of its sub-regions based on the North American Electric Reliability Corporation (NERC) classifications, controlling for different combinations of fixed effects.

The results indicate how marginal changes in electricity consumption within a NERC region affect emissions at the interconnection level. The marginal effect, averaging across all regions and hours of the day, is 1.21 pounds of CO₂ per kilowatt hour (lbs CO₂/kWh) consumed. However, we find substantial variation among locations and times of day. For example, for the average hour of the day, the marginal effect in the upper Midwest is 2.30 lbs CO₂/kWh, which is almost three times the magnitude of that for the Western United States. For some hours, this spatial difference is even larger. Similarly, we see variation in emissions rates by hour of the day. For the average American, the cleanest consumption occurs when electricity demand is at its peak (7:00 PM). In contrast, emissions rates are about 26 percent greater during low demand hours (3:00 AM). These estimates have important implications for understanding the environmental consequences of many electricity-shifting policies. If, for example, the

¹ A complete environmental accounting would require an analysis of all power plant and tailpipe emissions that occur in addition to CO₂. This challenge is discussed in more detail later in the paper.

expansion of electricity generated from renewables displaces existing generation sources, the estimates of marginal emissions can be used to quantify the avoided pollution and how it differs by location and time of day. Similarly, to the extent that policies for energy efficiency, smart grids, and more stringent building codes reduce demand for electricity, estimates of the marginal emissions will help to understand the impacts and quantify the heterogeneous effects of uniform policies. The estimates are also relevant for understanding the impacts of activities and policies that increase electricity demand, as with PEVs, the application upon which we focus.

The charging of PEVs increases demand for electricity and its associated emissions while simultaneously reducing emissions from the tailpipes of substitute vehicles. Given current technologies, we show how the emissions of charging PEVs differ by region and time of day. The CO₂ emissions per mile from driving PEVs are less than those from driving a hybrid car in the western United States and Texas. In the upper Midwest, however, charging during the recommended hours at night implies that PEVs generate more emissions per mile driven than even the average car currently on the road. Other regions have marginal emission rates that place PEVs somewhere between a hybrid and a comparable economy car. Underlying many of our results is a fundamental tension between electricity load management and environmental goals, as the hours when electricity is the least expensive to produce tend to be the hours with the greatest emissions. In addition to PEVs, we show how our estimates of marginal emissions are useful for evaluating the heterogeneous effects of other policies and initiatives related to residential solar and real-time pricing.

2. Background

Studies of the environmental impacts of electricity consumption have increasingly recognized the importance of variability in the “footprint” of electricity generated at different points in space and time. Emissions from power plants on the margin are often exceedingly different from average emissions over the entire load-generating base. Moreover, the electricity grid’s interconnectedness means that those sources on the margin often lie beyond the boundaries of a particular state or political entity considering policy changes (Marriott and Matthews, 2005).

While no accepted methodology for addressing flows across the U.S. grid has emerged, it is clear that different approaches yield significantly different estimates of emissions associated with load shifting in a particular location (Weber *et al.*, 2010). Reliable estimates of marginal emissions are nevertheless critical for evaluating a range of climate and energy policies, some of which we have mentioned and discuss in more detail in Section 6. At this point, however, we focus more specifically on our application to PEVs and the policies that seek to promote them.

2.1. Plug-in Electric Vehicles

Pure PEVs are battery-driven automobiles that derive all of their energy (with the exception of that harnessed from deceleration during driving) from an external source of electricity. They have been promoted worldwide as a tool for reducing emissions and mitigating climate change. In Europe, the UK Climate Change Committee has recently made electric vehicles a centerpiece of its climate change policy (Adam, 2009). The electrification of the transportation sector has also been identified as an important tool in battling climate change in the United States (Lehmann, 2011). Indeed, California, which is often a pioneer of U.S. environmental policy, recently adopted the Advanced Clean Cars Program that will require manufacturers to offer PEVs for sale in the state as part of the effort to reach state-level goals in reducing greenhouse gas (GHG) emissions over the next twenty years.

Significant financial incentives for consumer adoption have also accompanied the enthusiasm for PEVs in the United States. At the federal level, there is a consumer tax credit of \$2,500 per vehicle plus an additional \$417 for each kWh of battery capacity in excess of five kWhs. The total credit allowed per vehicle is capped at \$7,500, and all vehicles currently on the market qualify for the full credit.² A wide and varying range of additional incentives are offered at the state level. These include rebates and tax credits for the purchase of vehicles and charging infrastructure, as well as access to carpool lanes and free public parking in some

² See IRS Notice 2009-89. The credit begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying vehicles have been sold for use in the United States. The count is determined based on a cumulative basis for sales after December 31, 2009.

municipalities.³ While some states offer no incentives, at least four offer incentives of at least \$5,000, which when combined with the federal program accounts for somewhere between one-quarter and one-third of the manufacturer's suggested retail price of the two most popular models on the market, the Nissan Leaf and Chevrolet Volt.⁴

Conventional automobiles generate several key pollutants as a byproduct of gasoline combustion. In addition to CO₂, these include nitrogen oxides, volatile organic compounds, carbon monoxide, and particulate matter. PEVs also generate pollution notwithstanding their misleading classification as "zero-emissions vehicles." PEVs simply trade tailpipe emissions for emissions generated at the smokestack of electric power plants. For some pollutants, the switch may be beneficial because the technologies and economies of scale are such that the costs of pollution control are cheaper at power plants. Moreover, the fact that emissions for the criteria pollutants under the Clean Air Act are more tightly regulated in the power sector might further ensure some environmental benefits of purchasing a PEV instead of a comparable substitute vehicle.

The benefits of PEVs are less clear, however, when it comes to CO₂ emissions, which are currently unregulated in the U.S. electricity sector. The net effect on CO₂ emissions of switching to PEVs will depend, in part, on the carbon intensities of the power plants supplying the electricity for charging. It follows that any emission benefits will necessarily differ across charging locations because of the wide variability of emission intensities among power plants. Policies that promote charging during certain hours will also have differing effects because of the way that plants are utilized differently throughout the day during peak and off-peak times of electricity demand.⁵ Our methodology for estimating marginal emissions accounts for these features, and we will use the estimates to make explicit comparisons between PEV emissions at different locations relative to comparable substitute vehicles. We will also make comparisons

³ A comprehensive listing of both state and federal incentives is available online through the Plug in America website at <http://www.pluginamerica.org/incentives> (accessed January 30, 2014).

⁴ The states with subsidies are California (\$2500), Colorado (\$6000), Florida (\$5000), Georgia (\$5000), Hawaii (\$5000), Illinois (\$4000), Louisiana (\$3000), Montana (\$500), New Jersey (\$4000), Oklahoma (\$3000), Oregon (\$5000), Pennsylvania (\$3500), South Carolina (\$1500), Tennessee (\$2500), Utah (\$750), Washington (\$2000), and West Virginia (\$7500): <http://www.pluginamerica.org/incentives> (accessed January 30, 2014).

⁵ The same issues arise when evaluating how the expansion of renewables affects emissions (Borenstein, 2012).

among choices based on the electricity generation costs and the social cost of carbon. While our analysis is not a comprehensive benefit-cost analysis, which would entail other considerations, many of which are difficult to measure, we do discuss the broader policy context in Section 5. At this point, we briefly review the existing literature on estimating marginal emissions with applications to PEVs.

2.2. Literature Review

Despite the widely recognized importance of distinguishing between marginal and average electricity generating units and electricity flows across regions, nearly all of the limited literature on the environmental impacts of PEVs, most of which has an engineering orientation, takes a rather narrow approach. Several studies analyze the benefits of PEVs assuming that a particular type of power plant is generating the electricity to charge the vehicles (EPRI, 2002; Kliesch and Langer, 2006; Stephan and Sullivan, 2008). As one might expect, these studies find that cleaner power plants yield greater environmental benefits. While the magnitudes of the differences are illustrative, the analyses are not especially informative for answering questions about changes in PEV penetration at particular locations or in the timing of charging during the day. Other studies take a less hypothetical approach, yet rely on average emissions rates across regions to assess environmental impacts (Samaras and Meisterling, 2008; Michalek *et al.*, 2011; Anair and Mahmassani, 2012). While these studies conduct sensitivity analyses around the estimates, they eschew efforts to directly assess the emissions profiles associated with the marginal power sources that would be used to charge PEVs.

Several studies do attend to electricity generation on the margin. McCarthy and Yang (2010) and Blumsack *et al.* (2008) use engineering models to simulate merit-order dispatch (*i.e.*, least cost allocation) of electricity. For example, consider a hypothetical marginal cost curve containing plants using various fuels (Figure 1). The model assumes least-cost dispatch where each low cost unit is run to full capacity. In this example, demand in the early morning hours is met, on the margin, by a combined cycle unit with low emissions rates. However, in the afternoon, these low cost baseload units are at capacity and thus a slightly dirtier natural gas peaking unit is required to operate in order to meet the additional demand. For California,

McCarthy and Yang (2010) conclude that PEVs reduce CO₂ emissions relative to conventional gasoline vehicles and hybrids. Blumsack *et al.* (2008) conduct their analysis at the level of regional transmission organizations (excluding the Western United States), while also considering the life-cycle CO₂ emissions of battery manufacturing. They conclude that PEVs are no worse, and generally better, than conventional cars in terms of GHG emissions.

In contrast to these simulation models, a regression approach to estimating marginal emissions can account for details of the electricity industry that might otherwise be ignored, including market power, transmission and operating constraints, and imperfect information about market conditions. In one study, Siler-Evans *et al.* (2012) use a regression approach to estimate marginal emissions by region and time of day. They use the U.S. Environmental Protection Agency's (EPA) Continuous Emission Monitoring System (CEMS) data (described in Section 3.1 below) and regress each NERC region's hourly change in aggregate emissions on its hourly change in gross fossil-fuel generation. While this approach is an improvement on other methods, it is only valid under the following assumptions: (a) all consumption in a region is met by power plants in the same region; (b) only power plants in the CEMS data supply marginal electricity output; (c) aggregate fossil-fuel generation is exogenous; and (d) the method's *ad hoc* corrections for line losses are constant over location and time. In contrast, the approach that we apply in this paper is based directly on the relationship between aggregate emissions and end-use consumption, and we allow the marginal producer to be located anywhere in the corresponding grid interconnection.

Finally, two other studies are worth mentioning in tandem because they comprise what is perhaps most closely related to our analysis here. In addition to considering specific electricity-generation technologies, Stephan and Sullivan (2008) apply the estimates of marginal emissions from Holland and Mansur (2008) to analyze PEVs. Holland and Mansur (2008) focus on the environmental effects of real-time pricing, and they regress daily emissions at the NERC level on the first and second moments of the within-day distribution of consumption in the same NERC region. While the validity of these estimates are subject to some of the same assumptions as those in Siler-Evans *et al.* (2012), Stephan and Sullivan's (2008) use of them

suggests that PEVs have emission rates between 50 and 75 percent that of hybrid vehicles (not plugged in).

In what follows, we describe our method, which differs from the existing literature in several important ways. Unlike previous analyses, we estimate hour-of-day marginal emission rates. Moreover, the aggregation of emissions at the level of grid interconnections means that the estimates account for how demand shocks in some regions may affect marginal emissions in others. Finally, we discuss how the estimates for CO₂ (along with sulfur dioxide and nitrogen oxides) can be used to evaluate a variety of policies, in addition to our primary focus on PEVs.

3. Data and Preliminaries

This section describes the various data sets used in our analysis, presents basic summary statistics, and makes preliminary comparisons between the emission rates of electric power plants that might charge PEVs relative to comparable vehicles currently on the road.

3.1. Data on Emissions and Electricity

Using data over the three year period of 2007 through 2009, the most recent period for which all data are available, we combine data sets from several federal agencies: the EPA, the Energy Information Administration (EIA), and the Federal Energy Regulatory Commission (FERC). The EPA's CEMS data is our primary source of emissions data for all fossil-fuel generating units with at least 25 megawatts (MW) of generating capacity.⁶ These data include information on CO₂, sulfur dioxide, and nitrogen dioxide emissions and are available hourly for the most recent period of January 2007 through December 2009. Also included in the CEMs data, which we use here, is each unit's hourly gross generation, *i.e.*, the total amount of electrical power that a unit produces for internal use and for sale. We obtain hourly electricity consumption data for the same time period from FERC Form 714, which is reported at the level of 200 planning areas

⁶ Technically, a generating unit is a subset of a power plant that typically consists of a boiler, generator, and smoke stack. EPA (2009) provides detailed information about the CEMS program and more specifics about which units are included in the data (see <http://www.epa.gov/airmarkets/emissions/continuous-factsheet.html>, accessed January 31, 2014).

across the nation.⁷ We also use data from Form 714 on the Hourly System Lambda, which is an estimate of the marginal cost of electricity generation for a given hour in each planning area.⁸ Two other sources of data are useful for some basic calculations of summary statistics. One is EIA Form 923 that includes net generation (only electricity for sale) at the power plant level by month for 2007 through 2009.⁹ The other is EPA's Emissions & Generation Resource Integrated Database (eGRID), which contains data on the emissions rates of power plants based on net generation for 2007 and 2009.¹⁰

The unit of observation varies widely among these data sources. For instance, the EPA data are available at the level of generating units, while the FERC data are reported for planning areas that range in size from the city of St. Cloud, Minnesota to all of the Pennsylvania, Jersey, Maryland (PJM) Power Pool, the largest control area covering 13 states from New Jersey to Chicago. At various points of our analysis, and to different degrees, we aggregate and merge the data sets to make them comparable and account for important institutional features about electricity grid interconnections.¹¹

Figure 2 provides a general overview of the U.S. electrical grid with an illustration of how the United States is partitioned into three interconnections (Western, ERCOT, and Eastern) and eight NERC regions (FRCC, MRO, NPCC, RFC, SERC, SPP, TRE, WECC).¹² Interconnections are

⁷ These data are available online at <http://www.ferc.gov/docs-filing/forms/form-714/overview.asp> (accessed January 30, 2014).

⁸ In restructured competitive electricity markets, the lambdas are simply market prices. The system lambdas are not available for one of the interconnection/NERC regions (ERCOT), so for this one we use reported prices as the measure of marginal generation costs, available at <http://www.ercot.com/mktinfo/prices/mcpea> (accessed January 30, 2014).

⁹ These data are available online at <http://www.eia.gov/electricity/data/eia923/> (accessed January 30, 2014).

¹⁰ Data is not available for 2008, and information about eGrid and the data sets are available online at <http://www.epa.gov/cleanenergy/energy-resources/egrid/> (accessed January 30, 2014).

¹¹ All of the emissions and consumption data are for the United States only. Canada (and Mexico to a much smaller degree) does trade power with the United States (see Figure 2). But most of the power coming from Canada is hydroelectric and sold over large direct current lines that are at capacity most hours. This suggests that changes in consumption in the United States would have a small effect on production decisions in Canada, and any changes in production would have negligible effects on short-run CO₂ emissions, which is the focus of our analysis.

¹² The acronyms correspond with the following full names: Electric Reliability Council of Texas (ERCOT), Florida Reliability Coordinating Council (FRCC), Midwest Reliability Organization (MRO), Northeast Power Coordinating Council (NPCC), ReliabilityFirst Corporation (RFC), SERC Reliability Corporation (SERC), Southwest Power Pool (SPP), Texas Regional Entity (TRE), and Western Electricity Coordinating Council (WECC).

important because they identify the entire regions over which electricity is traded, so changes in demand at any location—from, for example, a new PEV—could affect the generation of a marginal plant anywhere within the corresponding interconnection. Note that the Western and ERCOT interconnections each have only one NERC region, and we will follow convention and refer to the different designations interchangeably as WECC and ERCOT, respectively. In contrast, the Eastern interconnection encompasses six NERC regions, and we will decompose parts of our analysis accordingly to obtain greater spatial resolution in our results.

Table 1 provides summary statistics at the level of interconnections and NERC regions, and looking across them gives a sense of the regional heterogeneity. The first three columns report average hourly CO₂ emissions, electricity consumption, and net electricity generation. Looking first at the three interconnections, we see that the Eastern interconnection is more than four times the size of WECC, which is approximately twice the size of ERCOT. It is also the case that consumption tends to be lower than generation, and the difference can be explained by line losses due to the transport of electricity over power lines. The similarity of consumption and net generation for the Eastern interconnection is because it imports from Canada roughly three gigawatts on average.

Among the NERC regions of the Eastern interconnection, the differences between consumption and net generation indicate which regions are importers or exporters of electric power. The pattern is such that Florida (FRCC), the upper Midwest (MRO) and NPCC are importers, the Mid-Atlantic region (RFC) and the Southeast (SERC) are exporters, and the Oklahoma region (SPP) is close to neutral. In addition to this variation across regions, there exists variation within regions.¹³

Table 1 also reports several measures of the CO₂ emissions rate for each region. The consumption-based emission rate is CO₂ emissions (first column) divided by electricity consumption (second column). The ERCOT and Eastern interconnections have similar rates, just under 1.3 lbs CO₂/kWh, while WECC is substantially lower at 0.85. Within the Eastern interconnection NERC regions, the rates range from a high of 1.64 in SPP to a low of 0.57 in NPCC. These rates are somewhat misleading, however, because they do not account for

¹³ The EIA (2011) display net power flows across sub-NERC region (see <http://www.eia.gov/todayinenergy/detail.cfm?id=4270>, accessed January 29, 2014).

electricity being traded across regions: a region that imports power will have an artificially low rate, while an exporter's rate will be too high. The generation-based emissions rates are CO₂ emissions (first column) divided by electricity generation (third column). These rates take trade into account, and for this reason, they are the ones typically used when evaluating electricity emissions. We now see that the generation-based emissions rate in MRO is quite close to that of SPP, as the rates in importing (exporting) regions have risen (fallen). As a simple point of comparison, we report in the last column of Table 1 eGRID's emissions rates by region based on net generation. While the time period differs because 2008 is missing, the numbers are quite similar to our generation-based estimates. In both cases, the rates are informative, but they are not especially useful for understanding how changes in electricity demand will affect emissions—as they both represent average rather than marginal emission rates.

3.2. Preliminary Comparisons Among Vehicles

When plugging in a PEV, or engaging in other activities that increases demand for electricity, any power plant in the same interconnection could, in principle, provide the marginal power. Yet, as mentioned previously, the CO₂ emissions rates associated with power plants differ greatly, ranging from zero for hydropower and nuclear plants to substantial for many coal-fired plants. To determine how the heterogeneity of emissions affects the environmental implications of PEVs, we consider the emission rates of particular plants and make preliminary comparisons between the potential emissions from charging PEVs and driving substitute vehicles.

We begin with the EPA CEMS data on hourly CO₂ emissions and gross generation for the fossil-fired units over the entire sample period 2007-2009. Because we are interested in the marginal emissions of consumption (rather than generation), we make two adjustments to gross generation to derive consumption-based emission rates. First, we convert gross to net generation based on the reported difference between the two for units in the EIA Form 923 data of 2008, a year for which both numbers are available. We find that approximately 4.59 percent of the gross generation is consumed on-site, and we make this constant adjustment to all units and hours to obtain an estimate of hourly net generation. Second, to focus on

consumption, we must also account for electricity that is lost through transmission and distribution, and we use Stephan and Sullivan's (2008) estimate of 9.6 percent to make this conversion. Hence, the emissions rate of interest for our analysis is a unit's hourly CO₂ emissions divided by its net transmitted generation, defined as (gross generation)/(1.0459×1.096).

Figure 3 plots the cumulative distribution and probability density functions for the hourly net transmitted (*i.e.*, consumption-based) emissions rates for all of the fossil-fired units in the CEMS data. The mean emissions rate is 2.10 lbs CO₂/kWh with upper and lower quartiles of 1.42 and 2.40. The peaks of the probability density function illustrate the different emissions rates among the three primary technologies of fossil units, which, from low to high emissions rates, are combined-cycle gas turbines, single-cycle gas turbines, and coal-fired boilers.

We now consider how this distribution of emission rates can be used to compare the CO₂ emissions of electric cars against those of substitute vehicles currently in use. The two most popular PEVs on the market are the Chevrolet Volt and the Nissan Leaf, and these vehicles use approximately 36 kWh and 34 kWh per 100 miles, respectively.¹⁴ Taking the midpoint and normalizing per mile, we summarize the current PEV technology as requiring 0.35 kWh/mile. This number multiplied by any one of the emission rates illustrated in Figure 3 yields the emission rates of PEVs in terms of lbs CO₂/mile if charging occurred with electricity from that particular unit in a given hour. For the purposes of comparison with other vehicles, however, we use the 0.35 kWh/mile as a conversion to report all vehicle emissions in terms of lbs CO₂/kwh, as this makes comparisons straightforward using Figure 3.

The average fuel economy of the U.S. fleet of light-duty, gasoline-powered vehicles is 21.7 miles per gallon (mpg) (Department of Transportation, 2009). Because combusting a gallon of gasoline releases 19.6 lbs CO₂ (EPA, 2011), the average light-duty gasoline vehicle emits 0.90 lbs CO₂/mile. To make this number comparable with the emission rates of PEVs in Figure 3, we simply divide by 0.35 miles/kWh to obtain 2.58 lbs CO₂/kWh. This number is shown as the right-

¹⁴ The U.S. Department of Energy reports fuel economy statistics for both conventional and electric cars, and these statistics are available online at www.fueleconomy.gov. It is also worth noting that a range of driver behaviors -- such as heating and cooling usage, acceleration rates, and deceleration rates -- can lead to realized fuel economy that differs from those published by the EPA (Green *et al.*, 2006). The degree to which these factors impact the efficiency of PEVs *relative* to gasoline vehicles is not well understood at present.

most vertical reference line in Figure 3, and it represents the average emissions rate of light-duty gasoline vehicles in the 2009 U.S. fleet. One way to interpret the cumulative distribution function in Panel A is that a PEV will emit less CO₂ than the average light-duty vehicle assuming the PEV's charge comes from a fossil-fired unit that is below the 87th percentile in emissions. In contrast, and more importantly, a PEV could emit more CO₂ if its charge comes from a fossil-fired unit above that percentile in emissions—roughly 13 percent of all electricity-generating units. While these numbers illustrate how PEVs might compare with other vehicles in terms of their emissions, the comparisons are potentially misleading for several reasons. First, they are not informative about the probability of which units might be on the margin. Second, they do not distinguish among hours of the day, over which there is substantial variation in emissions rates. Third, they imply that only one unit could be on the margin, when in fact several could be on the margin simultaneously or over the course of a PEV's charge of several hours. Finally, the numbers assume that the substitute for a PEV is a random draw from the population of all light-duty vehicles. While we address the first three of these concerns in our subsequent empirical analysis, we first make comparisons with vehicles that are more likely to be substitutes for PEVs.

We consider the alternatives of a comparable economy car and a hybrid. Using characteristics of the Nissan Leaf, a set of comparable gasoline vehicles is the Toyota Corolla, Honda Civic, Chevrolet Cruze, and Ford Fiesta, and this set has a 2012 fuel economy average of 31 mpg.¹⁵ Converting these units, as described above, implies an emissions rate of 1.79 lbs CO₂/kWh, corresponding to the middle reference line in Figure 3, and the interpretation is that approximately 41 percent of the fossil units that might charge PEVs over any hour have higher emission rates. Turning to the hybrids, we consider the leading seller of a Toyota Prius, which for 2012 has a combined fuel economy rating of 50 mpg, or for purposes of comparison an emissions rate of 1.13 lbs CO₂/kWh. As shown by the left-most reference line in Figure 3, only 12 percent of the fossil-fired units over all hours have emission rates lower than this, implying

¹⁵ The six characteristics of the Leaf are head room (41.2 inches front/ 37.3 inches rear), hip room (51.5 in. front / 50 in. rear), leg room (42.1 in. front / 31.1 in. rear), shoulder room (54.4 in. front / 52.5 in. rear), 5 seating capacity, and 14.5 cubic feet of cargo volume. The combined fuel economy is 30 mpg for the Corolla and Cruze, 32 mpg for the Civic, and 33 mpg for the Fiesta.

much scope for PEVs to have higher emission rates than hybrid vehicles. In sum, these comparisons demonstrate the importance of identifying the marginal power plant for evaluating the environmental implications of PEVs, as well as the choice of substitute vehicles.¹⁶

4. Estimating Marginal Emissions

We begin with models to estimate the marginal rate of CO₂ emissions from electricity consumption within each of the three interconnections (WECC, ERCOT, Eastern).¹⁷ Considering each interconnection separately, c_t denotes an interconnection's aggregate hourly CO₂ emissions in hour t . The contemporaneous quantity of electricity demanded in the interconnection is q_t .¹⁸ Our general approach is to regress each interconnection's hourly emissions on its hourly consumption. While in most markets that one might study, quantity demanded and thereby emissions would depend on price, we can treat q_t as exogenous in this case because wholesale electricity prices are not borne by consumers. Hence, the derived demand for wholesale electricity is perfectly inelastic, with few minor exceptions that pose no difficulty for our analysis.

The specific models that we estimate, one for each of the three interconnections, have the form

$$(1) \quad c_t = \sum_{h=1}^{24} \beta_h \text{HOUR}_h q_t + \sum_{h=1}^{24} \sum_{m=1}^{36} \alpha_{hm} \text{HOUR}_h \text{MONTH}_m + \varepsilon_t,$$

where HOUR_h is an indicator variable for hour h of the day and MONTH_m is an indicator variable for month m of the sample. Therefore, the α_{hm} coefficient is a fixed-effect for each

¹⁶ Here we have simply chosen likely alternatives to PEVs, but a more formal empirical approach could be used to identify the most likely substitutes. While we leave these estimates to future research, it is worth remarking that the value of such an exercise will increase with more data if and when electric vehicles become more common.

¹⁷ While we focus on CO₂ emissions throughout the paper, the approach generalizes to sulfur dioxide, nitrogen oxides, and gross generation as well. We estimate these results and report them in appendix tables A1, A2, and A3.

¹⁸ Prior to aggregating emissions and demand for all econometric models, we convert all data into eastern standard time for the Eastern interconnection, central standard time for ERCOT, and western standard time for WECC.

hour of day by month of sample.¹⁹ We estimate equation (1) using ordinary least squares, and we report Newey-West standard errors based on a 24-hour lag to account for serial correlation. The coefficients of interest are $\beta_1, \dots, \beta_{24}$, which provide estimates of the marginal emissions of consumption for each hour of the day within an interconnection. When estimating equation (1), along with others reported here, we include data for only weekdays. We exclude weekends for two reasons. First, patterns of electricity demand and therefore generation differ between weekends and days of the week, meaning that hourly coefficients may systematically differ. Second, our primary application to PEVs is more suited to days of the week, when commuting patterns are more regular.²⁰

We also provide a decomposition analysis for the Eastern interconnection, as it consists of six distinct NERC regions that we denote with subscripts i . Specifically, we estimate more spatially explicit relationships between where consumption takes place and its associated marginal emissions. Accordingly, for the Eastern interconnection only, we estimate the following model:

$$(2) \quad c_t = \sum_{h=1}^{24} \sum_{j=1}^6 \beta_{jh} \text{HOUR}_h \text{REG}_j q_{jt} + \sum_{h=1}^{24} \sum_{m=1}^{36} \alpha_{hm} \text{HOUR}_h \text{MONTH}_m + \varepsilon_t,$$

where REG_j is an indicator for region j of the Eastern interconnection. The only difference is that we include right-hand-side variables for electricity demand separately for each NERC region, while keeping the aggregate Eastern interconnection emissions on the left-hand-side. As a result, within the same model, we estimate marginal emissions for each hour of the day separately for each of the six NERC regions in the Eastern interconnection. A useful feature of the model is that marginal emissions are calculated for each NERC region while controlling for electricity consumption in other regions. The reason for keeping emissions aggregated at the

¹⁹ We also estimated models with different sets of fixed effects to test robustness of our results. Specifically, we estimated models with fixed effects based on day of sample, day of sample by hour of day, day of sample by seasonal hour of day, and hour of day by week of sample. In general, the results display qualitatively similar patterns across hours of the day and regions. In cases where they differ, the results are statistically insignificant.

²⁰ We did estimate parallel models that include data for all days of the week, and the results do not differ in meaningful ways. These other results are available upon request.

interconnection level is to account for the trading of electricity that occurs between NERC regions within the interconnection.²¹

Table 2 reports the results of all regression models for marginal CO₂ emissions. The first three columns are the estimates of specification (1) for each interconnection. To facilitate interpretation and comparison, we also illustrate results of these three models in Figure 4, which plots the marginal emissions (with 95-percent confidence intervals) against the hour of day for the WECC, ERCOT, and Eastern interconnections. Figure 4 shows substantial variation in the marginal emissions rates over both location and time of day. Within interconnections, the unweighted average across hours of the day are 0.80 for WECC, 0.96 for ERCOT, and 1.29 for Eastern. The largest difference is that Eastern has a CO₂ emissions rate more than 60 percent larger than WECC, reflecting a greater reliance on coal in the East. The variation in marginal emissions throughout the day tends to follow a familiar pattern in all interconnections: high during off-peak hours and low during on-peak hours. This pattern occurs because coal-fired units, which have higher emission rates, are most commonly used to meet base-level and off-peak electricity demand; whereas, natural gas units, which have relatively low emissions rates, are often brought online to meet peak demand. This pattern of fuel shifting explains why emission rates tend to be higher at night (midday for WECC) and lower during periods of peak demand in the morning and evening.

Returning to Table 2, the next six columns report the coefficient estimates of specification (2) for each of the NERC regions within the Eastern interconnection. These estimates indicate even greater variability in marginal emissions by location. The highest rates occur in MRO (the upper Midwest), which at 2.3 lbs CO₂/kWh is nearly three times the emissions rate of WECC. Among the Eastern NERC regions, the variation over time of day also tends to follow the general pattern of high (low) emissions rates during off-peak (on-peak)

²¹ In terms of other disaggregated analyses, one could explore how hourly demand shocks in each planning area affect hourly emissions at each generating unit, but such an approach would suffer from omitted variable biases or multicollinearity. For example, if one were to regress a power plant's emissions on the local planning area demand alone, this would ignore the fact that neighboring region's consumption is correlated with the local demand. The bias could be in either direction, depending on the region's net importing status. At the other extreme, a regression of U.S. aggregate emissions on consumption in each of the planning areas may be noisy given the high correlation among consumption variables.

hours. The last column of Table 2 reports an average of the coefficients across all NERC regions weighted by the hourly electricity consumption in each region. These numbers provide a sense for the variation in marginal emissions among hours of the day for the entire United States. The appendix examines the robustness of these results to different sets of fixed effects.²²

In Section 5, with our application to electric cars, we will take advantage of all the hourly estimates of marginal emissions rates for each NERC region. We will also discuss how they are useful for other applications. At this point, however, we turn to some more general observations about the importance of considering the marginal emissions of electricity consumption rather than the average emissions of electricity generation.

Panel A of Figure 5 illustrates the unweighted daily average of marginal emissions for all eight NERC regions. We also report a weighted average of these estimates of 1.21 lbs CO₂/kWh, where the weights are hourly consumption in each region. This “total” column is not an estimate and is for comparison purposes only. We also show 95-percent confidence intervals for our estimates. Here again we see that the marginal rates are low in WECC and high in MRO. For the purposes of comparison, Panel A also includes the generation-based average emissions rates from Table 1, along with confidence intervals. Because generation-based, average emissions rates are the most readily available, they are the ones most commonly used to evaluate the environmental impacts of changes in electricity demand. Yet they are conceptually incorrect because the real measure that matters is the marginal (rather than average) emission rate for consumption (rather than generation). The comparisons in Panel A of Figure 5 show the bias associated with using the average, generation-based emission rates. An important finding is that the bias is not always in the same direction. While, over the course of the entire day, marginal emissions are greater than average emissions (with statistical significance) in FRCC,

²² A supplementary appendix in Graff Zivin et al. (2014) includes additional material. We find the results robust to including lagged consumption. Using sharp bounds, we do not find evidence that hydropower biases our estimates. Estimates using fossil-fired plants’ gross generation as the dependent variable suggest that other plants are marginal some of the time. We decompose the variance of the main variables and find that half of the variation in hourly prices remains once we control for the fixed effects in our main specification. Finally, we compare our results with average emissions rates for each hour of the day and find less temporal variation and a notable increase in emissions in ERCOT (which has little low-carbon inframarginal technology like nuclear power and run-of-river hydropower).

MRO, and NPCC, the opposite result holds in SERC and SPP. The magnitude of the differences is also quite substantial in MRO, NPCC, and SPP.

In Panel B of Figure 5, we summarize Siler-Evans *et al.*'s (2012) results as a further point of comparison. Recall that their approach differs from ours; for each NERC region, they regress the hourly change in aggregate emissions on the hourly change in gross generation measured by the CEMS data. Hence, their estimates focus on how local changes in generation affect local emissions, and thereby do not account for how electricity is traded with the Eastern interconnection. In general, we find greater differences between marginal and average emission rates, and the levels themselves differ by meaningful amounts in some cases.

There are also several reasons why the emission rate estimates based on CEMS gross generation may be biased for consumption-based applications. First, gross generation by a power plant includes power used by the plant that is not sold, so the emissions rate of pounds of pollutant per MWh produced will understate the rate based on what is sold. Second, generation does not account for transmission line losses that are approximately nine percent of total generation. This implies that the gross-generation-based rate will further understate the consumption-based rate. Third, small fossil-fired power plants are not included in CEMS, implying that the true effect will be larger still. Note that this potential bias is present in our results as well. Fourth, non-fossil generation could be on the margin and is not captured by either analysis.²³

5. Electric Vehicles

We now use our estimates of the marginal emissions rates for a more careful analysis of the CO₂ emissions associated with electric cars. Automobile manufacturers and electric utilities suggest charging PEVs between midnight and 5 AM.²⁴ Calculating the average marginal emissions over this time period for all NERC regions using the coefficient estimates in Table 2

²³ Some technologies—nuclear, solar, run-of-river hydro, and wind—are unlikely to be on the margin as they have low marginal costs. Yet, hydroelectric reservoirs (the largest renewable) are used to follow load (i.e., are marginal), but they have a constraint on cumulative production during a dry season. In the West, for example, precipitation is stored over the winter, spring, and early summer to be used when prices are highest in the late summer.

²⁴ For example, see <http://sdge.com/clean-energy/electric-vehicles/ev-rates> (accessed January 30, 2014).

yields rates of 0.82 for WECC, 1.10 for ERCOT, 1.21 for SPP, 1.24 for FRCC, 1.25 for NPCC, 1.38 for SERC, 1.47 for RFC, and 2.64 for MRO. The overall mean based on the Total column is 1.35 lbs CO₂/kWh. For purposes of comparison, recall that the emissions rates of the potential substitute vehicles are 1.13 for the hybrid, 1.79 for the economy car, and 2.58 for the light-duty fleet average. These numbers imply that a PEV charging in MRO between midnight and 5 AM will generate more CO₂ emissions than driving a comparable distance with a car representing the light-duty fleet average. Moreover, for all regions with the exceptions of WECC and ERCOT—that is, the entire Eastern interconnection—charging a PEV at the recommended time will generate greater emissions than driving a comparable hybrid car.

Figure 6 enables a broader set of comparisons with the total CO₂ emissions of charging a PEV at different times of the day in each region. The figure is based on the assumption that the PEV charges for four hours and draws 13 kWh to drive 35 miles, as these are the specifications for the Chevrolet Volt. The figure illustrates, for example, that charging a PEV in the WECC between midnight and 4 AM would emit an average of just over 10 lbs of CO₂. While we consider non-overlapping 4-hour intervals throughout the day for illustrative purposes, other intervals and durations are straightforward to derive using the results in Table 2. Figure 6 illustrates the heterogeneity of emissions that PEVs will have both among regions and within a region over times of the day. WECC and MRO are on opposite ends of the range with the low and high emissions, respectively. While emissions tend to be higher with charging at night in most regions, this pattern does not always hold, as in NPCC where there are many oil-fired units used to meet peak demand. Importantly, the figure shows that the recommended charging in the hours after midnight, which are those when electricity demand is the lowest, tend to be the hours with the greatest emissions in most NERC regions. Also shown in Figure 6 are the reference lines for the emissions associated with driving the substitute vehicles 35 miles. WECC is the only region where PEVs have lower emissions than a hybrid for charging over all hours of the day. The national average numbers imply that hybrids emit less CO₂ than a PEV for charging over all hours expect for 5 – 8 PM (Figure 6), which is a time of peak demand.

Beyond accounting for the CO₂ emissions of PEVs are economic considerations about the costs of electricity generation and emissions. Knowing these costs is essential for setting

optimal policy about where to deploy PEVs and when to charge them. As part of a more comprehensive analysis, we consider two components of the social costs of charging PEVs. First is the marginal external cost of the CO₂ emissions itself. We value these costs using the marginal damage estimates of \$21 per metric ton of CO₂ as recommended by the Interagency Working Group on the Social Cost of Carbon (2010) for regulatory impact analysis (see also Greenstone *et al.*, 2013). Second are the marginal generation costs of producing the electricity. We estimate these costs with the Hourly System Lambdas (or prices in the case of ERCOT) described in Section 3.1. These marginal generation costs are reported for each hour of the day and NERC region in Appendix Table A3. Note that we are not including residential retail prices for electricity in these partial social cost calculations, as they represent transfers rather than economy-wide opportunity costs. We nevertheless make some simple comparisons below based on residential prices for electricity, as they do matter for individuals deciding whether to purchase a PEV. Moreover, we refer to these as partial social cost calculations because not included are the costs of other pollutants, which would matter in ways that we also discuss in Section 5.

Figure 7 shows the social costs of daily electricity generation and CO₂ emissions of different charging times and NERC regions. The bottom part of each bar represents the costs of generation (13 kWh multiplied by the average marginal costs over that period). The top part of each bar is the social cost of carbon (SCC) (\$21 per metric ton converted to lbs and multiplied by the emissions for the corresponding times and regions in Figure 6). Several things are worth noting. First, the generation costs of charging a PEV are substantially larger than the social costs of carbon (at least at \$21 per metric ton) for all time periods and regions with the exception of MRO, where generation costs are relatively low in addition to emissions being relatively high. Second, within regions, the time profile of generation costs for charging a PEV tends to be the opposite of that for emissions: it is substantially more costly to generate electricity for charging during the day and peak times when demand is high and emissions are low. Third, the time periods that minimize generation costs are generally those that minimize the sum of generation and CO₂ damage costs, emphasizing again the relatively small magnitudes of the costs of CO₂ emissions.

The preceding analysis underscores the fundamental tradeoff of PEVs as a cost-effective approach to reducing GHG emissions. The regions and times of day when electricity generation is relatively less expensive—and therefore more favorable for charging PEVs—are also the regions and times of day with the greatest CO₂ emissions. What is more, even accounting for the environmental damage, the estimate of the SCC is not enough to change the fact that minimizing costs tends to mean maximizing CO₂ emissions. This does, however, raise the question of how high the SCC would need to be in order to align the objectives of minimizing both costs and emissions. To make this comparison, we consider results for the national average. While minimizing costs implies a recommended charging time of midnight to 4 AM (Figure 7), minimizing emissions implies a recommended charging time of 4 to 8 PM. Only if the SCC were at least \$250 per metric ton would the recommended charging time be 4 to 8 PM for both objectives. This number is indeed quite high.

It is important to emphasize that while these calculations focus on CO₂ emissions, they do not account for other externalities (positive and negative) of driving an electric car. These would include the reduction of local pollutants generated on roadways, which themselves exhibit substantial regional heterogeneity (Muller and Mendelsohn, 2009). While power plants also contribute pollutants like sulfur dioxide and nitrogen oxides, these pollutants are regulated under a cap-and-trade system, meaning that any change in emissions at one location would be offset by a change in emissions elsewhere. The environmental effects would thus depend on the spatial distribution of the marginal costs and benefits of abatement (Burtraw and Mansur, 1999). A further factor to consider is that driving behavior may change if the marginal cost of driving falls (*i.e.*, the rebound effect). The per gallon equivalent cost of driving an electric car is estimated at approximately \$2/gallon.²⁵ It follows that, as with the Corporate Average Fuel Economy Standards, the rebound effect may occur and cause increased congestion, local emissions, and accidents (Portney *et al.*, 2003).²⁶ While a comprehensive benefit-cost analysis

²⁵ EIA (2011) reports an average residential electricity rate of \$0.12/kWh. For the average electric car, this is \$0.042 per mile. For a gasoline car to pay this rate, gasoline prices would need to be \$0.86/gallon for an average car, \$1.38 for a commuter car, or \$2.10 for a Prius.

²⁶ A careful life-cycle analysis that tends to the embodied carbon in both PEVs and their substitutes is also needed to ensure comprehensiveness.

of electric cars would need to take account of these different effects, they are beyond the scope of our analysis here, which is to demonstrate how our estimates of marginal emissions provide a novel and important input to the process.

6. Other Applications

The basic framework that we developed in Section 4 allows empirical estimation of the marginal emission rates of electricity consumption at different times of day and geographic locations across the United States. We have shown how these estimates are critical for understanding the environmental and economic implications of PEVs. We now consider how the same estimates can be used to examine the impacts of other policies and technologies that shift electricity demand: distributed solar and real-time pricing. In each case, we apply the empirical estimates of marginal emissions to provide illustrative calculations. While the approach is “back-of-the-envelope” and therefore abstracts from many important features and nuances of each case, our primary purpose is not to offer comprehensive analyses of each policy or technology. Instead, our aim is to show how one might apply our methodology more generally to a range of research questions.

6.1. Distributed Solar

Much like PEVs, renewable sources of energy are promoted as an important tool for addressing climate change and other environmental problems associated with the combustion of fossil fuels. Among the different alternatives, solar photovoltaic systems convert solar energy into electricity with virtually no emissions, ignoring those associated with the production and installation of the hardware. Distributed solar installations are those of smaller scale located at or near the site of primary consumption, such as arrays placed on residential or commercial rooftops. Of particular interest here are the “behind-the-meter” installations because they serve on-site electricity consumption rather than production that is fed directly onto the grid. The aggregate capacity of these installations has grown significantly in recent years, increasing 1,400 percent between 2000 and 2010 (Barbose *et al.*, 2011).

The environmental and economic implications of reducing electricity demand—from PEVs as well as solar installations—depends on where and when the shifts occur. In the case of photovoltaics, the timing of these reductions will follow the trajectory of the sun, ramping up in the morning, peaking by mid-afternoon, and tapering off in the evening. Thus, the benefits of distributed solar deployment will depend importantly on the marginal emissions and costs of electricity generation in the relevant electricity market during daylight hours, and our methodological approach is well suited for quantifying these effects.

Consider a simple, illustrative example of a residential solar system that produces 1 kWh of electricity each hour from 7 AM to 7 PM. Using the hourly coefficients from Table 2, we can readily estimate the reduction in CO₂ emissions that would occur because of displaced electricity demand in various parts of the country. By simply summing coefficients over the relevant hours, we find, for example, that the solar installation would avert 9.8 lbs of CO₂/day for a household in the WECC, while the comparable number is 14.7 lbs of CO₂/day for the Eastern interconnection. Scaling emissions to the annual level, this yields 3,359 and 5,347 lbs for the two regions, respectively.²⁷ While in both regions the solar generated electricity occurs during hours when marginal emissions are relatively low, the differences indicate that the environmental benefits of distributed solar (assuming comparable generation) are significantly higher in the East, where the marginal emissions are greater from electricity on the grid. Monetizing these benefits, using the social cost of carbon estimate of \$21 per metric ton (discussed previously), we value the emission reductions at \$34 and \$51 per year in the WECC and Eastern interconnections, respectively. These benefits are, however, lower than the additional benefits of avoided generation costs, which can be derived in similar fashion using the hourly marginal generation costs in Table A3. Interestingly, the cost savings in the Eastern

²⁷ Recall that our estimates of marginal emissions are based on data for weekdays only. It is, however, straightforward to replicate our analysis using all days of the week or by estimating separate coefficients for weekdays and weekends and taking a weighted average. This might be a more reasonable approach for understanding the implications of distributed solar and other possible applications. While the full set of these results is available upon request, it is worth mentioning that pooling all days of the week has little effect on the results. For example, with estimates based on all seven day per week, comparable numbers for the emission reductions are 3,173 and 5,252 for the WECC and Eastern interconnections, respectively.

interconnection are also larger than those in the WECC, with magnitudes of \$251 versus \$227 per household per year.²⁸

Thus, this simple example shows how our methodology can be used to estimate regional differences in the benefits of distributed solar installations. While our comparisons suggest that the benefits may be significantly larger in the East compared to the West, more detailed analyses would also need to account for regional differences in generation based on the amount of sunshine.²⁹

6.2. Real-Time Pricing

Real-time electricity pricing has long been a focus of economists and electric utilities as an effective market-based tool for smoothing generation by shifting demand from peak to off-peak hours.³⁰ Our previous analysis shows, however, that reducing generation costs with a shift from peak to off-peak times of the day leads to increased CO₂ emissions in many parts of the country.³¹ Indeed, incorporating our estimates of marginal emissions and generation costs into the design of price schedules would facilitate the use of real-time pricing to balance reductions in generation costs with environmental externalities, and thus promote overall social welfare.

While a complete analysis of real-time pricing is beyond the scope of our paper, we illustrate the core tradeoffs with another simple comparison between the WECC and Eastern interconnections. Consider a simple scenario in which real-time pricing moves 1 kWh of a household's electricity demand from 6 PM to 4 AM. That is, the pricing is such that demand moves from one of the peak hours with the highest generation costs to one of the off-peak

²⁸ These estimates of the cost savings are also based on weekdays only, but using estimates based on all seven days of the week make little to no difference (\$251 and \$227 for Eastern and WECC, respectively).

²⁹ Though we do not discuss it explicitly, the steps outlined here can apply to wind power that is used for behind the meter consumption as well. Recent analyses consider wind power, but with very different methodologies and for generation that connects directly to the grid. See Callaway and Fowle (2009), *et al.* (2013), Cullen (2013), and Novan (2011).

³⁰ See, for example, Borenstein (2005), Borenstein and Holland (2005), and Wolak (2010).

³¹ This point has been made in other studies with more specialized contexts. See, for example, Kotchen *et al.* (2006) for a study of how the differences between peak and off-peak emissions affect the environmental benefits of converting hydroelectric dams from peaking to run-of-river flows.

hours with the lowest generation costs. Using our estimates in Table A3, we find that the cost savings per household on an annual basis would be \$5.68 for the WECC and \$9.97 in the East. But along with these changes in generation costs are changes in CO₂ emissions. For the WECC, emissions remain virtually unchanged, increasing 3.65 lbs/year, with an estimated social cost of 3.5 cents; whereas, for the East, emissions increase more substantially by 105.85 lbs/year, with an estimated social cost of approximately 1 dollar.

The design of optimal real-time pricing from a social welfare perspective should thus account for such different effects across all hours of the day and within each region. Only in this way can price signals be sent that balance the real-time social costs and benefits. This is important because, as we have shown, increases in demand in the off-peak hours at night generally increase emissions outside of the West, where dirtier electricity sources tend to be on the margin at those times of day. Despite the differences across the illustrative policies and technologies that we have considered, each serves to highlight some of the fundamental tensions between the objectives of load management on the electrical grid, minimizing generation costs, and minimizing environmental externalities.

7. Conclusion

Electricity generation is responsible for more CO₂ emissions and other air pollutants than any other sector in the U.S. economy. Accordingly, a primary focus of existing and proposed environmental policy is to change patterns of electricity supply and demand in ways that reduce emissions. There is, however, substantial geographic and temporal variation in the emission rates of power plants. This heterogeneity combined with the electricity grid's interconnected networks for trading and distributing electricity pose difficult challenges for quantifying the environmental and economic implications of electricity-shifting policies. The difficulty arises because there is no definitive way to identify which power plants are generating electricity on the margin to meet demand at a particular location and time.

Our primary contribution in this paper is the development of a methodology to estimate marginal emissions of electricity demand that vary by location and time of day across the United States. The basic approach is to regress hourly emissions at the grid interconnection

level on hourly electricity consumption for subsets of the corresponding NERC sub-regions. This level of aggregation takes into account the generation mix within interconnected electricity markets and the shifting load profiles throughout the day. Applying the methodology to emissions and consumption data for 2007 through 2009 (the most recent available), we find substantial variation among locations and times of day. For example, marginal CO₂ emission rates are more than three times as large in the upper Midwest compared to the western United States. Moreover, within regions, marginal emission rates for some hours of the day are more than twice those for other hours. While we focus our analysis on CO₂, which is a uniformly mixing GHG, we report the results for sulfur dioxide and nitrous oxides as well.

Estimates of the spatially and temporally heterogeneous marginal emission rates are critical for evaluating a range of energy and environmental policies and initiatives. We apply our results to an evaluation of PEVs in particular. The charging of PEVs increases demand for electricity and its consequent emissions, while simultaneously reducing emissions from the tailpipes of substitute vehicles that otherwise would have been driven. Our results show how the emissions of charging PEVs differs by region and hours of the day. In some regions (the west and Texas), the CO₂ emissions from driving PEVs are less than those from driving a hybrid. However, in other regions (the upper Midwest), charging during the recommended hours of midnight to 4 AM implies that PEVs generate more emissions than even the average car currently on the road. Underlying this result is a fundamental tension between load management of electricity and achieving environmental goals. The hours when electricity is the least expensive to produce tend to be the hours with the greatest emissions. In addition to PEVs, we show how our estimates of marginal emissions are useful for evaluating other policies and initiatives related to distributed solar and real-time pricing. It would be relatively straightforward to extend this analysis to other energy shifting policies, such as those targeting energy efficiency or the deployment of large-scale energy storage. The latter may be particularly important, as storage will likely facilitate additional 'dirty' generation during off-peak hours to be dispatched during peak ones.

Finally, while our estimates and applications provide new insight, there are caveats and limitations that should be recognized. The general methodology holds the fuel mix for

electricity generation constant and as such should be used for short- to medium-run analyses. While it is straightforward to replicate our approach as new data becomes available, a long run analysis should also attend to the endogenous changes in fuel mix as well as upgrades and replacements of existing electricity generating units. Each year, about one to two percent of capacity retires and is replaced. Some of this replacement may be induced by policy changes intended to alter current energy consumption patterns. For example, natural gas prices have fallen substantially over the past few years due to the recession and the increased production of natural gas from hydrofracturing and horizontal drilling techniques. This has resulted in more production from natural gas power plants. In spring 2012, natural gas and coal plants each produced about one-third of U.S. electricity (compared to their historic averages of 20% and 50%, respectively). In general, the relative prices of coal and natural gas affect the dispatch of power plants and thus marginal emissions rates (see Cullen and Mansur, 2013).

In terms of our application to PEVs and other electricity-shifting policies, the analyses are admittedly incomplete for full policy evaluations. We focus on CO₂ emissions, their social costs, and comparisons with electricity generation costs. But other pollutants, along with important features and nuances in each case, should be taken into account to make these analyses more comprehensive. Doing so will require careful attention to the heterogeneity of marginal damages and locations of other pollutants across space and time, as well as a clear understanding of the institutional structures and constraints under which those pollutants are regulated (*e.g.*, under a cap-and-trade regime). These concerns comprise a future research agenda.

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Hypothetical dispatch curve for summer 2011
 variable operating cost (dollars per megawatthours)

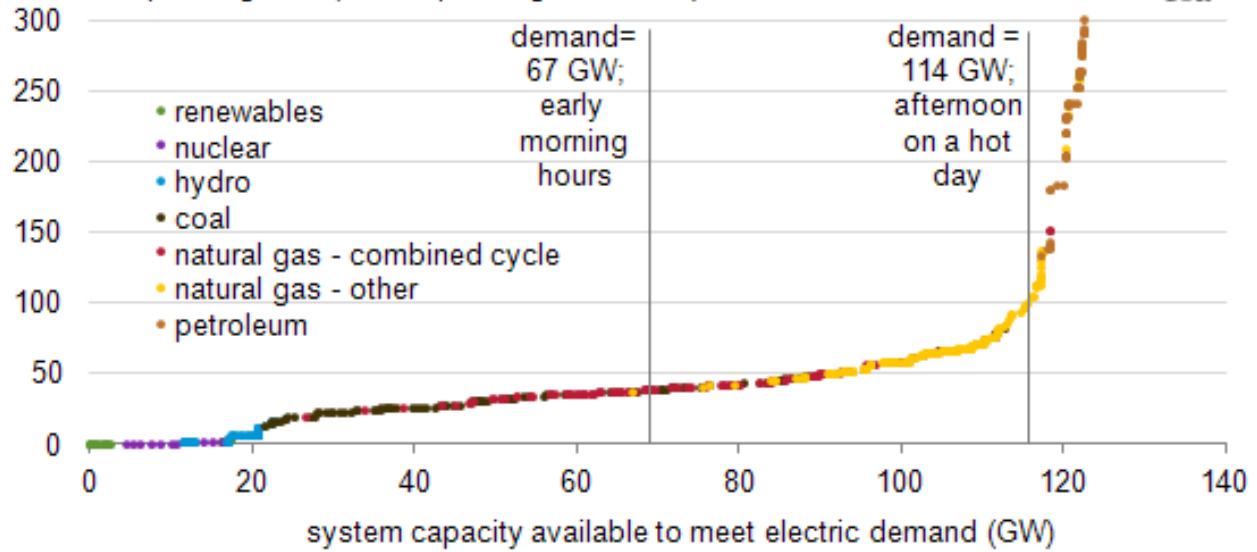


Figure 1: Hypothetical marginal cost curve for electricity supply.

(Source: <http://www.eia.gov/todayinenergy/detail.cfm?id=7590>, accessed January 30, 2014)

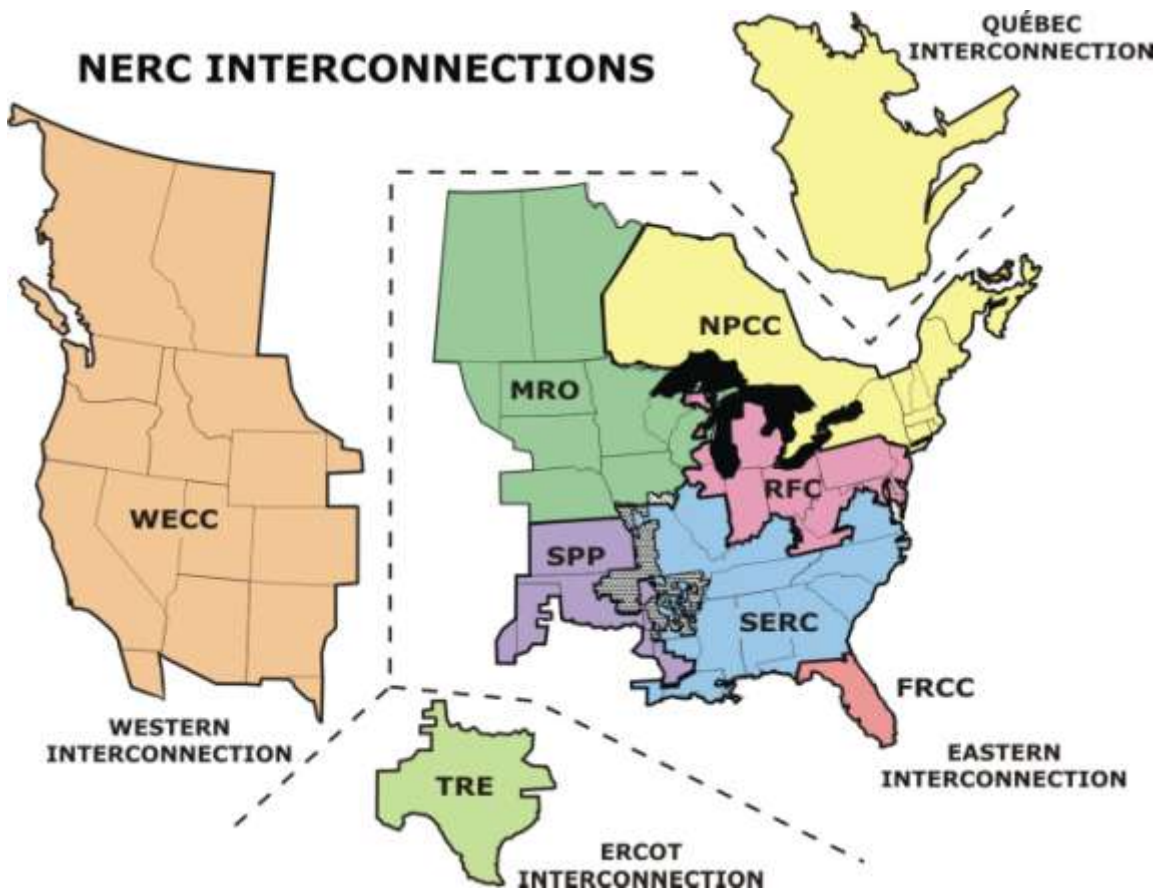


Figure 2: Grid interconnections and NERC regions, acronyms defined in Section 3.1
 (Source: NERC website at www.nerc.com, accessed January 30, 2014)

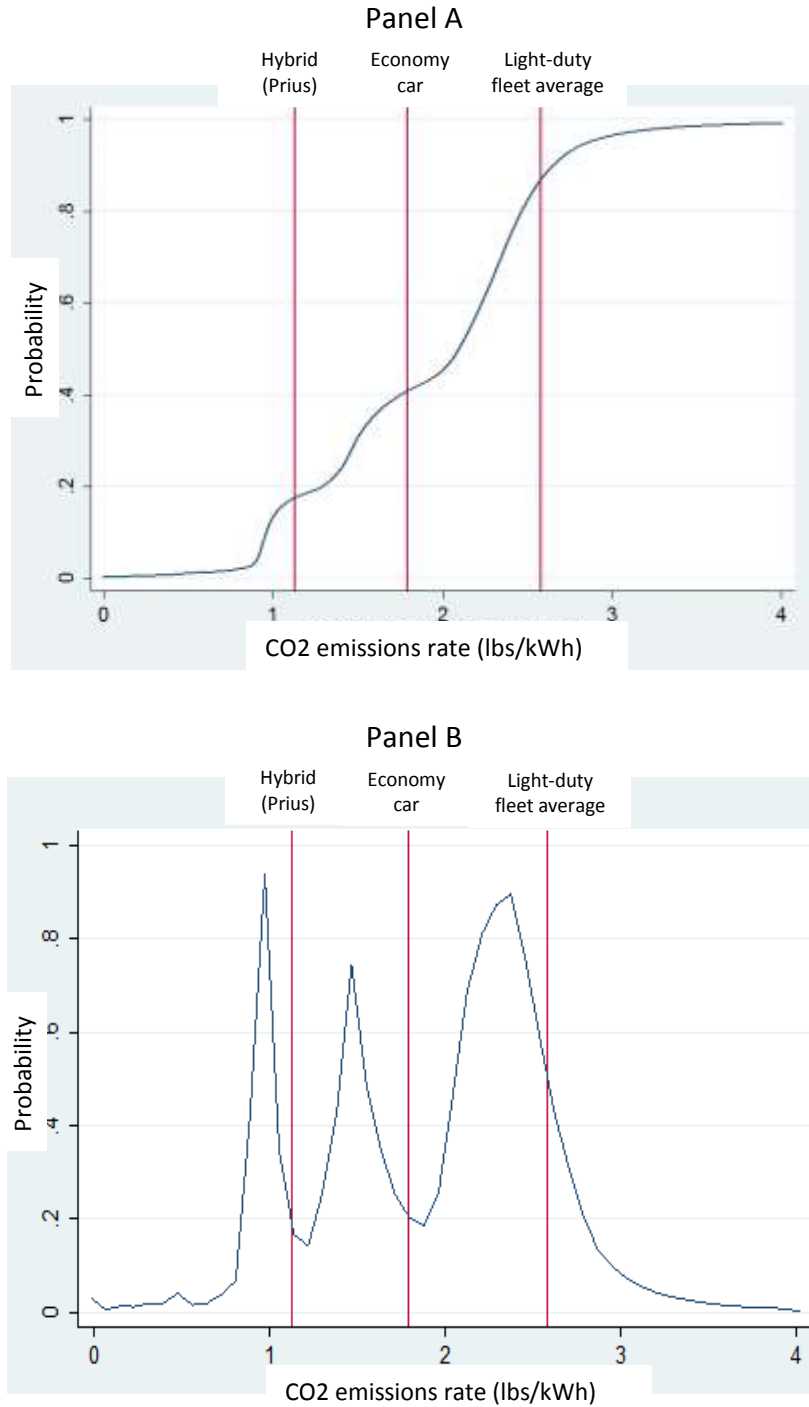


Figure 3: Cumulative distribution function (Panel A) and kernel probability density function (Panel B) of fossil-fired power, net transmitted generation (*i.e.*, consumption-based) CO₂ emission rates, in comparison with light-duty average, economy, and hybrid vehicle alternatives

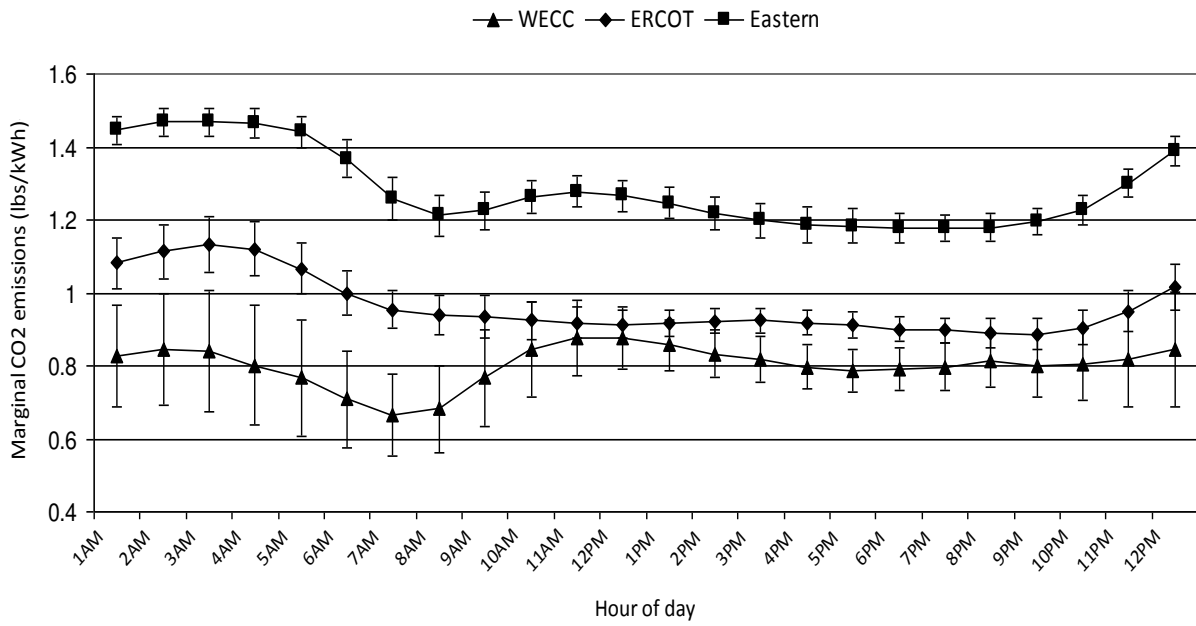
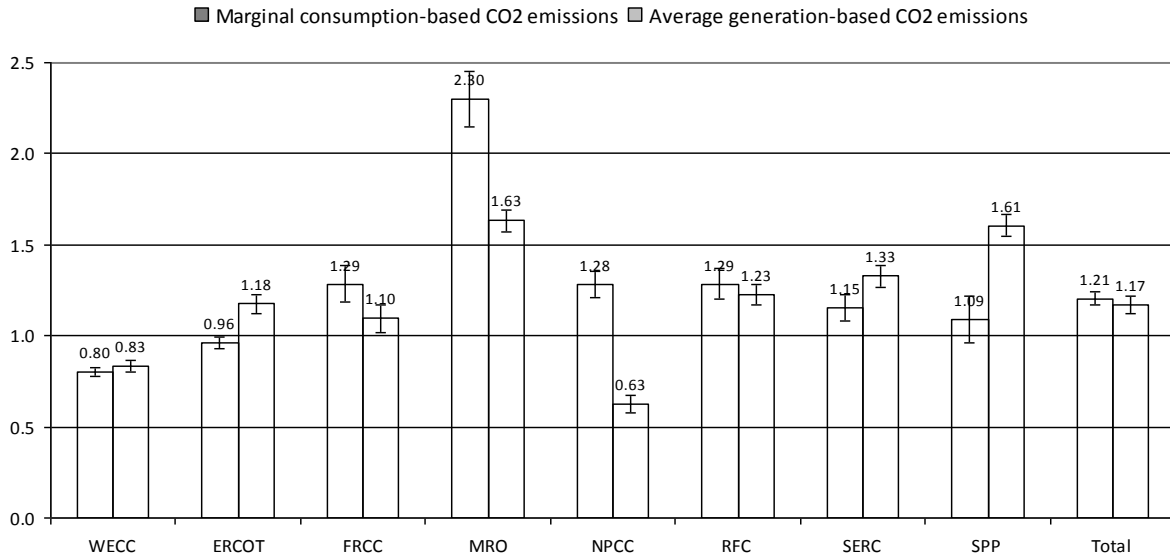


Figure 4: Marginal CO₂ emissions (lbs/kWh) and 95-percent confidence intervals, by interconnection and hour of day

Panel A: Marginal estimates for NERC regions based on unweighted average of hourly coefficients in Table 2 (and 95-percent confidence intervals), marginal estimate for the total derived using weighted average by hourly regional electricity consumption, average generation-based estimates taken from Table 1



Panel B: Generation-based estimates from Siler-Evans *et al.* (2012) and total category derived from authors' calculation using weighed average by regional electricity consumption

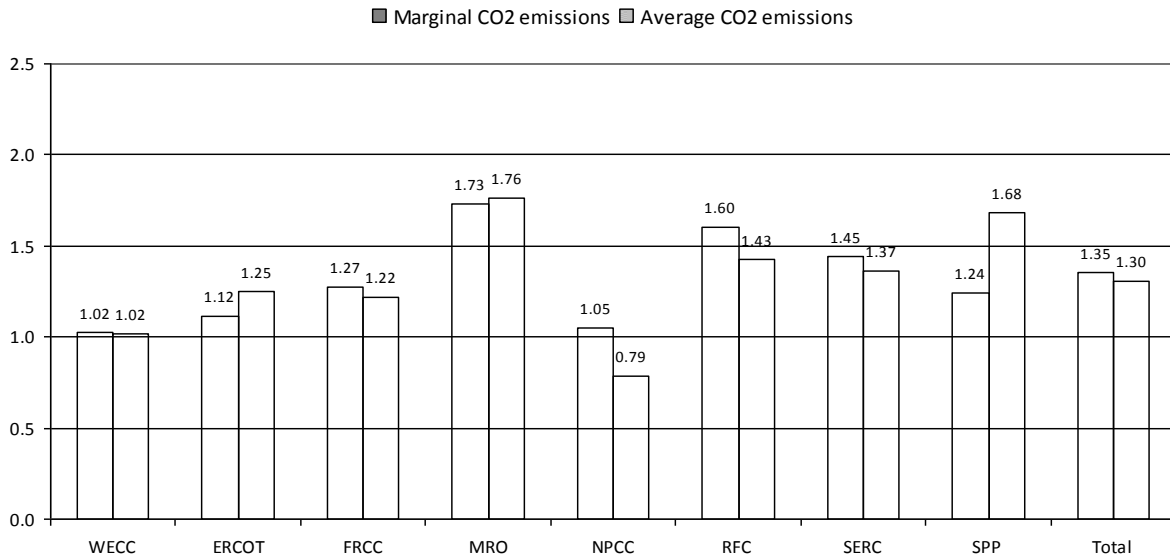


Figure 5: Comparison of marginal and average CO₂ emission rates by NERC regions

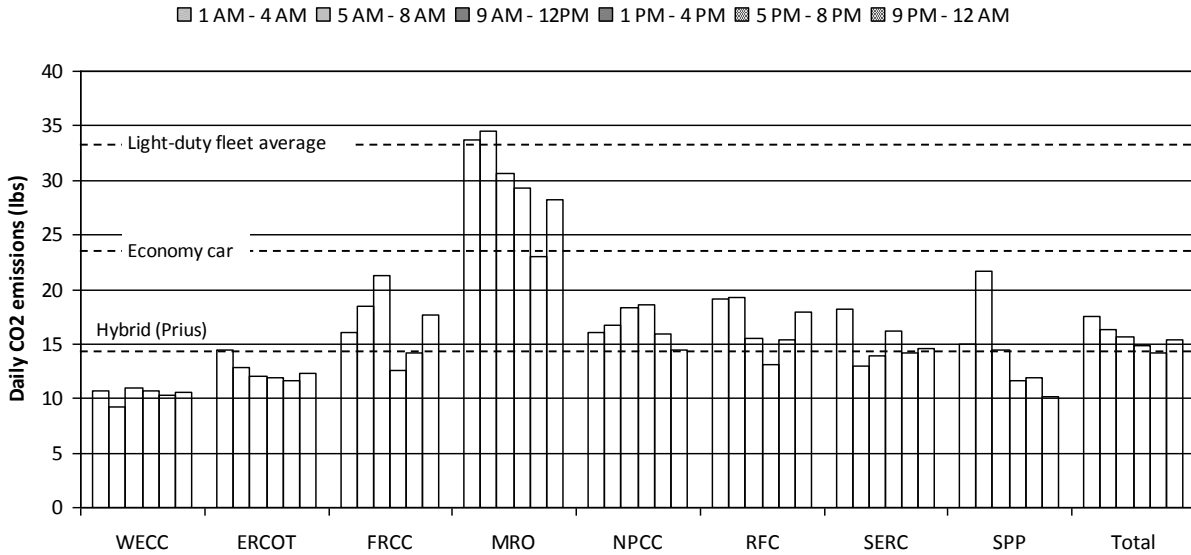


Figure 6: Daily CO₂ emissions of different charging times and NERC regions for a PEV to drive 35 miles, with comparisons to possible substitute cars

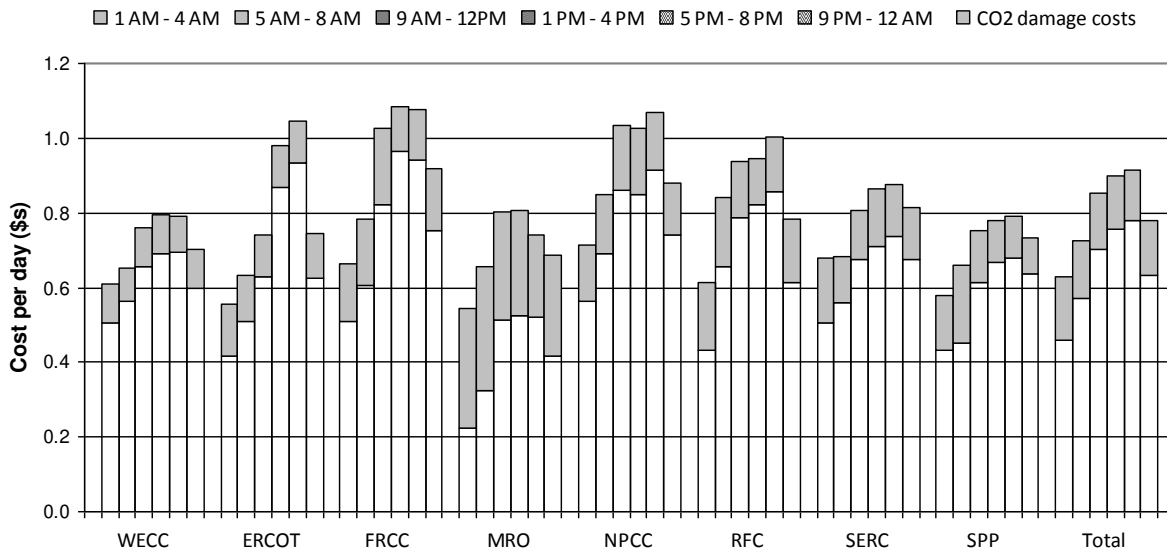


Figure 7: Social costs of daily electricity generation and CO₂ emissions of different charging times and NERC regions for a PEV to drive 35 miles

Table 1: Summary statistics by interconnection and NERC regions

Region	CO ₂ Emissions (million lbs/hour)	Electricity Consumption (million kWhs)	Net Electricity Generation (million kWhs)	Emissions Rate (lbs/kWh)		
				Consumption- Based	Generation- Based	eGRID (2007, 2009)
WECC	70.5 (10.4)	82.7 (13.2)	84.7 (6.6)	0.852 (0.071)	0.832 (0.103)	0.974
ERCOT	45.0 (8.6)	35.3 (8.2)	38.3 (5.3)	1.278 (0.065)	1.176 (0.164)	1.217
Eastern	427.4 (71.7)	339.4 (58.0)	339.5 (30.3)	1.261 (0.063)	1.257 (0.163)	1.329
FRCC	26.4 (7.0)	25.9 (6.7)	24.0 (3.3)	1.016 (0.043)	1.097 (0.231)	1.199
MRO	40.0 (5.5)	33.8 (6.8)	24.5 (1.9)	1.204 (0.168)	1.632 (0.187)	1.671
NPCC	19.2 (5.3)	33.6 (6.2)	30.4 (2.7)	0.568 (0.062)	0.627 (0.147)	0.724
RFC	138.0 (24.0)	109.9 (18.8)	112.3 (10.3)	1.256 (0.079)	1.227 (0.170)	1.400
SERC	163.9 (28.9)	111.8 (23.7)	123.3 (12.2)	1.472 (0.059)	1.327 (0.180)	1.308
SPP	39.8 (6.8)	24.4 (5.1)	24.8 (3.2)	1.640 (0.123)	1.606 (0.190)	1.675
Total	542.9 (86.1)	457.4 (76.4)	462.5 (40.4)	1.190 (0.063)	1.172 (0.142)	1.255

Notes: Reported numbers are means and standard deviations (in parentheses), with the exception of the last column. Rows above the first dotted line are interconnections, and those below are the separate NERC regions for the Eastern interconnection. CO₂ emissions are hourly from EPA's CEMS data; electricity consumption is hourly from FERC Form 714; and net electricity generation is average hourly generation based on monthly reports from EIA Form 923. The consumption- and generation-based emissions rates are simply the ratio of the first column over the other respective column. The eGrid emissions rate is based on simply aggregating the data set's emissions and net generation over both 2007 and 2009.

Table 2: Regression results of marginal CO₂ emissions (lbs/kWh), by interconnection, NERC regions, and time of day

Hour	Interconnection			Eastern NERC region						Total U.S.
	WECC	ERCOT	Eastern	FRCC	MRO	NPCC	RFC	SERC	SPP	
1 AM	0.83 (0.07)	1.08 (0.04)	1.45 (0.02)	1.33 (0.18)	1.91 (0.58)	0.73 (0.31)	1.73 (0.18)	1.28 (0.09)	1.35 (0.47)	1.31
2 AM	0.84 (0.08)	1.11 (0.04)	1.47 (0.02)	1.22 (0.16)	2.83 (0.24)	1.32 (0.25)	1.40 (0.11)	1.44 (0.06)	0.92 (0.27)	1.36
3 AM	0.84 (0.08)	1.13 (0.04)	1.47 (0.02)	1.19 (0.15)	2.82 (0.24)	1.41 (0.26)	1.37 (0.11)	1.45 (0.06)	1.11 (0.28)	1.37
4 AM	0.80 (0.08)	1.12 (0.04)	1.47 (0.02)	1.21 (0.15)	2.81 (0.25)	1.46 (0.27)	1.38 (0.11)	1.43 (0.06)	1.24 (0.29)	1.36
5 AM	0.77 (0.08)	1.07 (0.04)	1.44 (0.02)	1.26 (0.15)	2.81 (0.28)	1.35 (0.35)	1.47 (0.13)	1.30 (0.07)	1.44 (0.33)	1.35
6 AM	0.71 (0.07)	1.00 (0.03)	1.37 (0.03)	1.44 (0.16)	2.67 (0.31)	1.18 (0.45)	1.58 (0.16)	1.05 (0.08)	1.75 (0.36)	1.30
7 AM	0.66 (0.06)	0.95 (0.03)	1.26 (0.03)	1.48 (0.17)	2.80 (0.39)	1.36 (0.45)	1.41 (0.18)	0.87 (0.09)	1.74 (0.39)	1.22
8 AM	0.68 (0.06)	0.94 (0.03)	1.21 (0.03)	1.52 (0.16)	2.35 (0.37)	1.24 (0.35)	1.46 (0.16)	0.76 (0.09)	1.74 (0.40)	1.17
9 AM	0.77 (0.07)	0.94 (0.03)	1.23 (0.03)	1.75 (0.18)	2.15 (0.31)	1.21 (0.28)	1.46 (0.12)	0.79 (0.09)	1.41 (0.37)	1.18
10 AM	0.85 (0.07)	0.92 (0.03)	1.26 (0.02)	1.81 (0.21)	2.37 (0.29)	1.42 (0.23)	1.25 (0.10)	0.99 (0.07)	1.16 (0.34)	1.21
11 AM	0.88 (0.05)	0.92 (0.02)	1.28 (0.02)	1.65 (0.22)	2.49 (0.24)	1.50 (0.20)	1.08 (0.08)	1.20 (0.06)	0.97 (0.29)	1.22
12 PM	0.88 (0.04)	0.91 (0.02)	1.27 (0.02)	1.33 (0.20)	2.43 (0.21)	1.52 (0.16)	0.99 (0.07)	1.32 (0.06)	0.91 (0.27)	1.20
1 PM	0.86 (0.04)	0.92 (0.02)	1.25 (0.02)	1.12 (0.18)	2.38 (0.18)	1.45 (0.16)	0.99 (0.06)	1.32 (0.06)	0.86 (0.25)	1.18
2 PM	0.83 (0.03)	0.92 (0.02)	1.22 (0.02)	0.97 (0.17)	2.28 (0.17)	1.41 (0.17)	1.01 (0.06)	1.27 (0.07)	0.87 (0.23)	1.15
3 PM	0.82 (0.03)	0.92 (0.02)	1.20 (0.02)	0.89 (0.16)	2.17 (0.17)	1.45 (0.18)	1.01 (0.07)	1.21 (0.07)	0.95 (0.21)	1.12
4 PM	0.80 (0.03)	0.92 (0.02)	1.19 (0.02)	0.89 (0.15)	2.18 (0.17)	1.40 (0.18)	1.03 (0.07)	1.18 (0.07)	0.92 (0.20)	1.11
5 PM	0.79 (0.03)	0.91 (0.02)	1.18 (0.02)	0.93 (0.15)	1.99 (0.16)	1.33 (0.17)	1.09 (0.07)	1.16 (0.07)	0.89 (0.19)	1.10
6 PM	0.79 (0.03)	0.90 (0.02)	1.18 (0.02)	1.04 (0.14)	1.78 (0.14)	1.31 (0.17)	1.14 (0.06)	1.11 (0.06)	0.96 (0.18)	1.09
7 PM	0.80 (0.03)	0.90 (0.02)	1.18 (0.02)	1.15 (0.14)	1.69 (0.15)	1.16 (0.17)	1.22 (0.06)	1.07 (0.05)	0.92 (0.19)	1.09
8 PM	0.81 (0.04)	0.89 (0.02)	1.18 (0.02)	1.23 (0.15)	1.64 (0.18)	1.11 (0.21)	1.27 (0.07)	1.04 (0.05)	0.90 (0.22)	1.09
9 PM	0.80 (0.05)	0.89 (0.02)	1.19 (0.02)	1.28 (0.15)	1.81 (0.17)	1.28 (0.20)	1.21 (0.07)	1.07 (0.05)	0.87 (0.21)	1.11
10 PM	0.81 (0.05)	0.91 (0.03)	1.23 (0.02)	1.35 (0.15)	2.03 (0.18)	1.05 (0.20)	1.35 (0.07)	1.05 (0.05)	0.77 (0.24)	1.14
11 PM	0.82 (0.07)	0.95 (0.03)	1.30 (0.02)	1.46 (0.16)	2.27 (0.19)	1.06 (0.23)	1.43 (0.08)	1.12 (0.06)	0.72 (0.26)	1.21
12 AM	0.84 (0.08)	1.02 (0.03)	1.39 (0.02)	1.34 (0.17)	2.59 (0.21)	1.06 (0.25)	1.51 (0.09)	1.23 (0.06)	0.75 (0.26)	1.28
R ²	0.95	0.97	0.99	0.99	--	--	--	--	--	

Notes: The dependent variable in all models is hourly CO₂ emissions. The three interconnection models are estimates of specification (1). The Eastern NREC region columns are coefficient estimates from the same model, specification (2). All models include hour-of-day by month-of-sample fixed effects. The sample has 18,792 hourly observations which is the number of hours in 261 weekdays per year over the three-year period we analyze. Newey-West standard errors with a 24-hour lag are reported in parentheses, and all coefficients are statistically significant at the 99-percent level. The total U.S. column is an average of the coefficients across all sub-regions weighted by the region's hourly electricity demand.

Appendix

This appendix examines several extensions to the main results. Appendix tables A1 and A2 examine sulfur dioxide (lbs/MWh) and nitrogen oxides (lbs/MWh), respectively. Table A3 reports the hourly average marginal private costs of electricity generation (\$/MWh) for each NERC region and hour of day.

Figure A1 summarizes several tests for the robustness of our main findings to the choice of month-of-sample by hour-of-day fixed effects. We report results from a week-of-sample by hour-of-day fixed effects model, a season-of-sample by hour-of-day fixed effects model, and day-of-sample fixed effects and seasonal hour-of-day fixed effects model. The first two models are identified off of across-day within hour variation (like the main results) and have similar estimates of marginal emissions. The third model uses within day variation suggesting that dynamics do matter if a model uses this variation. Finally, we include results from a regression without fixed effects. Table A6 reports the amount of variation that each set of fixed effects absorbs. For each interconnection, we see that about 13-16 percent of the carbon dioxide emissions' variation remains after controlling for our main set of fixed effects (namely, month-of-sample by hour-of-day). We also show how these fixed effects fit variables more directly related to the market equilibrium: aggregate consumption (load) and market price for a single market within each interconnection.

Appendix Figures and Tables

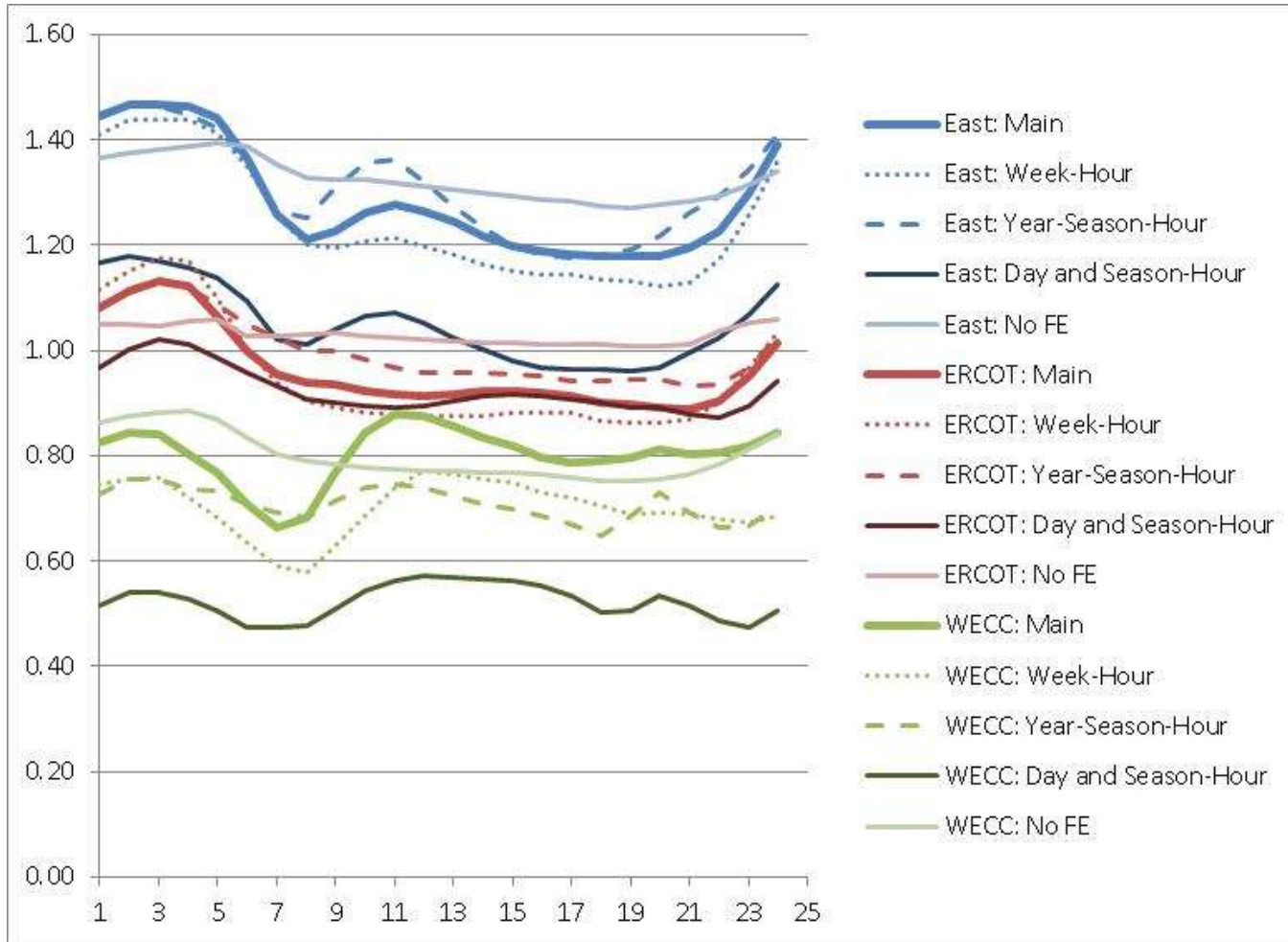


Figure A1: Robustness of Fixed Effects

Table 1A: Regression results of marginal sulfur dioxide emissions (lbs/MWh), by interconnection, NERC regions, and time of day

Hour	Interconnection			Eastern NERC region					
	WECC	ERCOT	Eastern	FRCC	MRO	NPCC	RFC	SERC	SPP
1 AM	0.53 (0.08)	1.46 (0.19)	6.11 (0.17)	4.62 (1.30)	3.73 (2.42)	0.69 (1.61)	10.22 (0.83)	4.78 (0.62)	1.18 (1.99)
2 AM	0.58 (0.09)	1.71 (0.20)	6.19 (0.18)	4.47 (1.18)	5.11 (1.66)	2.75 (1.47)	9.40 (0.71)	5.22 (0.55)	0.68 (1.62)
3 AM	0.63 (0.09)	1.83 (0.21)	6.17 (0.19)	4.38 (1.24)	4.25 (1.89)	3.08 (1.53)	9.34 (0.74)	5.12 (0.51)	2.32 (1.73)
4 AM	0.52 (0.08)	1.77 (0.20)	6.11 (0.19)	4.73 (1.20)	3.73 (2.12)	3.76 (1.66)	9.24 (0.78)	4.91 (0.49)	3.22 (1.82)
5 AM	0.47 (0.08)	1.44 (0.18)	5.96 (0.18)	5.30 (1.17)	4.33 (2.17)	4.79 (1.77)	8.74 (0.77)	4.57 (0.42)	4.29 (1.89)
6 AM	0.36 (0.07)	1.11 (0.15)	5.45 (0.17)	6.24 (1.18)	3.93 (2.24)	6.12 (1.98)	8.09 (0.76)	3.49 (0.43)	5.65 (2.01)
7 AM	0.34 (0.06)	0.84 (0.12)	4.73 (0.18)	6.71 (1.19)	4.35 (2.55)	5.59 (2.48)	7.77 (1.02)	1.92 (0.49)	5.89 (2.06)
8 AM	0.26 (0.07)	0.68 (0.13)	4.36 (0.17)	6.23 (1.04)	5.30 (2.33)	6.09 (2.45)	7.41 (0.98)	1.16 (0.46)	5.55 (2.14)
9 AM	0.22 (0.07)	0.55 (0.13)	4.35 (0.17)	6.79 (1.21)	7.59 (2.02)	5.52 (2.06)	6.64 (0.75)	1.64 (0.48)	1.89 (2.01)
10 AM	0.27 (0.08)	0.46 (0.13)	4.43 (0.16)	6.99 (1.32)	10.73 (1.99)	5.75 (1.88)	4.97 (0.74)	2.83 (0.54)	-0.60 (1.88)
11 AM	0.23 (0.06)	0.40 (0.12)	4.31 (0.17)	6.27 (1.33)	12.38 (1.89)	5.20 (1.90)	3.56 (0.82)	3.95 (0.57)	-1.97 (1.78)
12 PM	0.23 (0.07)	0.35 (0.11)	4.04 (0.20)	4.79 (1.24)	11.99 (1.80)	4.58 (1.76)	2.76 (0.82)	4.49 (0.62)	-2.07 (1.83)
1 PM	0.20 (0.06)	0.33 (0.10)	3.81 (0.21)	3.96 (1.17)	10.85 (1.71)	4.47 (1.68)	2.57 (0.77)	4.29 (0.70)	-1.10 (1.96)
2 PM	0.15 (0.06)	0.32 (0.09)	3.64 (0.22)	3.45 (1.10)	9.65 (1.70)	4.42 (1.52)	2.71 (0.73)	3.80 (0.73)	0.11 (1.86)
3 PM	0.14 (0.05)	0.34 (0.10)	3.56 (0.23)	3.17 (1.08)	9.03 (1.68)	4.72 (1.37)	2.71 (0.67)	3.48 (0.70)	1.30 (1.71)
4 PM	0.14 (0.05)	0.31 (0.10)	3.52 (0.23)	3.10 (1.03)	8.78 (1.61)	4.40 (1.31)	2.76 (0.67)	3.45 (0.67)	1.28 (1.50)
5 PM	0.16 (0.05)	0.29 (0.09)	3.52 (0.23)	3.35 (1.00)	7.81 (1.60)	3.95 (1.29)	3.08 (0.68)	3.41 (0.66)	1.08 (1.39)
6 PM	0.19 (0.05)	0.26 (0.09)	3.56 (0.20)	4.04 (0.99)	6.84 (1.47)	3.96 (1.23)	3.55 (0.65)	3.10 (0.60)	1.25 (1.30)
7 PM	0.17 (0.05)	0.26 (0.10)	3.62 (0.17)	4.88 (0.99)	6.97 (1.33)	4.08 (1.21)	3.92 (0.58)	2.80 (0.51)	0.65 (1.26)
8 PM	0.17 (0.06)	0.24 (0.11)	3.69 (0.16)	5.34 (1.06)	6.83 (1.37)	2.76 (1.26)	4.58 (0.61)	2.74 (0.51)	0.00 (1.30)
9 PM	0.20 (0.06)	0.29 (0.12)	3.85 (0.16)	5.69 (1.18)	7.28 (1.53)	2.21 (1.36)	5.11 (0.72)	2.74 (0.56)	-0.82 (1.35)
10 PM	0.29 (0.08)	0.39 (0.13)	4.22 (0.16)	5.67 (1.20)	7.53 (1.48)	0.88 (1.38)	6.39 (0.70)	2.88 (0.54)	-1.28 (1.49)
11 PM	0.37 (0.09)	0.61 (0.15)	4.93 (0.15)	5.51 (1.27)	8.00 (1.52)	1.65 (1.48)	7.36 (0.76)	3.74 (0.56)	-1.95 (1.51)
12 AM	0.43 (0.10)	0.92 (0.16)	5.65 (0.15)	4.74 (1.29)	7.31 (1.69)	2.03 (1.48)	8.50 (0.73)	4.64 (0.54)	-1.56 (1.55)
R^2	0.81	0.67	0.98	0.98	--	--	--	--	--

Notes: The dependent variable in all models is hourly sulfur dioxide emissions. The three interconnection models are estimates of specification (1). The Eastern NREC region columns are coefficient estimates from the same model, specification (2). All models include 18,792 hourly observations and hour-of-day by month-of-sample fixed effects. Newey-West standard errors with a 24-hour lag are reported in parentheses.

Table A2: Regression results of marginal nitrogen oxides emissions (lbs/MWh), by interconnection, NERC regions, and time of day

Hour	Interconnection			Eastern NERC region					
	WECC	ERCOT	Eastern	FRCC	MRO	NPCC	RFC	SERC	SPP
1 AM	0.71 (0.08)	0.56 (0.03)	1.87 (0.10)	0.48 (0.43)	2.29 (0.55)	-1.27 (0.66)	2.80 (0.43)	1.95 (0.29)	0.04 (0.61)
2 AM	0.78 (0.10)	0.58 (0.03)	1.93 (0.11)	0.29 (0.41)	2.12 (0.75)	-0.79 (0.70)	2.76 (0.42)	2.08 (0.26)	0.33 (0.70)
3 AM	0.79 (0.11)	0.59 (0.03)	1.95 (0.11)	0.24 (0.42)	1.90 (0.82)	-0.68 (0.71)	2.72 (0.39)	2.12 (0.25)	0.77 (0.74)
4 AM	0.73 (0.10)	0.60 (0.03)	1.97 (0.11)	0.32 (0.41)	1.86 (0.88)	-0.51 (0.69)	2.67 (0.35)	2.11 (0.23)	1.29 (0.81)
5 AM	0.64 (0.10)	0.57 (0.04)	1.95 (0.11)	0.43 (0.41)	2.13 (0.97)	0.10 (0.78)	2.40 (0.30)	2.08 (0.21)	1.90 (0.86)
6 AM	0.55 (0.09)	0.55 (0.04)	1.83 (0.09)	0.98 (0.39)	2.15 (0.95)	0.85 (0.70)	2.07 (0.25)	1.79 (0.17)	3.06 (0.82)
7 AM	0.44 (0.08)	0.63 (0.03)	1.65 (0.07)	1.40 (0.44)	1.99 (0.97)	1.11 (0.64)	1.80 (0.27)	1.48 (0.16)	3.48 (0.82)
8 AM	0.39 (0.07)	0.63 (0.03)	1.59 (0.06)	1.66 (0.45)	2.10 (0.85)	1.50 (0.56)	1.49 (0.26)	1.42 (0.15)	3.51 (0.80)
9 AM	0.40 (0.07)	0.55 (0.03)	1.57 (0.06)	1.67 (0.46)	2.56 (0.73)	2.09 (0.56)	1.09 (0.25)	1.55 (0.16)	2.92 (0.79)
10 AM	0.41 (0.07)	0.52 (0.03)	1.53 (0.07)	1.44 (0.43)	3.17 (0.68)	2.40 (0.53)	0.67 (0.25)	1.82 (0.17)	2.14 (0.77)
11 AM	0.41 (0.06)	0.55 (0.03)	1.46 (0.07)	1.21 (0.45)	3.68 (0.67)	2.42 (0.52)	0.44 (0.26)	1.93 (0.17)	1.35 (0.67)
12 PM	0.43 (0.05)	0.60 (0.04)	1.38 (0.07)	0.89 (0.44)	3.64 (0.62)	2.26 (0.45)	0.45 (0.23)	1.86 (0.19)	1.02 (0.60)
1 PM	0.43 (0.04)	0.72 (0.05)	1.32 (0.07)	0.91 (0.43)	3.19 (0.58)	2.13 (0.42)	0.56 (0.20)	1.66 (0.21)	1.30 (0.58)
2 PM	0.43 (0.04)	0.85 (0.06)	1.28 (0.07)	0.98 (0.42)	2.87 (0.57)	2.16 (0.37)	0.71 (0.20)	1.38 (0.22)	1.50 (0.56)
3 PM	0.43 (0.04)	0.92 (0.07)	1.26 (0.07)	1.09 (0.42)	2.68 (0.55)	2.24 (0.34)	0.79 (0.20)	1.19 (0.24)	1.75 (0.54)
4 PM	0.41 (0.04)	0.94 (0.07)	1.24 (0.07)	1.06 (0.41)	2.70 (0.55)	2.21 (0.33)	0.82 (0.20)	1.12 (0.25)	1.49 (0.53)
5 PM	0.40 (0.04)	0.91 (0.06)	1.24 (0.07)	1.11 (0.39)	2.23 (0.51)	1.96 (0.32)	1.01 (0.21)	1.07 (0.26)	1.46 (0.50)
6 PM	0.40 (0.04)	0.81 (0.05)	1.25 (0.07)	1.29 (0.37)	2.01 (0.49)	1.91 (0.35)	1.12 (0.22)	1.03 (0.26)	1.37 (0.46)
7 PM	0.40 (0.04)	0.72 (0.04)	1.28 (0.06)	1.50 (0.37)	1.95 (0.47)	1.82 (0.38)	1.28 (0.27)	1.02 (0.26)	1.10 (0.47)
8 PM	0.39 (0.05)	0.66 (0.04)	1.32 (0.06)	1.53 (0.39)	2.28 (0.49)	1.90 (0.38)	1.20 (0.24)	1.17 (0.24)	0.67 (0.48)
9 PM	0.40 (0.06)	0.60 (0.04)	1.34 (0.06)	1.33 (0.42)	2.49 (0.57)	1.42 (0.38)	1.25 (0.29)	1.30 (0.26)	0.44 (0.49)
10 PM	0.47 (0.07)	0.53 (0.03)	1.40 (0.06)	1.06 (0.43)	2.05 (0.59)	-0.01 (0.52)	1.94 (0.40)	1.23 (0.27)	0.56 (0.53)
11 PM	0.55 (0.08)	0.51 (0.03)	1.54 (0.07)	0.80 (0.44)	2.11 (0.61)	-0.37 (0.62)	2.27 (0.48)	1.45 (0.29)	0.07 (0.55)
12 AM	0.64 (0.09)	0.51 (0.03)	1.73 (0.08)	0.33 (0.46)	2.29 (0.67)	-0.52 (0.66)	2.48 (0.51)	1.81 (0.31)	-0.15 (0.61)
R^2	0.90	0.90	0.99	0.99	--	--	--	--	--

Notes: The dependent variable in all models is hourly nitrogen oxides emissions. The three interconnection models are estimates of specification (1). The Eastern NREC region columns are coefficient estimates from the same model, specification (2). All models include 18,792 hourly observations and hour-of-day by month-of-sample fixed effects. Newey-West standard errors with a 24-hour lag are reported in parentheses.

Table A3: Marginal generation costs of electricity (\$/MWh), by NERC region and hour of day

Hour	Interconnection			Eastern NERC region						Total
	WECC	ERCOT	Eastern	FRCC	MRO	NPCC	RFC	SERC	SPP	U.S.
1 AM	39.88	41.08	37.15	42.18	19.01	47.31	35.54	40.27	37.28	37.92
2 AM	38.81	32.22	35.39	40.00	17.11	43.97	33.20	40.07	33.84	35.76
3 AM	38.25	28.30	33.56	37.82	16.22	41.73	31.37	38.19	31.90	34.01
4 AM	38.60	27.08	33.38	36.97	15.95	40.22	32.65	37.42	30.49	33.85
5 AM	39.88	29.22	35.33	39.55	17.24	42.01	37.42	37.17	30.00	35.70
6 AM	42.19	37.01	41.54	44.62	21.42	46.84	48.86	40.10	31.44	41.31
7 AM	44.97	40.94	48.90	48.07	27.66	60.31	58.49	44.94	35.44	47.55
8 AM	46.58	50.00	51.94	54.19	33.87	63.45	57.48	49.83	42.11	50.81
9 AM	48.33	42.63	52.32	56.55	36.80	63.39	55.98	50.71	44.20	50.85
10 AM	49.90	49.31	55.19	61.93	38.25	65.49	61.25	51.37	46.12	53.77
11 AM	51.28	50.86	56.94	65.44	40.63	68.13	62.88	52.13	48.57	55.44
12 PM	52.55	50.37	57.49	69.18	41.77	67.17	62.44	52.97	50.19	56.04
1 PM	52.54	52.00	58.31	72.47	42.07	66.10	63.39	53.75	51.03	56.76
2 PM	53.24	63.57	58.92	74.41	41.43	67.03	63.83	54.60	51.08	58.26
3 PM	53.57	74.12	58.23	74.81	39.84	64.19	62.53	54.96	51.35	58.66
4 PM	53.62	77.32	58.37	75.15	38.67	64.08	63.07	55.00	51.96	59.03
5 PM	53.99	85.85	58.59	73.49	37.76	68.64	62.66	55.39	51.71	59.92
6 PM	54.18	77.64	60.71	71.95	38.61	73.04	66.62	56.78	51.62	60.84
7 PM	53.27	68.99	61.36	71.72	41.23	70.51	67.50	57.88	52.64	60.48
8 PM	51.74	54.55	61.15	72.55	42.25	69.55	67.37	57.24	52.65	58.93
9 PM	49.55	51.15	58.18	68.73	41.12	68.03	61.04	56.33	52.11	56.10
10 PM	47.27	43.44	51.36	62.46	35.86	59.47	48.06	54.18	51.14	50.05
11 PM	45.24	56.27	45.62	53.72	28.31	51.99	41.69	50.10	48.98	46.34
12 AM	42.50	41.90	41.71	46.32	23.19	49.03	37.99	47.29	43.72	41.86

Notes: The system lambda data are from FERC Form 714, with the exception of those for ERCOT, which are market clearing prices (which are available: <http://www.ercot.com/mktinfo/prices/mcpea> accessed January 30, 2014). The eastern and total columns are an average across all of the corresponding sub-regions weighted by the hourly electricity demand.

Supplementary Appendix to Working Paper 18462

This supplementary appendix examines several extensions to our main results. Table S1 reports hourly marginal gross generation (GWh) from fossil-fired power plants measured by CEMS. If these units were always marginal, then the coefficient should be approximately 1.1 to 1.2, reflecting the fact that gross generation includes electricity used by each power plant (about five to ten percent of total production usually) as well as line losses. As the table shows, many other units are marginal some of the time. These other units could be small fossil units, hydropower, or potentially nuclear.

Table S2 examines whether there are dynamic effects that would influence the main results. Namely, we examine whether excluding the lagged load measures has biased our estimates of the simultaneous marginal emissions. This is done by including the change in load from last hour to the current hour and using a Chow test to examine whether the coefficients on hourly load are statistically different from those in the main model. The variable, *Delta Q*, is significant at the 5% level in the eastern interconnection but not in the other interconnections. The Chow tests are insignificant at the 10% level.

Table S3 reports the variance decomposition. We find that, even with fixed effects, there is substantial variation remaining to identify the variables of interest. The table reports the percent of the variation explained by several sets of fixed effects (namely the R-squared from a regression) for three variables: load, price, and carbon emissions. The variable that firms most care about, price, shows about half of the variation remains after accounting for our preferred set of fixed effects (month of sample for each hour of the day).

Figure S1 illustrates graphically and in more detail the pattern of how electricity tends to flow around the United States. Although the graph is based on 2010 data and finer NERC sub-regions, a similar energy import-export pattern is evident. The important point of the figure for the purposes of our analysis is to recognize how electric power flows substantially within the grid interconnections, as this is critical for estimating the marginal emissions of changes in electricity demand at a particular location.

Figure S2 tests for omitted variable bias. Specifically, we consider whether unobserved, non-fossil generation that can be dispatched (in particular, hydropower dams) is correlated with load. Firms allocate water across those hours with the highest prices (or marginal revenue when firms have market power). While dams can be marginal in a given hour, there are constraints on the total amount of water that can be dispatched in a season. This correlation will attenuate the marginal emission estimates. To test for this omitted variable bias, we develop sharp bounds on these estimates akin to those of Lee (2009). For each hour of the day, we exclude the 10 percent of the sample with the highest (lowest) levels of load to set the upper (lower) bound. This 10 percent level approximates the share of electricity coming from hydropower. During our sample time period, this share was 22.7%, 0.2%, and 2.7% in the WECC, ERCOT, and the East, respectively.

Figure S3 compares the main marginal effects with average rates. We decompose the consumption-based emissions rates shown in Table 1 into hourly averages. Notably, the marginal rates display greater temporal variation within a day than do the average rates. As previously shown in Table 1 and Figure 5, the daily mean of the average rates are similar to the daily mean of the marginal rates in the East and WECC (-2% and 6% different respectively). However, in ERCOT, the averages are about 33% greater than the marginal rates. This reflects the fact that Texas has limited low-carbon baseload generation, like hydropower and nuclear power, compared with the rest of the U.S.

References

Lee, D. S., 2009. "Training, Wages, and Sample Selection: Estimating Sharp Bounds on Treatment Effects", *Review of Economic Studies*, 76(3): 1071-1102.

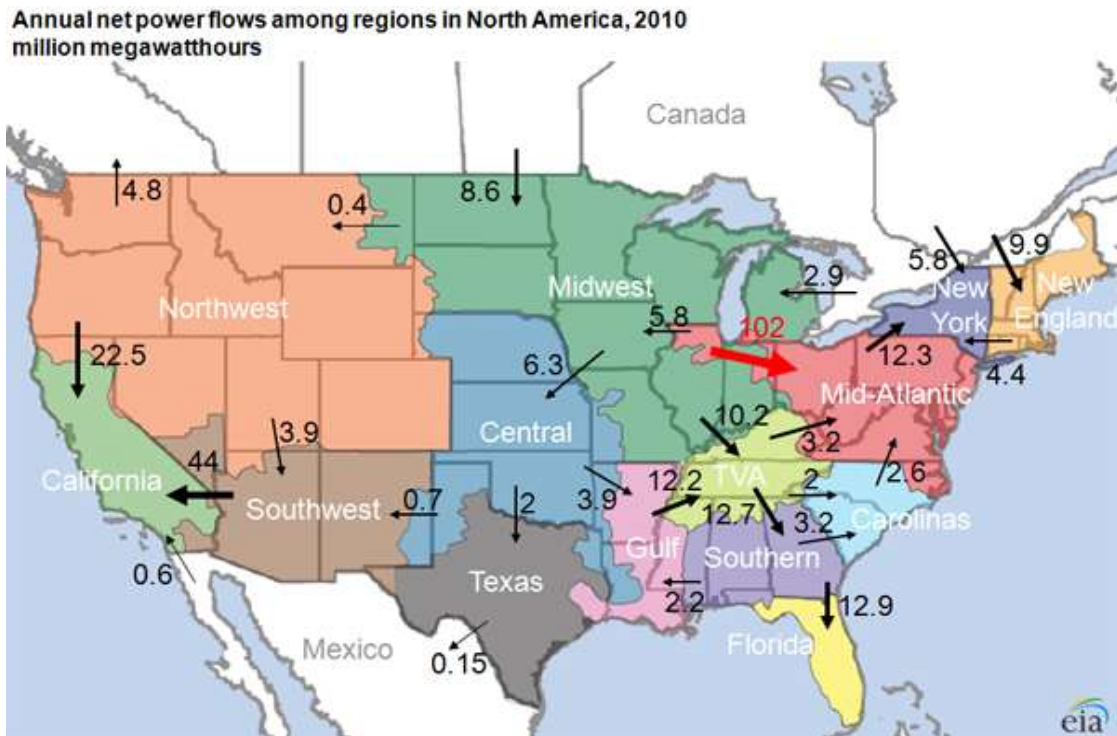


Figure S1: Annual 2010 net power flows for across NERC sub-regions
(Source: EIA figure based on FERC Form 714 data,
<http://www.eia.gov/todayinenergy/detail.cfm?id=4270> accessed January 30, 2014)

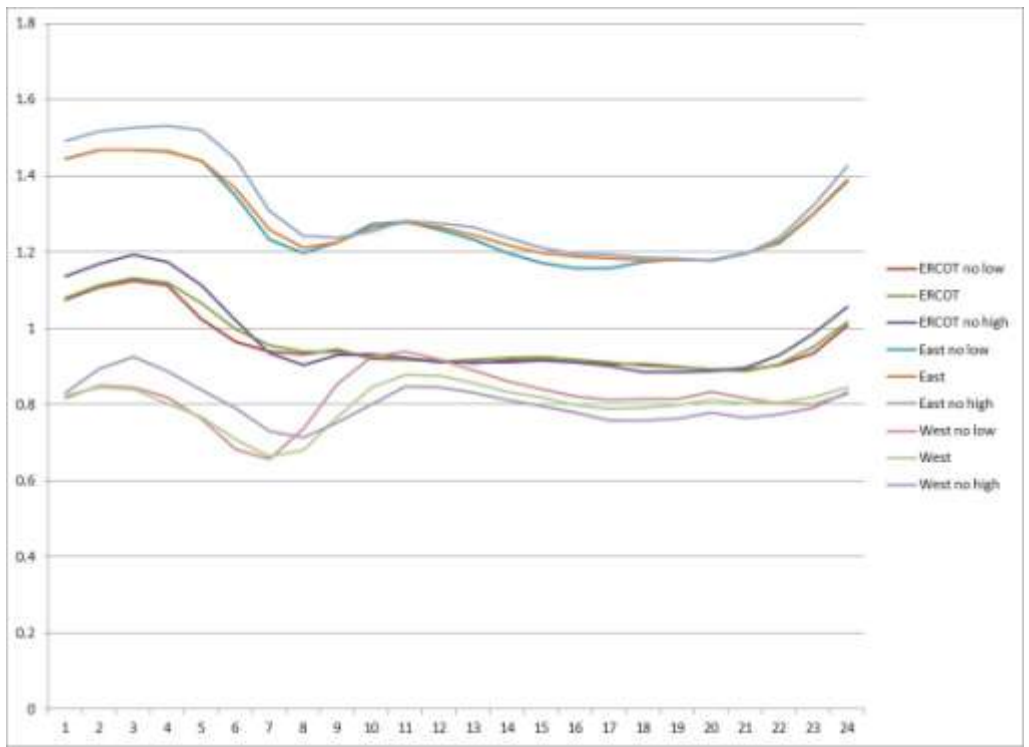


Figure S2: Sharp Bounds Tests

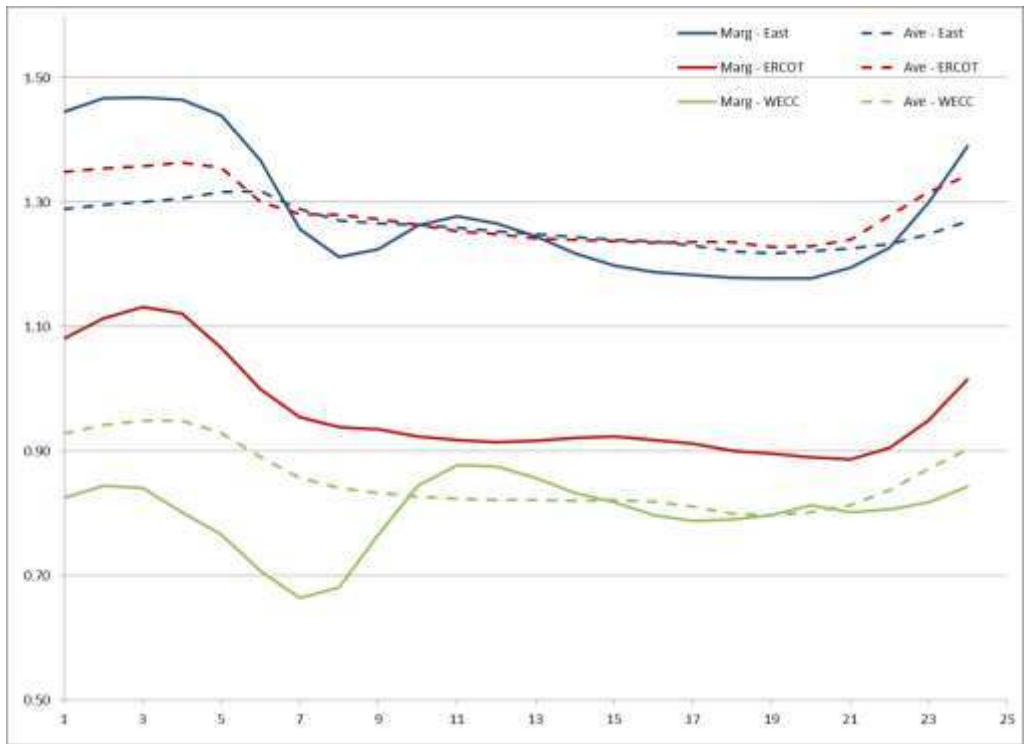


Figure S3: Comparison of Average and Marginal Emissions

Table S1: Regression results of gross generation (GWh), by interconnection, NERC regions, and time of day

Hour	Interconnection			Eastern NERC region					
	WECC	ERCOT	Eastern	FRCC	MRO	NPCC	RFC	SERC	SPP
1 AM	0.66 (0.04)	0.81 (0.02)	0.86 (0.01)	0.84 (0.09)	0.81 (0.34)	0.44 (0.17)	1.03 (0.11)	0.79 (0.05)	0.95 (0.26)
2 AM	0.66 (0.05)	0.81 (0.02)	0.86 (0.01)	0.78 (0.08)	1.34 (0.14)	0.74 (0.11)	0.84 (0.06)	0.87 (0.04)	0.63 (0.14)
3 AM	0.65 (0.05)	0.81 (0.02)	0.86 (0.01)	0.78 (0.07)	1.36 (0.14)	0.79 (0.12)	0.81 (0.06)	0.88 (0.04)	0.69 (0.15)
4 AM	0.64 (0.05)	0.81 (0.02)	0.86 (0.01)	0.81 (0.07)	1.34 (0.14)	0.79 (0.13)	0.82 (0.06)	0.87 (0.04)	0.76 (0.15)
5 AM	0.64 (0.05)	0.80 (0.02)	0.86 (0.01)	0.85 (0.07)	1.28 (0.15)	0.65 (0.18)	0.92 (0.07)	0.80 (0.04)	0.88 (0.17)
6 AM	0.63 (0.04)	0.78 (0.02)	0.85 (0.01)	0.97 (0.07)	1.19 (0.17)	0.46 (0.26)	1.06 (0.09)	0.67 (0.04)	1.04 (0.17)
7 AM	0.60 (0.04)	0.79 (0.02)	0.82 (0.01)	1.00 (0.07)	1.35 (0.19)	0.70 (0.24)	0.93 (0.10)	0.64 (0.05)	1.06 (0.18)
8 AM	0.62 (0.04)	0.78 (0.02)	0.81 (0.01)	1.05 (0.08)	1.21 (0.18)	0.80 (0.15)	0.89 (0.08)	0.63 (0.04)	1.17 (0.19)
9 AM	0.68 (0.04)	0.78 (0.02)	0.83 (0.01)	1.15 (0.09)	1.10 (0.16)	0.69 (0.14)	0.97 (0.06)	0.62 (0.04)	1.10 (0.18)
10 AM	0.74 (0.04)	0.78 (0.02)	0.86 (0.01)	1.19 (0.10)	1.18 (0.14)	0.70 (0.11)	0.95 (0.05)	0.70 (0.04)	0.98 (0.16)
11 AM	0.76 (0.03)	0.78 (0.02)	0.88 (0.01)	1.11 (0.09)	1.23 (0.12)	0.79 (0.09)	0.88 (0.04)	0.82 (0.03)	0.86 (0.13)
12 PM	0.76 (0.03)	0.78 (0.01)	0.88 (0.01)	0.97 (0.08)	1.22 (0.10)	0.83 (0.07)	0.82 (0.03)	0.90 (0.03)	0.79 (0.11)
1 PM	0.74 (0.02)	0.79 (0.01)	0.87 (0.01)	0.86 (0.08)	1.19 (0.09)	0.81 (0.07)	0.82 (0.03)	0.90 (0.03)	0.74 (0.10)
2 PM	0.71 (0.02)	0.80 (0.01)	0.86 (0.01)	0.82 (0.08)	1.16 (0.08)	0.82 (0.06)	0.83 (0.03)	0.87 (0.03)	0.68 (0.10)
3 PM	0.70 (0.02)	0.80 (0.01)	0.84 (0.01)	0.79 (0.08)	1.11 (0.09)	0.87 (0.06)	0.82 (0.03)	0.84 (0.03)	0.66 (0.10)
4 PM	0.68 (0.02)	0.80 (0.01)	0.84 (0.01)	0.80 (0.08)	1.08 (0.09)	0.86 (0.07)	0.84 (0.04)	0.81 (0.03)	0.66 (0.10)
5 PM	0.68 (0.02)	0.80 (0.01)	0.83 (0.01)	0.81 (0.08)	1.00 (0.09)	0.85 (0.07)	0.86 (0.04)	0.80 (0.03)	0.62 (0.10)
6 PM	0.68 (0.02)	0.80 (0.01)	0.83 (0.01)	0.85 (0.08)	0.87 (0.08)	0.84 (0.07)	0.89 (0.03)	0.77 (0.03)	0.68 (0.09)
7 PM	0.68 (0.02)	0.79 (0.01)	0.83 (0.01)	0.90 (0.08)	0.76 (0.08)	0.73 (0.08)	0.96 (0.03)	0.76 (0.03)	0.68 (0.09)
8 PM	0.70 (0.02)	0.79 (0.01)	0.83 (0.01)	0.95 (0.07)	0.74 (0.09)	0.75 (0.11)	0.96 (0.04)	0.76 (0.03)	0.68 (0.11)
9 PM	0.69 (0.03)	0.78 (0.01)	0.84 (0.01)	0.96 (0.07)	0.89 (0.08)	0.90 (0.09)	0.88 (0.03)	0.79 (0.03)	0.67 (0.10)
10 PM	0.68 (0.03)	0.79 (0.01)	0.84 (0.01)	0.94 (0.08)	0.97 (0.08)	0.77 (0.09)	0.93 (0.03)	0.76 (0.03)	0.69 (0.11)
11 PM	0.67 (0.04)	0.78 (0.02)	0.85 (0.01)	0.96 (0.08)	1.10 (0.10)	0.70 (0.10)	0.94 (0.04)	0.77 (0.03)	0.66 (0.12)
12 AM	0.69 (0.05)	0.79 (0.02)	0.86 (0.01)	0.87 (0.09)	1.24 (0.12)	0.62 (0.10)	0.94 (0.04)	0.80 (0.04)	0.67 (0.13)
R^2	0.90	0.90	0.99	0.99	--	--	--	--	--

Notes: The dependent variable in all models is hourly nitrogen oxides emissions. The three interconnection models are estimates of specification (1). The Eastern NREC region columns are coefficient estimates from the same model, specification (2). All models include 18,792 hourly observations and hour-of-day by month-of-sample fixed effects. Newey-West standard errors with a 24-hour lag are reported in parentheses.

Table S2: Test of a dynamic model by interconnection and hour of day

Hour	WECC Interconnection				ERCOT Interconnection				East Interconnection			
	Main		Lagged		Main		Lagged		Main		Lagged	
1 AM	0.83	(0.07)	0.82	(0.07)	1.08	(0.04)	1.08	(0.04)	1.45	(0.02)	1.43	(0.02)
2 AM	0.84	(0.08)	0.85	(0.08)	1.11	(0.04)	1.11	(0.04)	1.47	(0.02)	1.47	(0.02)
3 AM	0.84	(0.08)	0.84	(0.08)	1.13	(0.04)	1.13	(0.04)	1.47	(0.02)	1.47	(0.02)
4 AM	0.80	(0.08)	0.80	(0.08)	1.12	(0.04)	1.12	(0.04)	1.47	(0.02)	1.46	(0.02)
5 AM	0.77	(0.08)	0.77	(0.08)	1.07	(0.04)	1.07	(0.04)	1.44	(0.02)	1.44	(0.02)
6 AM	0.71	(0.07)	0.71	(0.07)	1.00	(0.03)	1.00	(0.03)	1.37	(0.03)	1.36	(0.03)
7 AM	0.66	(0.06)	0.66	(0.06)	0.95	(0.03)	0.95	(0.03)	1.26	(0.03)	1.25	(0.03)
8 AM	0.68	(0.06)	0.68	(0.06)	0.94	(0.03)	0.94	(0.03)	1.21	(0.03)	1.21	(0.03)
9 AM	0.77	(0.07)	0.77	(0.07)	0.94	(0.03)	0.94	(0.03)	1.23	(0.03)	1.23	(0.03)
10 AM	0.85	(0.07)	0.84	(0.07)	0.92	(0.03)	0.92	(0.03)	1.26	(0.02)	1.27	(0.02)
11 AM	0.88	(0.05)	0.88	(0.05)	0.92	(0.02)	0.92	(0.02)	1.28	(0.02)	1.28	(0.02)
12 PM	0.88	(0.04)	0.88	(0.04)	0.91	(0.02)	0.91	(0.02)	1.27	(0.02)	1.26	(0.02)
1 PM	0.86	(0.04)	0.86	(0.04)	0.92	(0.02)	0.91	(0.02)	1.25	(0.02)	1.24	(0.02)
2 PM	0.83	(0.03)	0.83	(0.03)	0.92	(0.02)	0.92	(0.02)	1.22	(0.02)	1.21	(0.02)
3 PM	0.82	(0.03)	0.82	(0.03)	0.92	(0.02)	0.92	(0.02)	1.20	(0.02)	1.19	(0.02)
4 PM	0.80	(0.03)	0.80	(0.03)	0.92	(0.02)	0.92	(0.02)	1.19	(0.02)	1.19	(0.02)
5 PM	0.79	(0.03)	0.79	(0.03)	0.91	(0.02)	0.91	(0.02)	1.18	(0.02)	1.18	(0.02)
6 PM	0.79	(0.03)	0.79	(0.03)	0.90	(0.02)	0.90	(0.02)	1.18	(0.02)	1.18	(0.02)
7 PM	0.80	(0.03)	0.80	(0.03)	0.90	(0.02)	0.90	(0.02)	1.18	(0.02)	1.18	(0.02)
8 PM	0.81	(0.04)	0.81	(0.04)	0.89	(0.02)	0.89	(0.02)	1.18	(0.02)	1.18	(0.02)
9 PM	0.80	(0.05)	0.80	(0.05)	0.89	(0.02)	0.89	(0.02)	1.19	(0.02)	1.20	(0.02)
10 PM	0.81	(0.05)	0.81	(0.05)	0.91	(0.03)	0.91	(0.03)	1.23	(0.02)	1.23	(0.02)
11 PM	0.82	(0.07)	0.82	(0.07)	0.95	(0.03)	0.95	(0.03)	1.30	(0.02)	1.31	(0.02)
12 AM	0.84	(0.08)	0.84	(0.01)	1.02	(0.03)	1.02	(0.03)	1.39	(0.02)	1.40	(0.02)
Delta Q			0.01	(0.06)			0.02	(0.03)			0.05	(0.02)
Chow Test (p-value)			0.04	(1.00)			29.98	(0.19)			1.07	(1.00)

Notes: Delta Q is the change in load from last hour to this hour. We use a Chow test to determine whether the hourly load coefficients are significantly different between the main and lagged results.

Table S3: Variance Decomposition using Fixed Effects

Panel A: East (price is for PJM)			
Fixed Effects	Load	Price	Carbon
YEAR*MONTH*HOD	0.86	0.44	0.84
YEAR*WEEK*HOD	0.93	0.59	0.93
YEAR*SEASON*HOD	0.70	0.37	0.65
YEAR*DAY, SEASON*HOD	0.95	0.59	0.96
Panel B: ERCOT			
Fixed Effects	Load	Price	Carbon
YEAR*MONTH*HOD	0.86	0.44	0.84
YEAR*WEEK*HOD	0.93	0.59	0.93
YEAR*SEASON*HOD	0.70	0.37	0.65
YEAR*DAY, SEASON*HOD	0.95	0.59	0.96
Panel C: WECC (price is for LADWP)			
Fixed Effects	Load	Price	Carbon
YEAR*MONTH*HOD	0.92	0.65	0.87
YEAR*WEEK*HOD	0.97	0.74	0.95
YEAR*SEASON*HOD	0.83	0.58	0.77
YEAR*DAY, SEASON*HOD	0.96	0.68	0.97

Notes: This table reports the R^2 of regressions of load, price or carbon dioxide emissions on various sets of fixed effects, where HOD is an hour-of-day indicator and YEAR/SEASON/MONTH/WEEK/DAY each indicate their respective time period. This table shows the fraction of the variation explained by each regression.