



Date: February 1, 2008

To: Western Climate Initiative
Allocations Subcommittee

From: Renewable Energy Marketing Association

Re: Comments on Stakeholder Discussion Document 1/2/2008

The Renewable Energy Marketing Association (REMA) is pleased to submit the following comments to the Western Climate Initiative (WCI) Allocations Subcommittee on the question of distribution of allowances. REMA represents the collective interests of both for-profit and nonprofit organizations that sell or promote renewable energy products through voluntary markets, including renewable electricity and renewable energy certificates (RECs), to individuals, companies and institutions throughout North America.

The market for green power (renewable electricity and RECs sold independently of electricity) is strong and growing. In 2005, U.S. consumers made voluntary purchases of renewable energy totaling about 8.5 million MWh, and 2006 purchases are estimated to total about 12 million MWh. The voluntary market grew by 62% in 2004, 37% in 2005, and 40% in 2006. Currently, the voluntary market represents nearly one-fifth of the overall renewable energy demand from both compliance and voluntary markets on a MWh-basis. If the voluntary market continues to grow at a rate of 35% annually, it will reach about 40 million MWh by 2010 and represent about one-quarter of the total U.S. demand from voluntary and compliance markets.¹

Depending on how it is implemented, a greenhouse gas cap can have a significant impact on voluntary renewable energy sales. Specifically, the treatment of renewable energy under a cap-and-trade program could undermine the voluntary green power market. A primary motivation for voluntary renewable energy purchases is to reduce the buyer's GHG footprint. This benefit—the ability to reduce electric sector emissions—would be eliminated if voluntary market sales of renewable electricity and RECs are not somehow linked to the retirement of allowances or the reduction of the cap.

¹Bird, L., Lokey, E.. *Interaction of Compliance and Voluntary Renewable Energy Markets* Golden, CO: National Renewable Energy Lab, October 2007.

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Therefore, with respect to the design of carbon cap-and-trade programs, REMA's primary objective is to ensure that any cap-and-trade program supports the ability of voluntary renewable energy demand to reduce emissions. To accomplish this objective, voluntary demand for renewable energy must result in either retirement of allowances or in lowering of the cap.

If because of the design of the cap-and-trade regime, no direct reduction in GHG allowances can be attributed to new clean renewable generation sold to voluntary buyers, it is not only retailers of RECs, but also developers and owners of renewable energy facilities, whose effect on emission reductions would be ignored. Eliminating the role of voluntary renewable markets in reducing emissions is an unnecessary casualty of a poorly designed cap and trade system and represents a missed opportunity for non-covered entities (renewable energy generators) to lower the overall level of the cap through voluntary action.

A well-designed cap and trade regime can insure a "best of both worlds" outcome where voluntary markets are additive to compliance targets. This is desirable since not all actors in the economy will be covered by the cap and it respects the voluntary choice of corporations and individuals to reduce GHG emissions below the level of the cap.

REMA has reviewed the Stakeholder Discussion Document relating to the distribution of allowances. In general, the allocation methods are not described in sufficient detail for us to say whether they would meet our objective, but generally we believe that they could be designed to support consumer, business and government and institutional demand for renewable energy to reduce carbon in the atmosphere. The following examples illustrate how this could be done.

Under a generator-based approach:

Allowances could be allocated to generators (including renewable generators) based on their proportion of total MWh generated (output-based allocation). For voluntary renewable energy sales, renewable generators could sell the allowances with the RECs, and the allowance could be retired on behalf of the ultimate retail purchaser of the RECs and allowances.

Alternatively, if allowances are allocated only to emitting generators (whether freely or by auction), the generator-based approach could include explicit rules to retire allowances for voluntary renewable energy demand *before* the remainder is distributed, similar to what most RGGI states will do. The regulatory agency would estimate the anticipated volume of voluntary renewable energy market sales from all eligible renewable energy facilities located in the geographic area under the cap for an upcoming compliance period and retire the appropriate number of emissions allowances on behalf of the voluntary renewable energy market before allocating the remainder.

Each year, entities (including generators, marketers, certifying organizations and purchasers) would report the total volume of their voluntary renewable energy market

sales or purchases from eligible renewable energy facilities located in the region under the cap, using documentation from a certified REC tracking system such as WREGIS to avoid double-counting. At the end of the compliance period, the regulatory agency would "true up" the difference between the total volume of estimated voluntary renewable energy market sales and the total volume of actual voluntary renewable energy sales from eligible renewable energy facilities located within the region by adjusting the deduction for the voluntary renewable energy market for the next compliance period accordingly.

Under a load-based approach with allowance trading:

When electricity from an eligible renewable energy facility is sold separately from the associated RECs, the underlying electricity has no "green" attributes (and is sometimes called null power), yet it must have emissions attributes to be properly accounted for under a load-based cap. The electricity cannot continue to carry the same attributes as the REC because that would be double-counting the effects of the renewable generation. Instead, each MWh of electricity without a REC should be assigned the same emissions that the renewable energy is credited with reducing. The negative emissions value of the REC should be balanced by an equal but positive emissions value assigned to the null power.

The regulatory agency would establish a method for determining the emissions reduction value of one MWh from renewable electricity, expressed in tons of CO₂-equivalent per MWh. When electricity from an eligible renewable energy facility is sold to an LSE without associated RECs, the regulatory agency would assign to the electricity an amount of greenhouse gas emissions equivalent to the emissions reduction value credited to the renewable energy.

For purposes of compliance with the load-based cap, LSEs would be required to report, at the end of each year, the amount of null power purchased from eligible renewable energy facilities, and would be required to report that electricity as having the greenhouse gas emissions attributes as described above.

Specific comments in response to the discussion document follow.

Section 1. Apportionment of Allowances

The question is whether each Partner (state or province) should be authorized to distribute allowances equal to that Partners share of the regional cap, or whether a regional entity should distribute allowances centrally on behalf of all the Partners without apportioning the regional cap among them.

REMA has not taken a position on this question, but notes only that the choice has little impact on REMA's interest in maintaining a vibrant voluntary market for renewable energy.

Section 2. Distribution of Allowances

Should distribution of allowances by Partners be uniform, or standardized, among participating jurisdictions?

REMA believes that the distribution rules should be standardized among participating jurisdictions. Our primary reason for this belief is that a patchwork of rules leads to market uncertainty and could result in the unfortunate outcome whereby voluntary renewable purchases result in corresponding allowance retirements in some states, but not others. Further, we don't want to have to make the same case state-by-state or on several fronts simultaneously as multiple states write their distribution rules.

The Allocations Subcommittee notes that it anticipates seeking comments on additional, more detailed questions concerning the distribution of allowances at a future time. Nevertheless, since our argument for a standardized distribution of allowances is better understood by an explanation of our goals, we take this opportunity to provide some greater detail here, knowing that it will likely arise again.

As explained above, REMA supports the continued growth of voluntary renewable energy markets that deliver levels of renewable energy development above and beyond levels set by mandates. These voluntary markets rely on the ability of voluntary purchases of renewable energy or RECs to create environmental benefits, and in particular greenhouse gas emission reduction benefits. Individuals, organizations and large corporations are motivated to purchase renewable energy because of the claims they can make about the carbon reduction benefits created by their purchase of additional renewable energy over and above business as usual, such as RPS mandates and utility actions to include renewables in the standard electricity product paid for by all ratepayers.

For these voluntary markets, it is critical that such voluntary purchases of emission-free renewable energy result in the retirement of allowances so that buyers can claim to have reduced emissions. This could occur in one of two ways: (1) by allocating allowances to renewable energy generators based on MWh output, or (2) by the program administrator retiring allowances on behalf of voluntary renewable energy demand, as is the case with RGGI.

Under cap-and-trade programs, clean power generators do not need allowances to operate, and therefore most such programs do not distribute allowances to renewable energy generators. Under EPA's Clean Air Interstate Rule, however, some states have proposed or adopted an allocation of allowances based on MWh output, whereby the total number of allowances are distributed proportionately based on MWh of generation. In this way renewable generators would earn allowances which they could then sell. They might sell some allowances separately to covered entities that need them, or they might sell renewable energy or RECs, with the allowances, to a green power marketer. The marketer would then retire the allowances when the green power or RECs are purchased by retail consumers, enabling emissions reductions claims.

The second approach—retirement by the administrator on behalf of voluntary renewable energy demand—is more consistent with allocation methods described in the Subcommittee’s discussion document. This approach does not actually distribute allowances to anyone. It would require that before allowances are distributed to emitting sources (whether free or via auction), the administrator provide a window during which renewable energy marketers or others could file a claim, based on estimated demand, for the compliance period. After examination, the administrator would retire equivalent allowances prior to allocation. At the end of the compliance period, the administrator would require proof of the voluntary sales or purchases, and make any necessary adjustments to the estimated demand for the next budget period. REMA will provide further comments on this, and recommend specific model language, to the Allocations Subcommittee at a more appropriate time.

Because the ability to retire allowances on behalf of renewable energy demand is so central to voluntary renewable energy markets, REMA urges that it be written into the model rule for all participating jurisdictions, or for implementation centrally, depending on the answer to Question 1. If states are given the option to choose whether to adopt such a rule, it will result in highly fragmented markets. In such a scenario, green power and REC marketers would be able to make environmental claims in some states but not in others. It would essentially shut down the voluntary market in some states while leaving it open in others. Finally, general green power and REC advertising, marketing and promotion would be very difficult to do to a mass market because of the variations.

Section 3. Allocation Methods

Should allowances be distributed directly to covered sources free of charge, or should allowances be auctioned?

REMA does not have a specific position on this question, but if allowances are distributed free of charge, they should be allocated based on output, i.e., in proportion to total MWh generated, and renewable generators should be included in the allocation.

If allowances are auctioned, however, the rules should allow the program administrator to retire allowances on behalf of voluntary renewable energy demand, as described previously, before the auction takes place.

As to concerns about hardships created by covered entities having to purchase allowances, we note that in rate-regulated states the added cost to ratepayers could be ameliorated by using some of the revenue to reduce rates, but phased out gradually over a few years. In states where there is wholesale competition among covered entities, the discussion document raises the concern that covered entities will be in fixed price contracts and unable to pass the allowance cost through to their customers. In our view, because the covered entities rely on purchased fossil fuels—the future price of which is at best uncertain and quite possibly volatile—it is unlikely that they are in long-term fixed price contracts. They would therefore be able to include the cost of purchasing

allowances in their future contracts, which will probably be up for renewal in less than three years.

Section 4. Early Actions

The central question is how should the program encourage or hold-harmless emission reductions efforts that occur prior to the start of the program.

In our view, early actions should be rewarded. Early actions may include investment in or ownership of renewable energy facilities (for a generating company with emitting sources), or the purchase of renewable energy or RECs (for a load-serving entity). Incentives for early action should be provided outside of the cap because early actions could use up an unknown but potentially significant portion the allowance budget, leading to scarcity of allowances and consequent unexpectedly high prices in the early years of the program.

In closing, we would like to thank the Allocations Committee for the opportunity to comment. Voluntary renewable energy markets offer citizens and businesses the power of choice—a fundamental value in our society. We believe it is essential to leave open the opportunity for individuals and organizations to make meaningful choices about their electricity supply, and in so doing, help address climate change, reduce air pollution, and support the transition to a cleaner energy future.

The views expressed by REMA in this regulatory filing do not necessarily represent the views of each individual member company.