

## Renewable Energy Marketing Association

November 30, 2007

Western Climate Initiative  
c/o Western Governor's Association  
1600 Broadway, Suite 1700  
Denver, CO 80202

To Whom It May Concern:

The Members of the Renewable Energy Marketing Association (REMA) are pleased to submit the following comments on the Western Climate Initiative (WCI) Work Plan Design Issue Questions. REMA represents the collective interests of both for-profit and nonprofit organizations that sell or promote renewable energy products through voluntary markets. These products include renewable electricity and renewable energy certificates (RECs) sold to individuals, companies, organizations and institutions throughout North America.

Voluntary markets offer citizens the power of choice- a fundamental value in our society. We believe it is essential to leave open the opportunity for individuals 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.

An essential principle of the voluntary market for renewable energy is that consumers can make a difference with their purchase –more renewable energy is produced and greenhouse gases (GHGs) are reduced as result of voluntary purchases. In the absence of GHG cap and trade programs, this benefit of the voluntary market is maintained. Depending on how cap and trade and programs are designed, they can be benign or beneficial to continuance of vibrant voluntary markets or they can render voluntary markets useless. A well designed cap and trade system contemplates the role of voluntary markets and their ability to deliver renewable energy and GHG reductions beyond the levels required by mandatory policies. A poorly designed cap and trade system ignores the role of the voluntary market whether intentionally or not.

The REMA member organizations and many of the consumers we serve welcome mandatory GHG regulations as essential measures in preventing catastrophic climate change. We recognize that households and many business sectors will likely not be covered under a cap and trade regime, but still have an important role to play in voluntarily reducing their emissions. Therefore REMA seeks a “best of both worlds scenario” where strong carbon regulations and robust voluntary markets work in tandem to maximize society’s reduction of GHG emissions. A well functioning cap and trade system should serve as a floor and not a ceiling to GHG reductions so that non-regulated entities can affect greater levels of reductions beyond the levels required by mandates.

We strongly urge the WCI to adopt policy mechanisms that will allow consumers and businesses to continue to claim the GHG benefits of the renewable energy that they buy. Many consumers, institutions and businesses within the Western states voluntarily purchase renewable electricity and RECs as a practical and meaningful way to offset the GHG emissions associated with electricity consumption. Moreover, organizations across the West, such as the Center for Resource Solutions, Western Resource Advocates, Renewable Northwest Project, World Resources Institute, U.S. EPA and others have encouraged large companies to buy renewable electricity and RECs because of their environmental benefits. The voluntary market is thriving in the West today because it offers one of the only mechanisms for private citizens to make meaningful carbon reductions. We hope that the WCI will recognize the importance of the voluntary market in the carbon cap and trade design.

We commend the five Governors for creating the WCI to bring together states, tribes and provinces to collaboratively address the climate change problem. We appreciate the opportunity to comment on the proposed workplan and the specific cap and trade design questions. We look forward to furthering the discussion and working with other western stakeholders to reach consensus on some of these critical design issues.

Sincerely,

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## DESIGN QUESTIONS FOR STAKEHOLDER REVIEW & COMMENT

### General Comments

The Members of the Renewable Energy Marketing Association (REMA) are pleased to submit the following comments on the Western Climate Initiative (WCI) Work Plan Design Issue Questions. We would like to make four general overarching points that do not fall neatly into one of the categories below.

**(1) Voluntary purchases of renewable electricity by private citizens, government, institutions, and corporations are one of the few ways to achieve additional pollution reductions beyond the capped level.** One of the stated goals of the WCI is to encourage pollution reductions beyond capped sources and sectors. The voluntary renewable electricity market can play a significant role in reducing carbon emissions from the electricity sector. Today, more than 750 utilities and marketers offer green power products to electricity consumers in most states and forty-six companies offer retail REC-only products separate from electricity.<sup>1</sup> Nationally, voluntary renewable demand is supporting roughly 3500 MWs of primarily new renewable generation in the form of RECs and renewable electricity sales, nearly one fifth of the overall renewable energy demand. The voluntary market is growing at an impressive rate and is expected to continue to expand as companies and other large purchasers are looking to make carbon reduction claims. If the cap-and-trade program does not adequately preserve the carbon reduction value of renewable electricity we will lose the opportunity to take advantage of the voluntary action of citizens to reduce carbon beyond the capped amount.

**(2) The specific design details of the cap and trade program will determine whether a voluntary renewable energy market flourishes or is extinguished.** An essential principle of the voluntary market for renewable energy is that consumers can make a difference with their purchase—more renewable energy is produced and GHG are reduced as result of voluntary purchases. In the absence GHG cap and trade programs this benefit of the voluntary market is maintained. Depending on how cap and trade and programs are designed they can be benign or beneficial to continuance of vibrant voluntary markets or they can render useless voluntary markets. A well designed cap and trade system contemplates the role of voluntary markets and their ability to deliver renewable energy and GHG reductions beyond the levels required by mandatory policies. A poorly designed cap and trade system ignores the role of the voluntary market whether intentionally or not.

**(3) In order for voluntary market for renewable energy to remain credible, purchases by voluntary customers must reduce CO2 emissions below the amount required under the cap and the possibility of double counting of renewable energy generation or its environmental benefits must be eliminated.** We provide very specific recommendations on how to achieve these two goals for three cap and trade models in the last Section called, “Miscellaneous Issues” letter E. It is of paramount importance to the preservation of the voluntary market that the appropriate recommendation is included in the final cap and trade design.

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<sup>1</sup> National Renewable Energy Lab, <http://www.eere.energy.gov/greenpower/>

**(4) Providing allowances to renewables, in one form or another, is simply recognizing the real and quantifiable emissions benefits that have *already* accrued as a result of the renewable generation.** In certain circles, arguments have made that giving allocations to renewables, whether directly to generators or as a set-aside or “off-the-top” adjustment to the number of allowances issued, amounts to a subsidy for renewable generation. We disagree and argue that the opposite is true. When renewable generation enters the electricity grid, the need for fossil fueled electricity generation is diminished proportionately. This reduces the need for allowances by such generators; therefore, the number of allowances that are allocated to those fossil generators should be reduced. Therefore, providing allowances to renewables in one form or another is simply recognizing the real and quantifiable emissions benefits that have *already* accrued as a result of the renewable generation.

## **Program Scope and Timing**

*A. What sectors and gases should be covered by the cap-and-trade program, and within each covered sector, what point of regulation is most appropriate?*

REMA does not have a position with regards to the best point of regulation or with regards to which gases should be considered for the electricity sector. Our chief concern is the treatment of the emissions reductions from voluntary purchases of renewable electricity, renewable certificates or from renewable distributed generation. We believe that with careful program design, the voluntary market can deliver reductions beyond those required under each of the four models suggested (generator, retail provider, first seller, hybrid). We discuss our specific recommendations for design features under the “Miscellaneous Issues” Section.

*B. Should all sectors/gases be covered by the program on the same launch date or should sectors/gases be added over time and why?*

One of the worst things for the electricity market is regulatory uncertainty. Regulatory uncertainty fosters speculative activities and undermines stability. REMA members strongly encourage the WCI, Western Governors and state regulators to finalize the regulatory design for each state’s carbon reduction program for the electricity sector as soon as possible. We also hope that each state will have a coordinated policy with regards to the treatment of the voluntary market to help prevent balkanization of renewable markets in the West.

## **Setting Cap Level(s), Scheduling Reductions & Distributing Allowances**

*A. What factors should be considered in determining the relative role of the cap-and-trade program as compared with complementary policies in reaching regional emission goals?*

The cap and trade program design should support and be integrated with other complementary policies and programs in the western states, including the Renewable Portfolio Standard (RPS),

efforts to encourage on-site solar PV and other clean renewable distributed generation, and voluntary initiatives, such as green pricing programs or voluntary carbon reporting through state registries. Otherwise, there is a risk that the cap and trade program could usurp or undermine other such complimentary programs and policies.

The cap and trade program should build upon the successes of other complimentary programs by creating carbon reductions that are additional to those that are created by voluntary programs already in place. In particular, the WCI should strive to ensure that cap and trade compliance policies are implemented in a manner that allows the voluntary renewable energy market to continue to provide consumers and businesses the opportunity to use renewable energy beyond the amounts prescribed by law and regulation. In addition, the possibility of double counting of renewable energy generation or its environmental benefits must be eliminated.

*C. What are the key objectives that WCI Partners should address through allowance distribution?*

REMA recommends that WCI address the following key objectives in designing the allowance distribution for the electricity sector:

- As a overarching principle, the carbon benefits, whether structured as allowances, set-asides, lowering the cap, or through an “off-the-top” program, should go to parties making the investment in the carbon reduction measure;
- Voluntary purchases of renewable energy can and should help society reduce its CO<sub>2</sub> emissions beyond those required by mandates; indeed, that is their very purpose. The treatment of voluntary sales of renewable energy or RECs under cap/trade should have a quantifiable impact resulting in the reduction of greenhouse gases under the cap;
- Allowance allocation should allow for the sale and retirement of allowances through the voluntary markets, thus allowing non-capped entities to participate in carbon markets in meaningful ways;
- Allowance allocation should not create situations where renewable energy and its environmental benefits are double counted;
- Accounting for emissions and emissions reductions associated with renewable energy certificate transactions should neither ‘create’ nor ‘destroy’ greenhouse gas emissions; Emissions recorded in the accounting process should correspond to actual emissions as closely as possible.
- The allowance distribution process should recognize existing contracts that relate to the disposition of carbon from clean generation resources; and
- The allowance distribution process should encourage innovative technologies, measures and programs that will transform the sector to a lower GHG emitting industry over time.

*D. How should the allowances be distributed and should the distribution process be common to all Partners?*

With regards to allowance distribution, we feel very strongly that it would be a mistake to require renewable generators to buy allowances in order to claim the benefits of their own zero-

emissions generation. Therefore, under a source-based model, REMA recommends an initial allocation via a set-aside or “off-the-top” adjustment for renewable energy and the voluntary renewable energy market. When renewable generation enters the electricity grid, the need for fossil fueled electricity generation is diminished proportionately. This reduces the need for allowances by such generators; therefore, the number of allowances that are allocated to those fossil generators should be reduced. Providing allowances to renewables in one form or another is simply recognizing the real and quantifiable emissions benefits that have *already* accrued as a result of the renewable generation.

## Offsets

- A. *What roles and key objectives, if any should an offset mechanism play in WCI?*
- B. *How should a WCI offset mechanism be designed? –*
  - #6 -- What project types and locations should be eligible, and on what basis should eligibility be determined? Should offsets from other programs be eligible (e.g. Clean Development Mechanism -- CDM, Regional Greenhouse Gas Initiative -- RGGI)?*

Renewable energy is one of the best ways to reduce carbon emissions from the electricity sector. The offset program should reinforce efforts to get more renewable electricity built and should promote these clean generation technologies.

With regards to offset program design, renewable electricity and RECs that retain their GHG reduction value that are not captured within the cap should be included as offsets. An offset program could encourage the construction and operation of renewables in the best resource areas and places with the lowest costs, thus reducing the costs of program compliance. Greater construction of renewable electricity facilities throughout the Western region due to the market pull of GHG cap and trade would be highly beneficial.

It will be important to coordinate with other states/regions with a GHG cap and trade program that incorporates the use of renewable electricity offsets to make sure that any renewable energy facility that generates offsets retires the proportionate number of certificates from the WREGIS (or other) tracking system so it will not be available for use as a REC or offset elsewhere.

## Other Flexibility and Cost-Containment Mechanisms

- B. *What are the pros and cons of allowance banking?*

In general, large scale investments in renewables and energy efficiency will be encouraged if some amount of banking (i.e. credit for over complying) and borrowing is allowed. Banking and borrowing can have the effect of leveling out prices so they do not fluctuate widely due to compliance deadlines. Banking and borrowing can also allow project developers to accrue benefits even if there is not an immediate demand for GHG emission reductions at the time that the projects come online. This reduces risk and provides a positive financing benefit.

We recommend a total banking/borrowing period of three years, where parties can use allowances from the previous year, the current year and one year into the future to meet their current year obligation. Banking/borrowing longer than three years can forestall action on the part of obligated entities and provides an opportunity for gaming.

## **Emissions and Allowance Data, Monitoring, Reporting and Tracking**

*C. How should emissions, allowances, and offsets be reported and/or tracked by the program?*

*D. Are there additional objectives for a reporting system beyond assessing compliance with the cap and trade program, and if so, what should they be?*

Renewable energy markets in the United States have faced many of the same challenges with regard to collection of data, monitoring, reporting and tracking currently faced by WCI in the design of a cap and trade for the electricity sector. REMA strongly urges WCI to consider the use of the Western Renewable Energy Generator Information System (WREGIS) for compliance accounting. WREGIS is a tracking system for renewable energy generation that covers roughly half of the continental United States, including the fourteen western states, two Canadian provinces, and portions Baja, Mexico. WREGIS collects generation information from across the region, issues WREGIS certificates, maintains detailed online accounting, reporting and banking functions for a variety of participants, including generators, load serving entities, and regulators. WREGIS could be adapted to provide many of the reporting and tracking functions needed for a cap and trade program in the electricity sector. Moreover, because many market participants are already using WREGIS, it would allow cap and trade program participants to use the same system for the management of their RECs, allowances, and offsets. This would be simpler, more convenient, and would address any possible double use issues.

*E. What are the best ways to assure consistency in reporting throughout the WCI? How should mandatory reporting under the WCI be best integrated with The Climate Registry?*

For the electricity sector, we recommend using WREGIS as the electronic “banking” system for LSE reporting/compliance, to report on export emissions, and to issue and track allowances and offsets. WREGIS is region-wide and can provide consistent reporting and handling of RECs, allowances, offsets and accounts and avoid double counting. The Climate Registry should collect and compile emission data for each compliance period.

Mandatory reporting under the WCI should be carefully integrated with The Climate Registry and state registries. The key issue here is the treatment of electricity that has no associated environmental attributes, also known as “null power.” Under a load-based cap and trade program, a load-serving entity (LSE) may purchase electricity from a renewable generator. If that LSE has purchased the RECs as well as the electricity, the LSE should be able to include the emissions attributes of that renewable purchase toward their compliance obligation. If the LSE

did not purchase the associated RECs, then they have no claims to the emissions attributes of that electricity. We recommend that null power be assigned the emissions value equivalent to the emissions reduction value credited to the associated renewable energy certificates to make the system emissions accounting balance. In this way, accounting for emissions and emissions reductions associated with renewable energy certificate transactions will neither ‘create’ nor ‘destroy’ greenhouse gas emissions

This is in keeping with protocols published by the EPA Climate Leaders, World Resources Institute, and the California Climate Action Registry. These entities allow parties to use RECs as an indirect emissions offset. If we allowed the LSE to also claim the electricity as zero emissions, it would result in double-counting.

It is worth noting here that The Climate Registry, in opposition to almost all other existing and established reporting protocols, does not allow RECs to count towards indirect emissions. However, this issue and others are currently under review, and this is one area where The Climate Registry may change their protocol to comport with the realities of the market and existing contracts.

As a final point, it is very important that WCI focus first on the policy questions before deciding on accounting frameworks to be used by The Climate Registry, WREGIS, or any other accounting mechanism. Such systems should act as tools for carrying out the policies agreed upon by WCI. Accounting process should not drive policy. GHG accounting mechanisms have been developed in the U.S. by non-governmental entities largely because of the lack of leadership on climate change issues at the federal level. Now that WCI is leading in climate change policy, it should design and use accounting tools and mechanisms that fit the policy goals of the WCI and its stakeholders. The existing GHG accounting procedures and protocols may not fully meet the requirements of WCI policy directions, and should not be viewed as a constraint on policy development.

## **Miscellaneous Issues**

### *A. How should the cap and trade program be designed to enhance the benefits from complementary policies in the Partner jurisdictions?*

With regard to the electricity sector, the cap and trade program should support and allow GHG reductions from existing complementary policies and programs to continue. Many utilities throughout the Western states have adopted green pricing programs, in which customers can voluntarily opt-into buying renewable energy for their homes and businesses. These voluntary purchases have driven many new investments in renewable electricity generation facilities, resulting in the displacement of high GHG emitting fossil resources. The cap and trade program design should ensure that these customers can continue to claim the GHG benefits that their action is creating and that those benefits can not be claimed by another party, including the utilities serving those customers.

*D. Which design elements should be common and which should be allowed to vary across WCI partner jurisdictions?*

It is very important that there is consistent treatment of the voluntary renewable market across jurisdictions. If some jurisdictions do not adequately recognize the significant contributions of the voluntary market to reducing climate change, renewable generators in that state or region will be shut out of the voluntary market. This has several unfortunate consequences. One, it will unnecessarily limit the market for renewable generation in that state/region to compliance markets only. Considering that the significant demand for RECs and renewable electricity is driving the development of new renewable generation, and supporting the expansion or enlargement of existing renewable sites, this will stifle such growth. Second, it will reduce the potential for voluntary reductions to occur beyond the capped amount. Third, depending on the extent of the inconsistency, it can create balkanization of renewable markets, which hurts supply and liquidity, ultimately driving up the costs of renewable supply.

*E. Are there additional issues that should be considered to ensure that the cap and trade system conforms to the WCI principles?*

One of the stated goals of the WCI is to encourage pollution reductions beyond capped sources and sectors. Voluntary purchases of renewable electricity by private citizens, government, institutions, and corporations are one of the few ways to achieve additional pollution reductions beyond the capped level. Nationally, voluntary demand is supporting roughly 3500 MWs of primarily new renewable generation. The voluntary market is growing at an impressive rate and is expected to continue to expand as companies and other large purchasers are looking to make carbon reduction claims. If the cap-and-trade program does not adequately preserve the carbon reduction value of renewable electricity we will lose the opportunity to take advantage of the voluntary action of citizens to reduce carbon beyond the capped amount.

There are three kinds of voluntary renewable activities that should be supported under a cap-and-trade program: renewable electricity purchases, for example through a green-pricing program, REC-only purchases, and customer-sited renewable distributed generation. Both a source-based and load-based cap and trade model can accommodate the voluntary renewable energy market through careful program design. Two guiding principles should be used when considering how to incorporate voluntary activities in the cap and trade design. First, the design must allow voluntary renewable purchases to reduce greenhouse gas emissions below what would be required under any mandatory cap. Second, it must prevent renewable energy and its environmental benefits from being double counted. The specific mechanism for incorporating the voluntary market in each cap-and-trade model is described below.

**For An Input-Based (Source-based or First-seller) Cap and Trade Approach**

*Deductions for the Voluntary Market* –The Regulatory Agency should establish a methodology for determining the emissions reduction value associated with one megawatt-hour (MWh) of renewable energy and associated non-power attributes, or one renewable energy certificate (REC), expressed in tons of CO<sub>2</sub>-equivalent per MWh or REC.

Using this value, the Regulatory Agency should forecast the anticipated volume of voluntary renewable energy market sales from all renewable energy facilities located in the participating geographic area over the relevant Compliance Period (we recommend three years) and retire the appropriate number of emissions allowances on behalf of the Voluntary Renewable Energy Market before allocating the remainder.

All voluntary renewable energy market sales from renewable energy facilities in participating geographic area must be tracked using a certified tracking system.

Entities (including generators, marketers, certifying organizations and purchasers) shall report the total volume of their voluntary renewable energy market sales or purchases from renewable energy facilities located in the participating geographic area and the month and year of corresponding generation to the Regulatory Agency on an annual basis, including supplying the unique tracking numbers issued to all RECs sold to the Voluntary Renewable Energy Market under the certified tracking system.

After each Compliance Period, the Regulatory Agency will "true up" the difference between the forecasted total volume of voluntary renewable energy market sales from facilities located within participating geographic area and the actual total volume of voluntary renewable energy sales from facilities located within the participating geographic area by adjusting the deduction for the Voluntary Renewable Energy Market for the next Compliance Period accordingly.

**For An Output-Based (Source-Based or First-Seller) Cap and Trade Approach**

*If renewable energy generators are allocated emissions allowances under the cap and trade system, no additional language is necessary except reporting requirements (see "Regardless of the allocation methodology" below)*

*If renewable energy generators are not allocated emissions allowances under the cap and trade system:*

The Regulatory Agency will establish a methodology for determining the emissions reduction value associated with one megawatt-hour (MWh) of renewable energy and its associated non-power attributes, or one renewable energy certificate (REC), expressed in tons of CO<sub>2</sub>-equivalent per MWh or REC.

Using this value, the Regulatory Agency will forecast the anticipated volume of voluntary renewable energy market sales from all renewable energy facilities located in the participating geographic area over the relevant Compliance Period (we recommend three years) and retire the appropriate number of emissions allowances on behalf of the Voluntary Renewable Energy Market before allocating the remainder.

After each three-year Compliance Period, the Regulatory Agency will "true up" the difference between the forecasted total volume of voluntary renewable energy market sales from facilities located within the participating geographic area and actual total volume of voluntary renewable energy sales from facilities located within the participating geographic area by adjusting the

deduction for the Voluntary Renewable Energy Market for the next Compliance Period accordingly.

*Regardless of the allocation methodology:*

All voluntary renewable energy market sales from renewable energy facilities in the participating geographic area will be tracked using a certified tracking system.

Entities (including generators, marketers, certifying organizations and purchasers) shall report the total volume of their voluntary renewable energy market sales or purchases from renewable energy facilities located in the participating geographic area and the calendar month and year of corresponding generation to the Regulatory Agency on an annual basis, including supplying the unique tracking numbers issued to all RECs sold to the Voluntary Renewable Energy Market under the certified tracking system.

#### **For Load-Based or Historic Emissions-Based Cap and Trade Approaches**

The Regulatory Agency will track all sales of renewable energy and renewable energy certificates involving any entities within the participating geographic area using a certified tracking system, including all voluntary renewable energy market sales in the participating geographic area.

Entities (including generators, Load Serving Entities, marketers, certifying organizations and purchasers) making any voluntary renewable energy market sales or purchases within the participating geographic area shall report the total volume of said sales or purchases and the calendar month and year of corresponding generation to the Regulatory Agency on an annual basis, including supplying the unique tracking numbers issued to all RECs sold to the Voluntary Renewable Energy Market under the certified tracking system.

The Regulatory Agency will establish a methodology for determining the emissions reduction value associated with one megawatt-hour (MWh) of renewable energy and its associated non-power attributes, or one renewable energy certificate (REC), expressed in tons of CO<sub>2</sub>-equivalent per MWh or REC.

When energy from a renewable energy facility is sold to a LSE without associated renewable energy certificates, the Regulatory Agency will assign to the energy an amount of greenhouse gas emissions equivalent to the emissions reduction value credited to the associated renewable energy certificates to make the system emissions accounting balance.

For purposes of compliance with the load-based cap, LSEs purchasing “null electricity” from must report said energy as containing the amount of greenhouse gases as defined above.<sup>2</sup> LSEs

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<sup>2</sup> Null electricity is electricity sold without the corresponding environmental attributes. In this instance, the attributes have most likely been sold as RECs to another party, who will have the rights under contract to claim the emissions reductions.

shall report the total volume of all such purchases and calendar month and year of corresponding generation to the Regulatory Agency on an annual basis.

In addition, LSEs that sell energy with renewable electricity or RECs to a voluntary customer may not count those renewable attributes or RECs as part of its emissions profile, and must report the null elect, for their emissions profile, as containing the amount of greenhouse gases as defined above.

**Suggested methodology for establishing emissions reduction value of RECs (for any of the above regulatory approaches):**

The greenhouse gas emissions reduction value of one renewable energy certificate shall equal the approximate greenhouse gas emissions value of the resources displaced on the grid by the generation of one megawatt-hour of renewable energy.

Whatever value is selected, the process of accounting for emissions and emissions reductions associated with renewable energy and/or REC transactions should neither 'create' nor 'destroy' greenhouse gas emissions. Emissions recorded in the accounting process should correspond to actual emissions as closely as possible.