Date: August 13, 2008

To: Western Climate Initiative

From: Renewable Energy Marketers Association

Re: Comments on "Draft Design of the Regional Cap-and-Trade Program" (July 23, 2008)

The Renewable Energy Marketers Association has reviewed the "Draft Design of the Regional Cap-and-Trade Program" (Draft Design) together with the "Draft Essential Requirements of Mandatory Reporting for the Western Climate Initiative" released on July 23, 2008. We appreciate the opportunity to offer the following comments to the Western Climate Initiative (WCI). Our comments focus on the need to ensure that the Draft Design supports the continuing vitality of the voluntary market for renewable energy and the reductions in carbon emission that result from that market.

The Renewable Energy Marketers Association (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.

REMA commends the WCI for the progress it has made to date in integrating such a broad range of interests, policies and programs in a comprehensive plan. REMA has previously submitted comments to the WCI and both the electricity and allocations subcommittees. At this point, we would like to narrow our comments to the proposed cap-and-trade program and its effect on voluntary markets.

Voluntary Demand For Renewable Energy Must Result In Either Retirement Of Allowances Or In Lowering Of The Cap

With respect to the design of the carbon cap-and-trade program contemplated within the Draft Design, 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.

We note in presentations for the July 29, 2008 Workshop that among the WCI Design Principles is an objective to "encourage reductions beyond capped sectors/sources." There exists today a vibrant market for individual and corporate customers to voluntarily purchase renewable energy in order to encourage the development of renewable energy resources and to reduce greenhouse gas emissions.

The Voluntary Market for Renewable Energy is Significant

According to the National Renewable Energy Laboratory (NREL), there are some 55 marketers actively selling to small and large customers, and a dozen environmental brokers that facilitate REC transactions between buyers and sellers across the U.S. These providers are in addition to utilities that sell renewable electricity differentiated from standard electricity. There are also thousands of photovoltaic (PV) providers in the U.S. who sell PV systems and associated RECs directly to end-use customers.

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] Those 40 million MWh of renewable generation would result in a reduction of 31.2 million metric tons of CO2.[2] These data demonstrate that the voluntary market for renewable energy is larger than most people recognize.

Not everyone wants or has access to a utility-sponsored renewable energy option; some customers choose to purchase renewable power outside the utility offerings. This is particularly true for large customers. There is a large voluntary market for RECs unbundled from electricity and for on-site customer-owned renewable power driven by a commitment to renewable power development and a commitment to GHG reduction. In this regard, many businesses and an unknown number of residential consumers buy RECs separate from electricity, or invest in on-site renewable power.

Cap-and-Trade Can Have a Significant Impact on Voluntary Demand

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 greenhouse gas (GHG) footprint. This benefit—the ability of individuals, companies, government entities and non-

[1] Bird, Lori, and Elizabeth Lokey. *Interaction of Compliance and Voluntary Renewable Energy Markets,* Golden, CO: National Renewable Energy Lab, October 2007.
[2] Based on EPA's e-GRID data for the national average CO2 emissions resulting from electric generation (0.78 metric tons/MWh). See http://epa.gov/cleanenergy/energy-resources/egrid/index.html.

profits to reduce electric sector GHG emissions —would be eliminated if voluntary market purchases of renewable electricity and RECs are not somehow linked to the retirement of allowances or the reduction of the cap.

Our concern is that carbon regulations that prevent green power purchases from affecting GHG emissions levels may be adopted, undermining the environmental objectives of customers who voluntarily purchase renewable energy. A robust market for renewable electricity, RECs and distributed renewable energy generation already operates in the Western United States. Without an explicit provision for allowance allocation recognizing the GHG reduction benefits from renewable energy purchases within the region that comprises the WCI, the voluntary renewable energy market may cease to exist. The leading market driver – the ability to make a difference in reducing GHG emissions through consumer choice tied to market forces – will have been eliminated.

Voluntary Emissions Reductions are Real, Verifiable and Quantifiable

Both the mandatory policies (such as state RPS programs) and voluntary demand contribute to emissions reductions in the same way. Both create demand for renewable energy, both result in reduced fossil generation, both calculate emission reductions using an emissions factor (CO2 lbs/MWh generated) for avoided emissions, and both can be verified using the Western Renewable Energy Generation Information System. The only difference is that REMA proposes that the voluntary market for renewable energy be recognized within the cap-and-trade program rather than separate from the cap-and-trade program, and that emission reductions be attributed to those non-RPS stakeholders making the renewable power purchase.

Not recognizing the benefits of voluntary demand for renewable energy would ignore a big part of the overall renewable energy market, as described above. Voluntary demand for renewable energy has developed over the last ten years, so it is an "off the shelf" solution that is ready to contribute to reducing emissions. Including the voluntary market within the cap-and-trade program is entirely consistent with cap-and-trade's market-based approach.

In the power sector, emission reductions are quantified by metered output (MWh) and emissions rates (CO2 lbs/MWh) of the emitting generators. It is no different for quantifying the emissions reduction benefits from generating (and consuming) emissions-free renewable energy. The renewable energy or renewable energy certificates (RECs) are based on metered output from eligible renewable energy generators and multiplied by the non-baseload emissions rate for the control area in which the renewable energy generator is located.[3] It should not matter whether the claim is made by a utility purchasing renewable energy or RECs for RPS compliance, or whether the claim is made by a final consumer of renewable energy or RECs. Both have the same result. Both claims are based on the same standard measurements and the same emissions rates, and who makes the claim should not matter as long as no one is claiming the same reduction. Double counting can be avoided by relying on the Western Renewable Energy Generation Information System for verification of REC ownership and retirement.

[3] Standard emissions rates for electricity generation may be determined using EPA's Emissions & Generation Resource Integrated Database (eGRID), which provides data by subregions.

A Cap-and-Trade Program Can Be Designed to Recognize and Credit Voluntary Demand for Renewable Energy

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 cost-effectively lower the overall level of emissions through voluntary action.

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

The Draft Design Should Directly Incorporate The Voluntary Market

The Draft Design does not address the voluntary market for renewable energy under the proposed cap-and-trade program. The Draft Design does leave open the possibility of an allocation to (voluntary) renewable energy sales or purchases. In its recently released Draft Design of the Regional Cap-and-Trade Program, WCI Partners agreed that a portion of each state or provinces allowance budget could be used to support renewable energy.[4] However, the language can be strengthened and explicitly address these methods for incorporating these voluntary sales.

Specifically, we propose the following additions:

> *8.2 Distribution of Allowances*
> We believe this section should be amended to include as one of the stated public purposes, "Promoting voluntary markets for renewable energy and carbon emission reductions."
>
> *8.3 Distribution of Allowances*
> We believe this section should be amended to include as one of the stated objectives, "Promoting voluntary markets for renewable energy and carbon emission reductions."

Similar to the states participating in the Regional Greenhouse Gas Initiative (RGGI), if allowances are allocated only to emitting generators, the allocation design could include explicit provision to retire allowances on behalf of voluntary renewable energy demand before the remainder is distributed. Prior to each compliance period, the WCI Partners would estimate the anticipated volume of voluntary renewable energy purchases from all eligible renewable energy

[4] See Section 8.2 of Western Climate Initiative, Draft Design of the Regional Cap-and-Trade Program, July 23, 2008.

facilities 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.[5]

After the end of each compliance period, entities (including generators, retail marketers, certifying organizations and purchasers) would report the total volume of their eligible voluntary renewable energy market sales to end use customers located in WCI Partner states. Under the first jurisdictional deliverer obligation proposed by the WCI, a deliverer that delivers energy from a generator located outside the region would also be eligible, provided that the generator meets other renewable energy eligibility definitions. In addition to documentation of the delivery, WCI could rely upon the WREGIS tracking system to verify renewable generator eligibility and to avoid double-counting.[6]

At the end of the compliance period, WCI Partners 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 by adjusting the deduction for the voluntary renewable energy market for the next compliance period accordingly.

In this way, the renewable generators are not issued allowances at all, but the WCI would retire allowances based on retail REC purchases, thus enabling the purchasers to make a difference with their renewable power purchases and to make claims about reducing greenhouse gas emissions as a direct result of their actions.

As with the previous example, this could also be adapted to encourage other covered industries to purchase renewable energy as a compliance strategy. If the rules were written correctly, the covered entities could demonstrate compliance without actually owning the allowances if they were retired on their behalf.

RGGI Provides a Clear Model for Recognizing Voluntary Renewable Energy Purchases in a Single-Sector Cap-and-Trade Program

The Regional Greenhouse Gas Initiative (RGGI) states have established rules for allocating allowances to recognize voluntary demand for renewable energy.

Nine out of ten participating states will allocate a portion of each annual budget for retirement for voluntary purchases of renewable energy.[7] Most states will allocate allowances to a Voluntary Renewable Energy Market Account, controlled by each state's cap-and-trade administrator. Based on documented voluntary purchases of renewable energy, the administrator will retire those allowances. In addition, RGGI illustrates that this approach is compatible with

[5] Eligible renewable energy could be defined by reference to RPS definitions, and could include a generator vintage threshold to encourage the purchase of energy from newer facilities. In most RGGI states, the cap-and-trade administrator will allocate a predetermined number of allowances for voluntary demand for renewable energy; in a few states renewable energy providers or a state agency will submit evidence of prior demand and a projection of demand for the compliance period.

[6] The Western Renewable Energy Generation Information System (WREGIS) is a multi-state tracking system for RECs supported by the California Energy Commission.

[7] The tenth state, Delaware, has not yet published its proposed rules.

auctioning allowances because all of the RGGI states plan to auction the vast majority of allowances. WCI could adapt this approach to account for allowance retirement across regulated sectors within the cap-and-trade program.

The Draft Design Should Include Specific Language Recognizing the Role of Voluntary Renewable Energy in Reducing GHG Emissions

The Renewable Energy Marketers Association appreciates the opportunity to present these views on the allocation of allowances to support voluntary renewable energy markets. We emphasize that what we propose is not that unusual, and there are detailed examples in other state rules. Northeastern states participating in RGGI have proposed or adopted the approach of administratively retiring allowances on behalf of demonstrated voluntary demand for renewable energy.[8]

The Draft Design should include more explicit language that indicates its specific intent to ensure that the voluntary market for renewable energy will play a role in greenhouse gas emission reductions, preferably through one of the options we have described above.

We believe that the ability of customer choice to meaningfully contribute to GHG reductions is at stake without an allocation to account for voluntary renewable energy sales. The importance of allowing individuals, private companies, local government and non-profits the ability to take pro-active measures to stem the threat and consequences of global climate change cannot be overstated. We are at a historic moment in time and all viable, cost-effective options to reduce GHG emissions should be encouraged.

Voluntary renewable energy markets offer citizens and businesses the power of choice—a fundamental value in our society – and leverage market forces to encourage technology innovation and improvement. We believe it is essential to encourage individuals and organizations to make meaningful choices about their electricity supply, and in so doing, to help address climate change, reduce air pollution, and support the transition to a cleaner energy future.

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

[8] Bird, Lori, Edward Holt and Ghita Levenstein Carroll, "Implications of Carbon Cap-and-Trade for US Voluntary Renewable Energy Markets." *Energy Policy* 36 (2008) 2063–2073, June.