**Date:** **15 May 2009**

**To:** **California Air Resources Board**

**From:** **Gabe Petlin, REMA President**
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**Re:** **Supporting Voluntary Renewable Energy Markets under Cap-and-Trade: Renewable Energy Marketers Association Discussion Points with CARB**

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Over the past year, the Renewable Energy Marketers Association (REMA) has been an active participant in the planning for implementation of AB 32. Our focus has been on the role of renewable energy in achieving AB 32 emission reduction goals. The following recommendations are offered in anticipation of the May 18 meeting on "Allowance Set-Asides in a Cap-and-Trade Program."

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, renewable energy certificates (RECs), and on-site solar PV to individuals, companies and institutions throughout North America.

Voluntary markets for renewable energy—which are currently equal to demand created for new renewables by RPS mandates—are not accounted for by the Proposed Plan. Unfortunately, many people assume that because renewable energy is emission-free, it will automatically reduce emissions. However, emission reduction policies and programs may fail to produce real greenhouse gas emission reductions from all renewables unless policies are designed to explicitly take into account both voluntary and mandatory demand for renewable energy.

As long as California and the Western Climate Initiative (WCI) region does not have a fixed cap on greenhouse gas (GHG) emissions, voluntary purchases of renewable energy (RECs, green power, and onsite generation) displace fossil generation and result in GHG emission reductions. In this uncapped market, purchasers regularly make public statements and marketing claims about how their purchase of renewable energy reduce

GHG emissions. These claims and emission reductions can be easily substantiated and certified.

When a fixed cap on GHG emissions is established, voluntary purchases of renewable energy will still displace fossil generation, but the total number of emission allowances—and hence the level of emissions produced—will be unaffected. This is because the number of allowances is fixed and regulated carbon-producing entities will emit to the cap. Unless allowances are retired commensurate with voluntary renewable energy purchases, these purchases will no longer reduce GHG emissions once the cap is in effect. As a result, emission reduction claims will become problematic, and the voluntary market, which is largely driven by the public's desire to reduce GHG emissions, will be at risk.

In adopting the final Scoping Plan, the California Air Resources Board (CARB) recognized this concern and stated its intent to address the role of voluntary renewable power purchases in reducing GHG emissions. Specifically, CARB established that allowance set-asides could be used *"to ensure that voluntary actions, such as voluntary renewable power purchases by individuals, businesses, and others, serve to reduce greenhouse gas emissions under the cap."*

In order to support and strengthen the voluntary market for renewable energy and emission reductions, REMA urges CARB to set aside a small number of allowances that will enable voluntary purchasers of renewable energy to legitimately reduce GHG emissions through their actions. Under this voluntary market mechanism, the program administrator would allocate allowances to an administrator-controlled Voluntary Renewable Energy (VRE) account, and would retire allowances on behalf of documented voluntary purchases. Allowances would not be allocated directly to renewable generators, but customers would be able to claim emission reductions.

We also urge CARB to consider the rationale for supporting voluntary renewable energy markets included in our prior comments to CARB on the Proposed Scoping Plan, and our comments to the WCI Electricity Subcommittee.[1]

[1] See http://www.renewablemarketers.org/siteadmin/images/files/file_41.pdf and http://www.renewablemarketers.org/siteadmin/images/files/file_43.pdf.

The following recommendations are offered by REMA to further this discussion.

1. **Eligible renewable energy sources should be defined, including a generator online date requirement.**
    - For a California-only program, the California RPS definition might suffice, but if the cap-and-trade program encompasses the WCI, then a consensus definition should be adopted that all WCI Partners can live with. Harmonization of the eligibility definition is much simpler for market participants.
    - The generator online date requirement is intended to ensure that voluntary purchases are leading to new or additional emissions-free generation. It should be a moving 15-year window of operation beginning with facilities that began operation or after January 1, 1997 (the vintage eligibility for Green-e Energy certification). After 15 years of operation, the generator would not longer be eligible.

2. **Eligible generators should be located within the capped region, and WCI member states should establish a reciprocal voluntary market mechanism that is consistent across the member states.**
    - The benefit must be felt within the capped region. Renewable energy generated in California and sold to voluntary buyers should result in retirement of California allowances. Likewise a generator in Oregon that sold RECs to customer in California should result in an Oregon WCI allowance being retired. Imports of RECs from other non-capped regions need not be eligible for allowance retirement in California because without a cap, they will reduce emissions in their region, thus supporting a claim of emission reductions.

3. **Any voluntary purchase from an eligible California-based generator should result in retirement of allowances.**
    - If a consumer located outside California purchases RECs from a renewable generator located within California, that purchaser would have the same effect on emissions as an in-state purchaser. Both would reduce emissions in the capped state.
    - In addition to lowering emissions in California, this approach is good for the local economy by encouraging demand for local generation and offering wider markets to local generators.
    - If the purchaser is located outside California, the RECs may be retired within WREGIS, or may be exported to the regional tracking system that serves the purchaser.

4. **Emission reduction factors for purchased RECs should reflect the region where the generator is located.**
    - In a California program, CARB should use the same methodology that it now uses to determine $CO_2$ reductions from RPS renewables. There is no need to, and many reasons not to, reinvent the wheel.

- In a regional program, each WCI Partner should use the annual average marginal $CO_2$ emissions factor for the control area where the electricity represented by the sale was generated. If this factor is not readily available (for example, if small control areas do not regularly track and report this figure), then the NERC subregion annual average marginal $CO_2$ emissions factors, as reported by US EPA, could be used.

**5. The allocation for VRE should be the equivalent of 2% of the total allowances.**

- Because voluntary purchases are strongly motivated by a desire to reduce emissions, all voluntary purchases should be credited with emission reductions.
- CARB should periodically review and adjust the amount if warranted by demand.

**6. Administration of the VRE allocation should follow certain predefined steps.**

- By a date certain prior to the start of each allocation year, CARB would set aside the agreed amount of allowances.
- By a date certain following the end of each allocation year, retail renewable energy and REC marketers desirous of supporting emission reduction claims based on a voluntary purchase would report to CARB the final purchases from eligible generators located in California.
- ARB would evaluate these claims and the documentation provided, and by a date certain would retire the equivalent number of allowances using the agreed conversion factor.
- The set-aside and the actual purchases would then undergo a true-up. If actual purchases exceed the allocation to the VRE account for the prior year, the difference would be added to the allocation for the following year and retired as soon as the allocation occurs. If actual purchases are less than the amount allocated to the set-aside, the allowances remaining in the account would be moved to the general account and auctioned at the next opportunity.

**7. CARB should require that documentation be provided by reports from WREGIS.**

- WREGIS is a certificate tracking system that includes information about the generator resource type, capacity, generator vintage, geographic location, and direct emissions, among other attributes or characteristics.[2] All of the attributes necessary to judge whether a generating unit is eligible for retiring allowances in the set-aside account are present and part of each certificate.
- The required documentation should include:
  a. Quantity of RECs (MWh) purchased from eligible generators, by customer class, during the previous year;
  b. Documentation of REC ownership by the retail marketer;

[2] Although the CPUC is considering whether or to what extent to allow unbundling of RECs for RPS compliance, unbundled RECs are already in wide use for the voluntary market.

c. Facility name, generator ID, date the generator commenced operation, fuel type and jurisdiction (geographic location) where the RECs were generated;
d. Month and year when the RECs were generated; and
e. Documentation that the RECs were used to satisfy voluntary market demand, and were not claimed or used for any other purpose.

**8. ARB should advocate within WCI for harmonization of state rules.**

- WCI should be fully reciprocal among all Partners—there should be no state- or province-specific restrictions that balkanize the market.

Thank you for the opportunity to submit these comments.

Respectfully Submitted,

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