

Incorporating the Voluntary Renewable Energy Market in RGGI 9/16/05

INTRODUCTION

The Center for Resource Solutions convened a Renewable Energy Working Group in June 2004 for the purpose of developing proposals for the inclusion of renewables into greenhouse gas cap and trade programs. This working group has submitted several comments to the Regional Greenhouse Gas Initiative proposing alternate ways of incorporating the voluntary renewable energy market in RGGI's model rule.¹ In response to the *Revised Staff Working Group Package Proposal* ('Draft Proposal') dated August 18, 2005 we would like to provide you with additional comments concerning the inclusion of the Voluntary Market into the framework you have developed so far.

STATUS OF RGGI MODEL RULE ACCORDING TO THE DRAFT

The principles outlined in the *Draft Proposal* do not explicitly deal with the voluntary renewable energy market, but based on them it is our estimation that there are two options whereby RGGI can include the voluntary renewable energy market.

(1) Regional 'off-the-top' approach

As proposed in *Alternative Option for Incorporating Renewables Sold in the Voluntary Markets into the Regional Greenhouse Gas Initiative (RGGI) Process* carbon benefits related to voluntary purchases could be retired 'off-the-top' before allocations are made to the states. After the baseline modeling has been completed and the greenhouse gas cap has been set, an allocation for voluntary green-market renewables would come off the top of the regional cap before pro-rationing of allowances to the states. In other words, allowances would be retired on behalf of anticipated voluntary market purchases over the relevant time period. The basis for this allocation would be a projection of the voluntary renewable market activity in participating RGGI states based upon historic market activity and rates of market growth. This very simple method would preserve the ability of voluntary renewables purchasers to make green market claims and contribute to the reduction of GHG's in the RGGI states. It would also avoid the need to do state-by-state calculations and provide a uniform approach for the whole region.

(2) State-by-state 'off-the-top' approach

This is similar to option 1 except the 'off-the-top' allocation would take place in the individual states. While this approach is beneficial to the voluntary market it is not ideal. Since each state would have to do this allocation on their own, there is a very real risk of

¹ *Approaches to Integrating Renewable Energy Into Greenhouse Gas Trading Programs* (submitted June 2004); *Approaches to Integrating Renewable Energy Into Greenhouse Gas Trading Programs: Recommendations from the Renewable Energy Working Group* (submitted September 2004); *Alternative Option for Incorporating Renewables Sold in the Voluntary Market into the Regional Greenhouse Gas Initiative (RGGI) Process* (submitted March 2005).



a creating an uneven and counterproductive renewable market if states choose different methodologies, or if some states do not adopt the 'off-the-top' approach. It will also increase the transaction costs compared to option 1. On the other hand, if the Market Rule recommended a methodology for all states to follow to ensure the voluntary market is incorporated in the Initiative, implementation would become ministerial, providing consistency throughout the region.²

SUMMARY RECOMMENDATION

In summary, we urge you to consider incorporating a recommendation that ensures that end use customers that purchase renewable energy in the voluntary market are able to claim credit for carbon reductions in the REGGI states. We believe the best way to accomplish this is to either:

- (1) From a forecast of the anticipated size of the voluntary market in the REGGI states over the relevant time period, retire the appropriate number of allowances before pro-rationing to the states; or*
- (2) Incorporate as part of the Model Rule, each state is to forecast the anticipated size of the voluntary market in their state over the relevant time period, and retire the appropriate number of allowances on behalf of the voluntary market before allocating the remainder.*

Thank you for your consideration of this recommendation.

² There are two additional technical solutions to include the voluntary market for renewables but we judge their drawbacks to be significant enough so we cannot recommend these. One option is a State-by-State retirement of a portion of the "consumer allocation" to match green sales. In the *Draft Proposal* it is proposed that 20% of each state's "allowances will be allocated for a public benefit purpose." A portion of these allowances could be specifically allocated to the voluntary renewable energy market to match the regional sales. Unfortunately this approach could be construed as pitting voluntary markets against other beneficial uses for the consumer allocation revenues, such as energy efficiency. You could even claim that green sales would be offsetting energy efficiency and not greenhouse gas emissions. As a result we cannot recommend it since this approach would directly reduce investments in energy efficiency (or consumer rebates), a collateral harm that severely detracts from the positive claims renewable marketers would want to make. Another technical option would be to reduce the regional carbon reserve being proposed to deal with leakage. It is possible that the voluntary market could be considered as a mitigation measure that could use allowances from the Strategic Carbon Fund. However, while these options are technically feasible they would work to the detriment of other objectives, such as increasing energy efficiency and reducing leakage.



A FRIENDLY REMINDER

IMPORTANCE OF THE VOLUNTARY RENEWABLE ENERGY MARKET

Voluntary renewable energy markets include: *renewable energy* sold directly to customers in restructured electricity markets, renewable energy *certificates* sold to retail customers in both restructured and monopoly markets, renewable energy that is sold to consumers through *utility green pricing programs*, and renewable energy *certificates* that are translated into pounds of carbon dioxide equivalents and sold in voluntary *carbon markets*. It is estimated that in 2003, 4.5 million MWh of renewable energy was sold in voluntary markets in the United States. This equates to approximately 4 million tons of carbon dioxide displacement. These markets in 2003 were approximately twice as large as in 2002 and indications are that they increased significantly in 2004 as well. We estimate that the total volume of Green-e³ certified renewable electricity sales and Renewable Energy Certificate sales for the ten RGGI states were approximately 400,000 MWh in 2004.

In several markets, notably PJM and the Pacific Northwest, voluntary markets have been important in the development of new renewable facilities. A key driver for these markets is the ability to claim carbon reduction credits (to reduce a company's greenhouse gas footprint or to help reduce global warming impacts). These transactions operate without government subsidies, so the environmental benefit of a voluntary renewable energy market is in addition to any benefit that government action produces. Voluntary renewable power markets are growing rapidly in many regions including the northeast, and are expected to be a larger driver for new renewable energy additions and voluntary carbon reductions in the future.

³ Launched in 1997, The Green-e Renewable Energy Certification Program is the leading voluntary certification and verification program that sets standards for renewable electricity-based products in three markets for renewable energy: restructured, regulated, and tradable renewable certificates.

