

**Comments of the Center for Energy Efficiency and Renewable Technologies and the
Center for Resource Solutions Regarding the
Treatment of Renewable Energy within the Western Climate Initiative**

February 6, 2009

The Center for Energy Efficiency and Renewable Technologies (CEERT) and the Center for Resource Solutions (CRS) appreciate the opportunity to comment on the treatment of RECs and null power (power generated at a renewable source that is no longer bundled with its RECs) within the Western Climate Initiative. Our organizations have several key objectives with regard to the treatment of RECs and null power. These objectives include:

- Accurate accounting of emissions and emissions reductions;
- Retention of incentives for the development of renewable electricity;
- Avoidance of perverse incentives toward higher-emitting generation; and
- Consistent treatment of in-region and out-of-region generators.

In-Region RECs and Null Power

We understand that under the WCI's First Jurisdictional Deliverer approach, the point of regulation for in-region generation will occur at the emissions source. Therefore, we assume that in-region renewable generators will not have to hold allowances under any circumstances, even if their power is sold without its RECs. Attributing emissions to in-region null power would result in double-counting of emissions, and therefore double-regulation. With that in mind, under a capped system, both in-region RECs and in-region null power should carry a GHG value of zero. Therefore, we support the WCI's recommendation that RECs produced within a capped region have no GHG compliance reduction value. Under this approach, GHG accounting under the cap will remain accurate, simple and straightforward, and RECs purchased for RPS compliance will continue to move states toward their targets.

Imported RECs and Null Power

We appreciate the WCI's acknowledgement of the challenges associated with the treatment of imported null power and RECs. The concepts presented below reflect two alternatives suggested by the WCI Electricity Subcommittee which we feel could adequately meet our stated objectives if certain criteria are met:

Pair RECs from non-WCI jurisdictions with imported, unspecified or null power to re-specify the power as zero-GHG (Option 2 from the WCI Whitepaper)

This treatment would allow entities to re-specify unspecified imported energy by tagging out-of-region RECs onto the purchase; imported system power bundled with imported RECs would be treated as having originated from the facility identified on the REC, and would not require allowances. Any renewable energy imported on a specified basis without RECs (“specified null power”) would have emissions attributed to it at the deemed rate. This would trigger a compliance obligation that would likely result in very little importing of specified null power by removing the compliance benefit, however it would also provide a steady demand for out-of-region RECs. To prevent the disincentive of allowance costs associated with purchases of specified null power, we recommend a set aside for null power imports, which is detailed in the last section of these comments.

Though this option is viable, we remain concerned about the potential complexity and unclear accounting. In particular, we believe greater transparency will be required to prevent contract shuffling toward unspecified imports of high-emitting generation, which could be masked by out-of-region RECs. To address this concern, WCI Partners must pay close attention to the deemed emissions rate, ensuring that the accounting of imports accurately reflects the emissions associated with unspecified power.

Import renewable power on a specified basis to receive zero-GHG attribution; RECs from uncapped jurisdictions have no effect on GHG accounting (Option 3 from the WCI Whitepaper)

The framework for this approach, as suggested by the WCI Electricity Subcommittee, is that renewable power imported on a specified basis without its RECs (specified null power) receives zero-GHG attribution and that RECs from uncapped jurisdictions have no effect on GHG accounting. This approach is simple and elegant, but may result in a double counting of GHG benefits from renewables located outside of the WCI jurisdiction. When a REC generated outside of the WCI jurisdiction is sold into the voluntary market or a non-WCI state’s RPS market, the owner of the REC is the owner of all of the environmental benefits associated with that REC. Even if the owner does not make an explicit GHG claim, they are still purchasing a real environmental commodity and have contracts in place which promise them ownership of the environmental attributes. Additionally, many of these RECs are bought

by purchasers who participate in programs such as the U.S. EPA's Climate Leaders program, and use the RECs to reduce their greenhouse gas emissions in a registry.

By allowing imports of specified null power to not carry an associated emissions value, a double counting of GHG benefits may occur. The purchaser of the REC is the one that owns the environmental benefit, not the importer of the specified null power. In order to properly account for reductions in fossil generation, and consequently, GHG emissions, allowance retirement is necessary. Without a retirement of allowances, REC purchasers would be misled since their renewable energy purchase would not result in a real reduction in emissions. While they purchased emissions free electricity outside of the WCI jurisdiction, the actual zero emissions value would have stayed with the null power under Option 3's proposal. Consumer protection programs, such as Green-e Energy, would no longer certify any RECs from facilities that sold the associated null power into the WCI jurisdiction. This would introduce great risk into the voluntary renewable energy market, and could greatly hinder its growth. With that note, however, we remain strongly opposed to forcing a compliance obligation on purchasers of null power due to the extreme cost burden it would create. By making null power more expensive than fossil, the WCI would destroy a key goal of a market-based climate policy; incentivizing clean technology.

A Set-Aside for Imported Null Power

Despite the many obstacles, we have developed an approach that will properly account for null power emissions; equalize the costs of in-region and out-of-region RECs, null power, and bundled renewables; and prevent a disincentive to purchasers of null power, meaning that the costs of null power should equal the cost of fossil fuel plus allowances. Setting aside allowances commensurate to the amount of null power imported into the WCI will ensure that out-of-region renewable generation brought into the WCI results in an emissions reduction under the cap, thereby protecting the market for out-of-region renewables and RECs, and recognizing that the imported null power created real, non-RPS-driven emissions reductions inside the WCI. Our recommendation has two key components:

1. An FJD purchasing null power on a specified basis is not required to obtain allowances.
2. The program administrator reduces the amount of allowances available under the cap for the amount of null power emissions entering into the capped region. The transaction could take place as a set-aside for imported null power, similar to that which

we are proposing for the voluntary market, or as automatic retirements on behalf of the program administrator.

The set-aside would exempt purchasers of specified null power from purchasing allowances for the purchase of null power, and would treat out-of-region null power and RECS the same as in-region null power and RECs. Renewables generated outside of the WCI could be used to meet RPS targets or voluntary purchases (through the RECs), and out-of-region renewable generation could still drive GHG emission reductions.

As stated, our organizations are comfortable with either of the above treatments of RECs and null power within the WCI, with modifications. We offer our additional time and energy to helping the Partners reach a decision on the most equitable, accurate, and effective regulation of imported electricity in a carbon-constrained system. We appreciate your thoughtful approach to these issues, and to the many other complexities facing the WCI Electricity Subcommittee.