Center for RESOURCE SOLUTIONS

To: California Air Resources Board
Re: Comments on Climate Change Draft Scoping Plan
Date: August 1st, 2008

The Center for Resource Solutions (CRS) is pleased to submit comments on the *Climate Change Draft Scoping Plan, June 2008 Discussion Draft*. We agree that responding to the challenge of reducing greenhouse gas emissions is a shared challenge. Therefore, the California Air Resources Board should ensure that the implementation of a cap-and-trade system will not eliminate one of the most prevalent options that citizens and businesses have employed to reduce their greenhouse gas emissions – renewable energy bought and sold via the voluntary green power market. In a similar vein, ARB should also extend its focus to how citizens and businesses can contribute to reducing GHG emissions though energy efficiency activities under a capped power sector.

In these comments we will detail and explain several issues concerning the unintended impacts an emissions cap could have on the voluntary renewable energy market, as well as disincentives it could impose on energy efficiency efforts voluntarily undertaken by citizens and business. We will additionally present ideas on how some of these issues can be effectively addressed in policy, relying in part on how states participating in the Regional Greenhouse Gas Initiative in the Northeast have attempted to resolve these issues.

When citizens and businesses take voluntary action to purchase renewable electricity, renewable energy certificates (RECs) or to install renewable generation on-site, their dollars support the growth of new renewable generation facilities, infrastructure, and markets that benefit all of society. In the absence of a greenhouse gas cap, the addition of renewable generation to the electric grid also has the effect of reducing overall greenhouse gas emissions. One of the principal drivers of voluntary purchases of renewable energy is the reduction of greenhouse gas emissions. Yet under a cap on the electricity sector, this reduction in emissions does not take place. When a renewable energy generator produces emissions-free electricity, a fossil-fuel fired plant produces less electricity, *but* the number of pollution allowances in circulation remains unchanged. **Thus, the only way that buyers or sellers of renewable energy can reduce direct emissions under a cap-and-trade program is to take a separate and additional action to reduce the number of pollution allowances in the marketplace.**

If the cap-and-trade program does not adequately recognize the carbon-reduction value of these renewable purchases or on-site generation, and nullifies the ability for a voluntary purchaser of renewable energy to reduce GHG emission levels, this will eliminate the voluntary market for renewable energy, taking the many societal benefits of this voluntary market with it. The capped emissions level will become the ceiling for greenhouse gas emissions reductions rather than the floor, and going forward we will lose

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the powerful contributions that voluntary action has thus far made to a clean, domestic renewable energy industry.

At present, the emissions reductions caused by citizens and businesses buying green power are a result of their private investment. When implementing its cap-and-trade policies, the State should continue to take advantage of contributions to our shared challenge that are paid for by citizens and individuals and not the State. However, for this to continue to take place, the State needs to set up the structure to enable such action.

Accordingly, we recommend the following approach to preserve the ability for private citizens to invest in clean renewable electricity or renewable energy certificates. This is the approach that was implemented by RGGI and we feel it will work for the California (and the West) as well.

> ***Off-The-Top: Retire Pollution Allowances on Behalf of Voluntary Demand.*** Prior to allocation of any allowances, renewable generators or marketers/suppliers of renewable energy will notify the cap-and-trade Program Administrators of their projected voluntary demand for RECs, renewable electricity or the output from on-site distributed renewable generation.[1] [2] Program Administrators would convert the MWhs to tons avoided carbon and remove this quantity of allowances from the entire pool of allowances available[3]. These allowances will be held by the Program Administrator in the equivalent of an escrow account. Each year, parties selling renewable generation or RECs to end-users would report their actual MWh sales or generation (for on-site renewable generators), and the Program Administrator would retire a commensurate amount of allowances for the sum total of MWhs associated with the voluntary market. At the end of the allowance compliance period, any difference between projected tons avoided and actual tons avoided would be trued up by either banking excess allowances that were not used, or borrowing from the pool of allowances from the next compliance period.

This "off-the-top" approach differs from a traditional set-aside because the allowances are not allocated to renewable generators directly. Instead, allowances are retired and taken out of circulation *on behalf of* reported voluntary sales. This approach is far superior to a set-aside because it can provide some degree of certainty to the marketplace that all renewable sales in the voluntary market will be able to make carbon reduction claims. This certainty is absolutely critical to the market because customers and project financiers require it. It is also superior to a set-aside because the approach does not pit

[1] For on-site renewable generation, we recommend the generation unit owner report projected output.
[2] The Program Administrator could be at the Partner level or at a central WCI level.
[3] Program administrators could choose to calculate such emissions reductions in a number of ways, including replicating the methodology used when factoring in full compliance with the RPS into the emissions baseline.

renewables against energy efficiency or other important special interests in a fight for limited allowances. We would support a set-aside for the voluntary renewable market as a second choice if some guarantee could be provided that all voluntary MWhs would receive an allowance for tons avoided. Currently nine of ten states participating in RGGI have issued final or draft rules implementing a version of this “off-the-top” solution for their regional green power markets.

Finally, while implementing an “off-the-top” rule resolves issues related to purchasing renewable energy, this may not adequately address other important voluntary actions that citizens and business are currently taking to reduce their emissions. Currently, citizens and businesses are making significant investments in distributed generation (e.g. solar photovoltaics) as well as in energy efficiency upgrades (e.g. “green” buildings).

While some of these activities are supported through State programs such as the California Solar Initiative, others are fully paid for by private citizens and businesses. In many cases, the principal rationale for making these investments is not necessarily one of economics but rather tied to an interest in reducing GHG emissions and other pollutants (hence the term “Green” Buildings, for example).

However, there is a pronounced risk that when a cap is placed upon the electricity sector the reductions in electricity demand resulting from a company investing in energy efficient building technologies for their new facilities will not result in any net emission reductions, but rather will simply make it cheaper for a capped company to emit more GHG emissions (reduced demand for allowances will reduce the price of allowances). This counterintuitive result of a voluntary environmental action will likely hamper any such private investment moving forward, thereby reducing the individual initiative that is needed to meet the shared challenge of reducing GHG emissions.

We encourage ARB to take definitive steps to make sure that the implementation of AB32 enables these independent actions by citizens and businesses to have a real effect on greenhouse gas emissions. Thank you for the opportunity to provide input on this very important program design detail.

Sincerely,

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Executive Director