



Impactful Corporate Renewable Energy Procurement in States With Carbon Policies

Corporate procurement of renewable energy has had a huge impact on renewable energy development in recent years. But corporate purchasers may not be having the impact on emissions that they think they are having in states with cap-and-trade and other greenhouse gas (GHG) regulations covering the power sector.

While savvy, sustainability-minded corporations try to maximize their impact by entering into power purchase agreements with carefully selected renewable energy projects, providing long-term financing for new projects, and even increasingly by looking at the local grid mix of resources to maximize emissions displaced by clean power generation, they should also consider whether they are actually moving the needle on climate change and driving changes in emissions that are incremental to what is already required by regulation. Beyond verifying their exclusive ownership of the renewable energy certificates (RECs) associated with their projects to ensure that their generation is incremental to state Renewable Portfolio Standards (RPSs), they should also ensure that their projects are reducing emissions in states with cap-and-trade and other GHG policies. These policies change the GHG benefits of voluntary action in the power sector, and corporate renewable energy procurement could be merely subsidizing compliance and allowing fossil fuel generators to maintain or even increase their emissions.

In many cases, there are mechanisms already in place to lower emissions on behalf of voluntary action—like allowance “set-asides” in California and most states participating in the Regional Greenhouse Gas Initiative (RGGI). Where these mechanisms are not in place, or where GHG regulation is being proposed without them, corporate buyers should help communicate their importance and advocate for their inclusion, to protect the impact of corporate purchasing and the accuracy of their environmental claims.

How GHG Regulations Impact Corporate Procurement

Corporate renewable energy procurement has two GHG benefits:

- lower or zero direct emissions that can be used for Scope 2 accounting;
- avoided grid emissions, as the clean generation displaces GHG-emitting generation.

Both benefits are tracked and verified to corporate buyers using RECs. While capping GHG emissions from the power sector or at individual fossil facilities won't usually affect the first benefit, it does affect the second. Under a cap, corporate renewable energy generation may continue to displace emissions but unless the cap is lowered, it will simply free up room for more emissions and subsidize compliance for fossil generators. In this case, net avoided emissions associated with corporate renewable energy are zero. Furthermore, any reductions at fossil plants are automatically



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reported toward compliance, meaning corporate renewable energy generation is not “surplus” to GHG regulations.

To maintain these benefits and make a difference, corporate buyers must not only keep the RECs associated with their renewable electricity use, but retire allowances (or otherwise ensure that regulatory limits on GHGs have been lowered on their behalf). Keeping the RECs ensures that no one else can claim the benefits; retiring allowances ensures the avoided emissions benefits are real.

Using Set-Aside Mechanisms to Protect Impact

Nearly all states with cap-and-trade regulations in the U.S. have included a set-aside mechanism to protect the avoided emissions benefits of voluntary renewable energy purchases. When emissions allowances are set aside—or retired—in conjunction with a specified purchase of renewable energy, the cap is effectively lowered to account for the GHG reductions associated with this voluntary purchase. Proper use of set-asides is critical to ensuring that voluntary purchases of renewable energy drive GHG reductions beyond what would otherwise occur under regulation.

These set-aside mechanisms are typically administered and implemented by a government entity, and no additional cost should be incurred by either the buyer or supplier of renewable energy. However, because these mechanisms are not generally automated, the electricity supplier or buyer (especially for on-site generation) may need to initiate this process by reporting voluntary renewable energy supply and consumption to the appropriate regulatory agency.

- If purchasing from a retail supplier, like a utility, corporate renewable energy purchasers should always request that their electricity service provider follow the necessary protocols with the state to have emissions allowances set aside to account for the avoided emissions benefits of their purchases.
- For power purchase agreements, corporate purchasers can either subscribe to the set-aside themselves or negotiate use of the set-aside for all generation into the terms of the agreement.
- For self-generation, for example from leased or owned on-site solar, corporates should be sure to subscribe to the set-aside.

For purchasers of Green-e® certified renewable energy, Green-e requires use of a set-aside in states with cap-and-trade as a part of certification in the U.S. and Canada. Green-e certification can be obtained for any of the purchasing options above.

What to Do in Regions Without a Set-Aside

Although use of allowance set-asides is widely viewed as a best practice, there is at least one state where such a mechanism is unavailable. Delaware is the only RGGI state that has not adopted a set-aside mechanism. If a corporate purchaser is purchasing from Delaware and is located in another RGGI state, they can use the set-aside of the state where they are located. Otherwise,

- corporates located in Delaware purchasing from any RGGI state will need to switch to source from outside of RGGI,
- corporates located outside of RGGI or in Delaware that are purchasing from Delaware facilities will need to switch to source from outside of Delaware.

Alternatively, if procurement of renewable electricity from these locations is a priority, then corporates will need to independently procure and retire RGGI allowances, which will add significantly to the price of renewable energy.

In Delaware, and in states that are still considering or have proposed GHG regulations for the power sector (e.g. New Jersey and Virginia), corporate purchasers can advocate for the inclusion of a set-aside, or a similar mechanism to lower the cap on behalf of corporate or voluntary buyers, citing California and RGGI as models of successful programs. Corporate actors with large loads, reputable brands, and strong sustainability initiatives should proactively engage with the appropriate stakeholders to ensure that their actions continue to drive GHG mitigation in ways that are surplus to regulation.

Conclusion

With no clear path forward to address electricity-sector emissions at the federal level, states are increasingly pursuing their own initiatives. When designing carbon regulation, regulators may not always consider the full scope of effects these policies might have on renewable energy markets, especially in regard to indirect demand-side impacts. Corporates that wish to drive action beyond what would already occur due to regulation should not only ensure the proper retention and retirement of RECs, but also take action in response to GHG regulation in the electricity sector in all states where they source renewable energy. In some cases, corporate purchasers can simply request that their electricity service providers follow appropriate procedures to use existing mechanisms, (e.g. allowance set-asides). In others, they may need to engage with regulatory agencies and policymakers to ensure their benefits are not eroded by existing or proposed policy. Through targeted advocacy, sustainability-minded corporates can play a crucial role in pushing for the implementation of well-designed policies that address emissions in the electricity sector while protecting the ability of private sector actors to drive further action through their own initiatives. •

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