Green-e Energy

March 8, 2017

Green-e Energy Participant Market Advisory: Washington

In September 2016, the state of Washington's Department of Ecology ("Ecology") finalized a rule that regulates emissions from certain sectors in the state, including the electricity sector. This Clean Air Rule (CAR) takes effect January 1, 2017.

CRS is supportive of the overall goals of the CAR to reduce carbon emissions from the electricity sector. However, the Rule as proposed has the potential to reduce the value and integrity of voluntary renewable energy purchases by removing the avoided carbon benefit, while at the same time allowing for more pollution from emitting generators. As such, this policy may affect Green-e certification in the state. In this advisory we outline our concerns with the final Rule and the mechanism that is intended to preserve benefits for the voluntary market. The Green-e Governance Board will be evaluating the continued eligibility of supply from Washington and considering recommendations for addressing these concerns at its next meeting, on Thursday, March 16th.

Background

Carbon policies that cover the electricity sector necessarily affect the greenhouse gas (GHG) emissions benefits of voluntary renewable energy. Where emissions from the power sector are limited by regulation, or "capped," emissions reductions produced by renewable energy generation will be counted toward compliance with that regulation. This means that companies and individuals who voluntarily purchase and invest in renewable energy are not reducing emissions beyond what is required by the state, or "surplus to regulation" for GHG emissions. Instead, these investments make it easier for regulated entities to comply or free up room under the cap for these entities to pollute more.

In order to address this accidental outcome, states with carbon regulations have included mechanisms to preserve the carbon reduction benefit of voluntary renewable energy. In cap-and-trade systems in California and the Regional Greenhouse Gas Initiative (RGGI) states in the Northeast, for example, allowances that represent the right to emit are set aside and retired on behalf of voluntary renewable energy, effectively lowering the cap and reducing emissions.

The Washington CAR regulates emissions from the power sector, but is not an allowance-based or traditional "cap-and-trade" system. Instead, it directly regulates emitting sources and creates a new tradeable compliance instrument called an Emissions Reduction Unit (ERU), which represents one metric ton of carbon dioxide-equivalent reduced. ERUs are issued by Ecology to covered emitters for emissions

reductions in excess of requirements and to projects and programs that reduce emissions. ERUs can be purchased and used by covered entities to comply. The CAR does include a mechanism that is intended to address the loss of regulatory surplus and grid emissions benefits in the voluntary market called the ERU Reserve. The ERU Reserve is meant in part, "to promote the viability of voluntary renewable energy programs in Washington"[1] by retiring ERUs in the Reserve on behalf of voluntary renewable energy generation. However, Green-e has many concerns with the effectiveness of this mechanism.

Concerns with the Washington CAR vis-à-vis Corporate and Voluntary Renewable Energy

1. The ERU Reserve does not maintain regulatory surplus for the voluntary market.
The Reserve does not successfully allow corporate and voluntary renewable energy to reduce emissions beyond the cap, i.e. restore "regulatory surplus" in the voluntary market. ERUs are allocated to the Reserve as a percentage of the total reductions that are required by regulated entities. As a result, ERUs in the Reserve have been used by regulated entities to meet their emission reductions pathway and are not surplus to regulation. In order for such a mechanism to preserve regulatory surplus, the ERUs retired for voluntary renewable energy would need to be generated by lowering the emissions at regulated units in excess of requirements.

2. ERUs may not represent real reductions.
Double crediting (double counting of emissions reductions) is permitted under the CAR due to issuance of ERUs for projects and programs that reduce covered emissions, including renewable energy and transportation. In the electricity sector, while Green-e certified and other voluntary or compliance renewable energy generation cannot receive ERUs, the reductions in excess of targets at a covered party can. This means reductions in excess of targets due to voluntary renewable energy can receive ERUs. Renewable energy that is not used towards a voluntary or compliance program can receive ERUs and will be double credited if another ERU is created for the reductions at a regulated entity. It is unclear how many ERUs used each year will be the result of projects and programs. This means it is unclear how much of the ERU market will be affected by double counting of emission reductions. However, Ecology has identified that 90-94 percent of Washington's emissions fall into capped sectors of the economy, which means that it is likely that a large percentage of ERUs resulting from projects and programs will not represent real emissions reductions.

3. It is not clear that there will be adequate ERUs in the Reserve to address the voluntary market.
The ERU Reserve has been created to address six priorities. Listed in order of priority, the voluntary market is Priority Five. A description of the ERU Reserve on Ecology's website states: "If the reserve builds up ERUs over time, the excess can be used to support projects with positive environmental justice impacts or

[1] WAC 173-442-240 (2)(c)

voluntary green power renewables programs."[2] Based on this description, our calculations of voluntary market demand from Washington, and an estimate of the number of ERUs that will be allocated to the Reserve, it is unlikely that there will be enough ERUs in the reserve to meet voluntary demand.

Priority Four of the ERU Reserve is meant to address the double counted ERUs identified in Concern 2: "[A]ddress conditions that may arise when ERUs result from reduced GHG emission from programs or activities that occur in sectors contributing to covered GHG emissions."[3] Given the potential prevalence of double counted ERUs, and the expected inadequacy of the ERU Reserve, it is likely that there will not be any ERUs left in the Reserve after allocation for Priority Four. This means there will be no ERUs available for the voluntary market (Priority Five).

4. The timing of compliance makes it impossible to know the percentage of ERUs that represent real reductions (Concern 2) and whether there will be sufficient ERUs in the Reserve for voluntary renewable energy (Concern 3) until 2020.
The CAR operates on a three-year compliance timeframe and ERUs will be allocated to the Reserve in 2020, after which they will be allocated to the various priorities.

5. There is no voluntary participation in the ERU market.
If there are not enough ERUs in the Reserve after the allocation of ERUs to the first four priorities, it is not possible for voluntary market participants to purchase ERUs on their own to preserve the carbon benefit of voluntary market purchases/sales.

Next Steps

Green-e Energy participants with supply from Washington in 2017 may be subject to a Green-e Governance Board decision on March 16th affecting supply eligibility. Given the swift enactment and subsequent implementation of the Rule, Green-e staff has spent the past several months evaluating Washington supply eligibility and developing recommendations for the Green-e Governance Board's March meeting. Green-e staff will be reaching out directly to parties who may be impacted by the CAR in the meantime, and Green-e representatives are available to answer any additional questions.

[2] Department of Ecology: State of Washington. *Clean Air Rule: Reserve*. Available at: http://www.ecy.wa.gov/programs/air/permit_register/clean_air_rule/car_reserve.htm
[3] WAC 173-442-240 (2)(b)