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SNL Energy clean markets

Power - Operations and Strategy

Clean Markets: Double-counting poses dilemma for REC compliance; APX working on linking tracking systems

EXCLUSIVE

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By Jennifer Zajac

Regional renewable energy certificate systems and carbon trading markets are proceeding to rule out the ability of double-counting, although some say that such measures will likely lead to higher costs for consumers and limits on state regulators from determining their own renewable portfolio standard regulations.

The Western Region Electricity Generation Information System prevents participating states from allowing renewable energy certificates generated through state RPS compliance standards to count toward carbon compliance measures. That rule, which was handed down from California regulators, does not sit well with some utilities and industry insiders.

"States and voluntary RPS and other programs are still setting their requirements, so precluding the ability to strip out components for varying present and future compliance regimes by not allowing movement from the reserve account, to which the REC was moved for partial disaggregation, to the retirement account, to which the REC is moved for compliance, is taking a political position that ossifies the system, in a manner antithetical to WREGIS' role as agnostic, enabling infrastructure," MidAmerican Energy Holdings Co. subsidiary PacifiCorp said in a March 19, 2008, comment to the California Energy Commission.

PacifiCorp's comment was in response to a March 7, 2008, notice about a committee workshop on a draft joint agency staff report that proposed criteria and conclusions to determine whether the tracking system established by the commission to verify compliance with the state's RPS and to prevent double-counting renewable generation is operational.

WREGIS is the independent renewable energy tracking system for the region covered by the Western Electricity Coordinating Council. Members include all or part of 14 states, two Canadian provinces, and a portion of Baja California in Mexico. The REC tracking system launched in June 2007.

The Western Climate Initiative is a separate organization, with seven Western states, including California, and four Canadian provinces as members. Formed in 2007, the WCI is poised to host the largest regional cap-and-trade program in the United States in terms of emissions and comprehensive coverage when it launches in 2012.

Options Toolbox

Related Companies

- MidAmerican Energy Holdings Co
- PacifiCorp

Related Documents

- Energy Regulatory Filing (Protest)
  PacifiCorp
  3/19/2008, filed on 3/19/2008
- Industry Document
  "Decision on Definition and Attributes of Renewable Energy Credits"
  presented on 8/22/2008
- Industry Document
  "Notice of Committee Workshop on Draft Joint Agency Staff Report on Tracking System Operational Determination"
  presented on 3/7/2008

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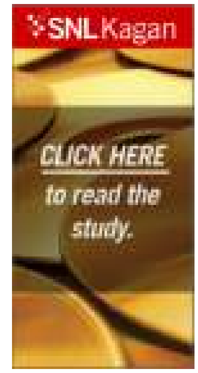

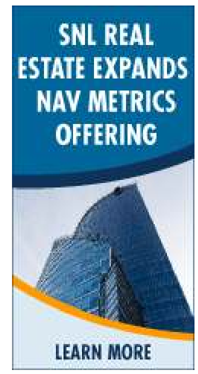

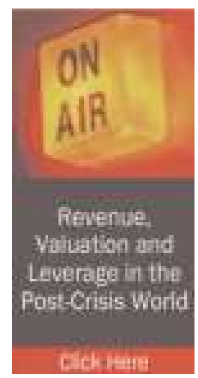

"How affordable is energy for ratepayers if the government sets goals that are not achievable, or are very expensive, today?"

They are separate systems addressing separate objectives. California regulators have taken steps to ensure that utilities take different actions to participate in the two systems. The Regional Greenhouse Gas Initiative in the northeastern United States also prohibits double-counting of compliance RECs.

"The California Public Utilities Commission requested and secured a change to the definition of a REC so that there was no disconnect between their definition of a REC as it relates to compliance with the California RPS and the WREGIS tracking system that is used by the utilities to procure those RECs," said Derek Denniston, director, structured transactions, renewable energy markets at Evolution Markets Inc. and a board member of WREGIS.

Defining a REC

A REC for California RPS compliance is a certificate of proof, issued through WREGIS, that 1 MWh of electricity was generated by an RPS-eligible renewable energy resource and was delivered for consumption by California end-use retail customers. A REC includes all renewable and environmental attributes associated with the production of electricity from the eligible renewable energy resource, including any avoided emission of pollutants, but it does not include any emissions reduction credit.

WREGIS is not aware of any state or province in the Western grid that currently allows the avoided carbon emission attributes to be unbundled from the rest of the REC, according to Denniston, nor are there any formal policy initiatives underway to achieve this.

"A renewable energy project like a wind farm has an additional problem in that the emissions reduction doesn't happen at the wind farm, it happens back at the fossil fuel

power plant."

Not everyone agrees with this approach. The separate costs associated with each system makes renewable and carbon objectives prohibitively expensive and unobtainable for utilities, according to Jeremy Weinstein, a California energy attorney who specializes in energy and environmental commodity trading and derivatives.

"Utilities are all about serving and keeping costs affordable for their customers," Weinstein said. "How affordable is energy for ratepayers if the government sets goals that are not achievable, or are very expensive, today?"

California also should not be telling other states how to establish their own policies, Weinstein said. "Affordability for ratepayers and achievability of goals are two important factors that regulators should consider," he said.

Utilities are concerned about the bottom line. But as far as many regulators are concerned, the bottom line is that more states will soon be operating under a cap-and-trade system and the general consensus is that the United States will establish a federal carbon trading scheme within the next few years. Within a capped state, it does make sense that there are no additional carbon attributes. "It fails the regulatory additionality test," said Denniston.

The 'additionality problem'

When it comes to certifying carbon offset projects and initiatives, the "additionality" must be determined. Simply put, additionality represents emission reductions that would not have occurred without the incentive of carbon markets.

"If you start paying people for emissions-reducing activities that are already happening or that will happen with our without carbon markets, you can spend an awful lot of money without making any difference in what ends up in the atmosphere," said Mark Trexler, director, EcoSecurities Global Consulting Services. "The real challenge for project-based carbon markets is differentiating between reductions that are and aren't additional."

There are different ways to test for additionality, such as a financial test that examines whether a project is financed without the existence of a carbon market incentive. An example of a project that is clearly additional would be the capture and destruction of methane from a closed coal mine. Generally speaking, there would be no reason to pursue such a project other than the existence of a carbon market.

"A renewable energy project like a wind farm has an additional problem in that the emissions reduction doesn't happen at the wind farm, it happens back at the fossil fuel power plant," said Trexler. This makes it difficult to reward renewable energy projects with carbon credits in a cap-and-trade system because the reductions get double-counted.

Yet the issue does not appear to be resolved.

"One reason the additionality debate has been so drawn out is that some people don't want to solve the additionality problem," Trexler said. "As soon as you solve it, you have clear winners and losers in these markets in terms of people who won't be able to play in the markets. As long as everything is left ambiguous, everyone can claim to be a market player."

National REC tracking system in the works

As the wait continues for Congress to enact a federal carbon cap-and-trade scheme, efforts are underway to pass a national RPS.

"We would like to see any national RPS build upon what's already working in the states and dovetail with the existing regional tracking systems," said Denniston. "As far as we're aware, the current registries work well, so we should be able to build on that experience to build a robust, transparent and accurate nationwide system." Rather than creating a new federal tracking system that would supersede and potentially conflict with the regional tracking systems, the existing ones could be linked together and incorporate states that currently do not have RPSs. This would also allow for seamless, transparent transfers of RECs, according to Denniston.

"Enabling REC issuance and tracking from facilities located anywhere in the United Sates will support efforts to create a more fungible REC market that will allow REC exports and imports across different regions."

Discussions are currently being held about linking the systems and efforts are underway to make that happen. APX Inc. provides market infrastructure for the five established regional REC markets: PJM (GATS), ISO New England (NEPOOL GIS), WECC (WREGIS), Upper Midwest (M-RETS) and ERCOT (Texas REC). The company is launching a new tracking system for central and southeastern states not covered by the previous regional markets, including Hawaii and Alaska. "That means that within the next quarter there will be full geographic coverage for REC markets in the U.S. and in fact all of North America,", APX Vice President and Chief Marketing Officer Reiner Musier said. "It also means that tracking systems and market infrastructure are available for states that do not yet have RPSs with REC compliance standards. Enabling REC issuance and tracking from facilities located anywhere in the United Sates will support efforts to create a more fungible REC market that will allow REC exports and imports across different regions."

APX is bearing the initial investment expense and will recoup the investment over time through market adoption, Musier said.

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