

# **Establishing a North American Association for Issuing and Verifying Tradable Renewable Certificates**

## **Meeting Highlights**

March 26, 2002, 9:30AM- 4:30PM

The Aerospace Center, 901 D Street, S.W., Suite 930, Washington DC

### **Attendance**

#### **In Person**

Jan Hamrin, CRS

Meredith Wingate, CRS

Ryan Wisner, representing CRS

Bob Grace, representing Union of Concerned Scientists

Nicole Fabri, Natsource

Ed Holt, Ed Holt and Assoc.

Kevin Bryan, NWCC

Kurt Johnson, EPA

John St. Cross, NYSERDA

Muir Davis, PG&E National Energy Group

Tom Kerr, EPA

Phil Moody, Campbell Carr- representing the European Association of Issuing Bodies

Michael Rucker, APX

Ashley Houston, APX

Heather Raitt, California Energy Commission

Scott Vaughan, North American Commission for Environmental Cooperation

John Garrison, International Business Council for Sustainable Energy

Alden Hathaway, Environmental Resources Trust

#### **On Phone:**

Gerry Kotas, DOE

Gabe Petlin, CRS

Roy McCoy, ERCOT

Deb Malin, BPA

Bunli Yang, Ontario

Rob Harmon, Bonneville Environmental Foundation

Virinder Singh, Pacificorp

### **Introduction**

Jan Hamrin opened the meeting with a brief overview of the need for national coordination of parties issuing and verifying tradable renewable certificates (TRCs) and the benefits of establishing a North American association to facilitate this work. The recommendations sent out in advance of this meeting were based on a model developed in Europe. The European model connects a number of domestic TRC tracking systems into a European network that shares a common set of procedures for ensuring the quality and transferability of the information collected.

NREL/DOE funded CRS to convene this meeting and write a report incorporating stakeholder comments and background on key concepts and feasibility. CRS is currently seeking funding for next steps.

### **Overview of Need for National Coordination- Jan Hamrin**

(1) Build the Market for Renewables: The development of a national network to issue, track and verify TRCs will help to expand the market for renewables, lay a foundation for current and future uses of renewables (e.g. emissions trading, pollution offsets, fulfillment of RPS, wholesale and retail sales), and will validate renewable certificates as a fungible currency for trade and banking.

(2) Market Credibility: The organization of the TRC market under an umbrella framework can help to build consumer acceptance of renewables certificates and market credibility by creating a national, closed loop verification system for renewable transactions.

(3) Cost Savings: There are already two regional TRC tracking systems established in the US and several others being contemplated. It is most cost effective to address the issues that will allow communication between existing and future systems now, rather than to wait until there are numerous systems in place. In addition, it will be more cost effective to have a few, interconnected larger systems than many small and regionalized systems that serve only one purpose.

(4) Supports State and Federal Renewable Mandates: At both the Federal and State levels, renewable portfolio standards are gaining popularity. All of the regions that are contemplating or have already established a TRC tracking system have done so to verify compliance with RPS or disclosure laws. Establishing a preferred model in advance of any regulatory requirement to do so will create the most benefit for future market development and coherence for market participants.

(5) Communication: The US is at a pivotal point in development of renewable markets. If tracking systems are designed to meet only state or regional needs, we will have lost a huge opportunity to create a national currency for renewables. A voluntary effort to develop some common definitions and rules will greatly facilitate the ability for state systems to communicate with one another, thereby minimizing seams issues, facilitating information sharing, and enhancing the role of each regional system in the larger renewable market.

Jan also provided some thoughts on the common characteristics of a national network of TRC issuers and trackers as envisioned by CRS:

- Inclusive of all renewables
- Functionally adequate to serve multiple needs and purposes, i.e. collects enough information to satisfy state, federal and voluntary program needs
- Oriented toward the wholesale market (though, not restricted to tracking only wholesale market transactions)
- Would not try to calculate pollution offsets or pollution credits, but would provide enough information so that others could do so
- Will have a banking function

## **Goals of Meeting**

The goal of this meeting was to answer three key questions:

- (1) Do stakeholders agree that working toward the development of a national network of renewable certificate issuers and verifiers is worth pursuing?
- (2) What, if any, are the major issues that need to be overcome and are there any insurmountable barriers that can be identified now?
- (3) What recommendations can stakeholders provide for moving forward?

## **Overview of Existing Systems**

Phil Moody, General Secretary of the European Association of Issuing Bodies, gave a short talk on the European model, including the governance structure, key functional and operational characteristics, contentious issues, and current program status.

Michael Rucker, Project Manager at APX, gave a brief overview of the key characteristics of the NEPOOL and ERCOT systems.

Both presentations are attached.

## **Key Discussion Points**

The meeting was largely a conversation about various issues related to the feasibility of setting up a North American Association of Issuing Bodies. Outlined below are the key themes discussed in the meeting.

### **Opportunities with Current Timing**

The Senate Energy Bill contains language for establishing certificate trading as a means of compliance with a national RPS. At the regional level, RTO discussions are still in formative stages in many parts of the country and this is a good time to try to engage RTOs. RTOs are good candidates to act as Issuing Bodies because they have most of the generation data. The timing of the Federal RPS and the development of RTOs provide good opportunities for building support for an AAIB and national certificate tracking network.

### **Structure of a North American Association of Issuing Bodies (AAIB)**

There were questions about the structure and role of the AAIB. The initial recommendation put forth by CRS is for an AAIB that serves as an umbrella organization that performs all of the administrative and organizational functions needed to support a national network of TRC issuers and verifiers, including the development of minimum protocols. The AAIB might be housed at CRS to start, then spun off as its own 501(c)3 once funding was established.

### **Creating a Default Issuing Body**

There was consensus that one of the greatest needs is to find or create an Issuing Body to handle TRC transactions that are outside one of the established systems (NEPOOL GIS and ERCOT). There were three options that were proposed: (1) an independent party, such as APX or some other company, could conduct this work on a fee-for-service basis, (2) one or more of the existing Issuing Bodies could expand their role and perform this function, and/or (3) the AAIB

could facilitate the development of a default Issuing Body. If one default Issuing Body is established, it might cede its “territory” to state and regional systems as they are developed. These three options are not mutually exclusive.

### **Who Should be the Issuing Bodies?**

Although NEPOOL and ERCOT are obvious choices for Issuing Bodies, it is not clear that they will be able to or will want to fill that role. During the development of the NEPOOL GIS, NEPOOL rejected the idea of becoming the Issuing Body for TRC only transactions. Under current rules, NEPOOL has a mechanism for transferring TRCs out of their system, but not for importing TRCs. ERCOT was open to fulfilling this role, though did not know if they will legally be able to do so. The group also suggested that Issuing Bodies don’t necessarily have to be in an exclusive geographic area (e.g. issuing bodies could be organized by technology area), but there does have to be coordination and agreements in place to ensure only one issuing body issues certificates for any specific generation facility. .

### **Size of Domains**

There was discussion around the preferable way to create a national tracking system. There was general consensus that the bigger the “domain” the better. The reason for this is that many large wholesale suppliers work across state and regional boundaries. In addition, it is less expensive to develop a few large systems, then a number of smaller systems, and may be more politically expedient as well. The concept is that there will be 3 to 6 issuing bodies in the United States, one in Canada and one in Mexico. This network will be linked electronically so that information can be easily transferred between issuing bodies as appropriate.

### **Costs to Market Participants**

There was discussion around how much it will cost to establish an AAIB and how much it will cost to participate in a voluntary TRC tracking regime. In Texas, costs of running the ERCOT system are paid through transactions fees. In New England, GIS Load Serving entities are assessed fees on a pro-rated basis based on GIS load. There was general consensus that the margins on TRC transactions are already very small. The development of the AAIB and other voluntary tracking efforts must be low cost to market participants. It will be less expensive to develop one or two large additional Issuing Bodies or to expand existing Issuing Bodies than to develop a bunch of smaller Issuing Bodies.

CRS is currently looking for funding to continue the AAIB process.

### **Stakeholder Involvement**

Throughout the day, there were suggestions made about involving different stakeholders. Suggestions include: NARUC (might be a good in-road into the regulatory community) and RTOs.

### **Emissions Information**

There was general consensus that a national network doesn’t have to track or quantify all emissions information or emissions offsets, but needs to have minimum generator specific information so renewable energy certificates can be converted for use in emissions markets. Emission trading markets are based on measurable stack emission reductions; therefore TRCs are

not currently transferable because the emissions benefits are indirect in the form of emissions offsets. The best role for the AAIB is to track enough information so that when emissions offset markets are developed, verified TRCs will be available for use.

### **Separation of Emission Attributes**

TX and NEPOOL are silent about the ability of suppliers or generators to split off emissions attributes. If someone did sell off carbon or some other attribute, it wouldn't be recorded in these systems. The group generally felt that the AAIB should aim to have Issuing Bodies either track specific attributes, or verify that no attributes have been separately sold.

### **Role of AAIB vs. Role of Issuing Bodies**

The group discussed whether the AAIB would set standards and determine compliance with RPS laws, or if that would be left to other entities. The proposal put forth by CRS is that the AAIB would only set standards relating to interactions between Issuing Bodies, but would not set product standards or attempt to define "green" power. It is assumed that this network might be used by states or programs like Green-e to verify program compliance, but that responsibility will fall on the individual Issuing Bodies, not the AAIB.

On a related issue, it was noted that some states only allow energy purchased through contract path tracking to be used on disclosure labels. If suppliers are using certificates, marketing claims will be incongruous with disclosure labels in these states. There was general consensus that Issuing Bodies will define a domain compliant TRC (e.g. one eligible for a state RPS, or disclosure etc.) The AAIB can identify the characteristics of a universal TRC that can be used in all markets (highest common denominator).

### **Type of Generation that is Tracked**

There were mixed opinions as to whether the AAIB should aim for a national network that tracks all generation, or one that is focused on renewables. NEPOOL GIS will track all generation. ERCOT tracks all generation, but only draws from REC eligible generation for its RECs program. Some felt that it would be better to set up a network that will accommodate future electricity system needs. Others thought that incorporating non-renewable transactions is unnecessary and could add expense without benefit.

### **Financial Interest of Issuing Bodies in TRC Market**

One question that needs to be resolved in early next steps is whether Issuing Bodies can have any financial stake in certificate trading. Phil noted that in the European RECS, the Issuing Bodies are financially separate because they have access to market information that would give a significant competitive advantage. In New England, an agreement was reached with APX that if APX started a certificate trading market in New England, information available to APX would have to be made available to all other market participants. In Texas, they avoided this problem by having APX only develop the software, but not run the system.

### **Small-scale Generation**

There was interest in making sure systems can accommodate small-scale, on-site generation. In Texas, there are RECs aggregators that are authorized to aggregate small on-site generation and they have to defend the data used in determining the amount generated to TX PUC. This is an issue for individual domains.

### **Existing Contracts**

It was observed that issues might arise with generators that have existing contracts that don't specify the ownership of certificates, including PURPA short-term obligations. There was a question as to whether the AAIB or Issuing Bodies could mediate disputes as to ownership of certificates.

### **NAFTA Concerns**

The AAIB must be mindful to avoid creating NAFTA issues or triggering NAFTA challenges. There needs to be more research on the legal issues. It was noted that NAFTA applies to government policy and mandatory programs, but non-mandatory non-governmental programs are generally exempt from NAFTA. However, it was thought that if the AAIB tried to exclude any types of renewable generators there could be a challenge.

### **Recommendations**

From the discussion, several recommendations emerged.

#### **Recommendations for the AAIB**

Given the national RPS trajectory, the group recommends getting something started quickly, so that key issues can be resolved in advance of need.

- The AAIB should not attempt to exclude any types of renewable generators and should be mindful of potential NAFTA issues.
- The AAIB should help establish a default Issuing Body to issue certificates to facilities located in areas not presently served by an existing issuing body as soon as possible.
- The AAIB should strive for the development of a few larger Issuing Bodies that can serve multiple functions and cover multi-state territories.
- The AAIB should reach out to include state regulators and those involved in RTO talks in the initial concept deliberations.
- The AAIB must create rules that enable secure and seamless communication between Issuing Bodies
- The cost of participation in the AAIB should be kept as low as possible
- The agreements between Issuing Bodies should be designed so that the information tracked by each Issuing Body can be used for a variety of purposes
- The AAIB should include Issuing Bodies from Canada and Mexico

## **Recommendations for Rules Governing Issuing Bodies**

- Issuing Bodies do not need to quantify emissions offsets or track emissions from a particular facility. However, the Issuing Bodies should have enough generator information carried on the certificate so that the certificate can be used in current or future emissions markets.
- There has to be coordination and agreements in place to prevent more than one Issuing Body from issuing certificates from a specific generation facility.
- Issuing Bodies should be able to track whether or not emissions attributes have been split off from a certificate.
- In the start-up phase, participating Issuing Bodies don't need to have the capability of importing certificates, only the capability of exporting certificates
- Issuing Bodies should be financially independent of the market
- Issuing Bodies should be able to accommodate the following (though these may be implemented in phases): All generation types, small distributed generation, various disclosure systems, various pollutant offset systems, rural off-grid renewables

## **Recommendations for Implementation**

### Goals for Phase I

- Creation of a system that is capable of ensuring proper tracking
- Design network to be able to satisfy verification of environmental disclosure for states requiring such verification
- Fundamental definitions and protocol developed
- Basic commitment agreed upon by all participating Issuing Bodies
- Establishment of an AAIB
- Establishment of a default Issuing Body

### Phase II and later

- Mechanism for handling indirect emissions offset information
- Capability to track all generation, not just renewable
- Mechanism for handling aggregated small, on-site and rural systems
- Address earmarking issues
- Address separation of attributes

### **Roundtable Comments: Is the concept of an AAIB worth pursuing?**

As a final check on support for the concept, we went around the table and asked each participant to tell us what they thought after the full day of discussion. The result was that there was unanimous support for moving ahead on the concept and for the recommendations outlined earlier in this document.

The following general comments were received:

- AAIB can help markets to develop and should be as inclusive as possible
- The development of an AAIB is a stepping stone toward national RPS markets
- There is benefit in bringing fiduciary responsibility to market through the establishment of an AAIB
- The development of a national network of TRC issuers will increase market credibility and will allow more trades to occur
- TRC regional tracking mechanism will support retail disclosure laws
- Depending on whether or not an RPS becomes mandated for CA will determine how involved the California Energy Commission is in this effort. If an RPS is passed in CA, the CA Energy Commission may be interested in becoming the Issuing Body for CA and possibly expanding to WSCC states
- NYSERDA supports any process that allows NY renewables to be sold in as large a geographic area as possible.
- Development of an expandable network is a good idea, but it may be difficult to convince regulatory people that they should contribute dollars
- Numerous people stated that they like idea of creating largest body possible
- Canadian ECOlogo has a voluntary tracking system, so Canada may not have the same urgency to establish a network
- It was suggested that this should be a robust stakeholder process and CRS should make sure that all stakeholders are represented
- This effort should be focused on the needs of the voluntary TRC market instead of trying to meet the needs of a mandatory market
- There was a concern raised regarding benefits v. costs of development of the AAIB and a national network
- It was suggested that because margins are so small on TRC transaction, the AAIB might want to consider energy attributes only to start and worry about air emissions quantification or by somebody else at later time, or not at all.
- The AAIB should focus on wholesale transactions but not get involved in retail transactions
- ERCOT was interested in the idea of expanding their system to cover other regions, but don't have approval to do that right now
- AAIB should strive for simplicity to keep costs down

### **Announcements**

There will be a meeting on the European AIB in Oslo, Norway May 31, 2002. All are invited to participate.