



fact sheet

RGGI, Climate Change, and the Voluntary Renewable Energy Market: Getting It Right

The default RGGI Model Rule puts at risk the rapidly growing and very important voluntary renewable energy market, potentially making it more difficult and expensive for the region to achieve its climate goals. An option within the Model Rule could fix the problem, but each Northeast state must take deliberate action to do so.

The Model Rule for the Regional Greenhouse Gas Initiative, agreed to in 2006, allocated no RGGI allowances to renewable energy facilities or generation, included an optional clause to guide retirement of allowances based on voluntary renewable energy purchases in each state. The clause provides a straight-forward mechanism for ensuring that buyers and sellers in the voluntary renewable energy market can claim carbon benefits as a result of their transactions regardless of where the renewable energy is generated.

Renewable energy is very important to the Northeast's energy development, as a carbon-neutral energy option and as the only indigenous energy supply option for much of the region. Under RGGI, renewable energy can play a very important role in addressing climate change, furthering the goals of minimizing the carbon intensity of the region's power generation cost-effectively and sustainably.

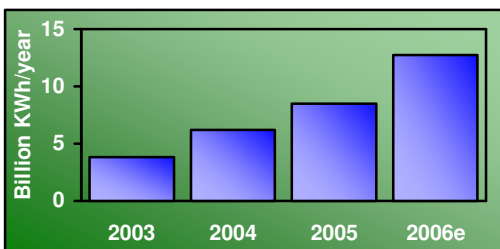


Figure 1 Voluntary renewable energy purchases are growing 40 to 60% per year.

Voluntary renewable energy purchases, in turn, have been very important to the development of renewable energy. Such purchases, also known as "green power" purchases, have been a major tool for individuals, businesses, institutions, and government agencies to support renewable energy development and reduce their environmental impacts:

- Green power sales have grown 40 to 60% annually in recent years. Retail sales in 2005 totaled 8.5 million megawatt-hours—about 0.2% of total U.S. electricity sales; the Northeast was responsible for most of that year's customer growth.
- Voluntary green power markets supported more than one-fifth of new renewable energy capacity additions nationwide from 1997 to 2005.
- In the Northeast, most of the demand growth is from corporations, institutions, and governments. A growing number of towns, colleges, and universities are voluntarily committing to purchase 20% renewable electricity by 2010. Various states in the region have invested significantly in supporting the growth of renewable energy purchases, as has the federal government.

Creating environmental benefits, particularly addressing climate change, is a chief driver for voluntary renewable energy purchases.

States would be well served by adopting the optional clause. State support for the voluntary market through inclusion of the clause would likely have little effect on RGGI allowance auctions—on either prices or on total revenues collected. State rejection, by contrast, would strongly undermine an important driver for the development of renewable energy, because the voluntary purchases would not result in retirement of any allowances, and sellers and purchasers could make no greenhouse gas reduction claims. This situation could endanger the development of new local low- or zero-emission facilities even beyond those directly looking to serve the voluntary market, reduce local economic benefits, and reduce RGGI's effectiveness in promoting long-term responses to climate change.

Why each RGGI state should retire allowances corresponding to voluntary renewable energy purchases in the state:

- **Retiring allowances will avoid reversing the carbon-reduction benefits of voluntary purchases.** Renewable energy generation displaces fossil-fuel generation and the associated carbon emissions. Were allowances not retired for voluntary purchases based on renewable energy generated within the RGGI region, fossil-fuel generators covered by RGGI would continue to emit at the level of the emissions cap—despite the reductions in emissions based on the renewable energy generation.
- **Retiring allowances will avoid strongly undercutting voluntary purchases.** The failure to support the voluntary market through adoption of the clause would likely severely undercut voluntary purchases of renewable energy from in-state or in-RGGI renewable energy facilities. Without an ability to make about carbon emissions reduction benefits, green power purchasers would be able to claim substantially less environmental benefit, despite the displacement of fossil-fuel generation. That limitation would likely considerably reduce the market appeal of voluntary renewable energy offerings in the RGGI region, or shift sales to offerings based on out-of-region renewable energy facilities.
- **Retiring allowances will support local economic development.** A lack of allowance retirements corresponding to voluntary renewable energy purchases would affect not just the markets for those purchases, but siting of renewable energy facilities in the region in general. Without corresponding carbon allowance retirements, opponents could claim that such facilities will not reduce carbon—as they have already done with other pollutants. Such claims, justified or not, could contribute to the rejection of proposed projects. While the

voluntary renewable energy market is just one possible target of new renewable energy facilities, the lack of allowance retirement could undercut local facilities much more broadly.

- **Retiring allowances is consistent with 100 percent auctions.** Given the small scale of allowance retirements based on the voluntary market, their inclusion would be fully consistent with the spirit of 100 percent auctions. Massachusetts, Rhode Island, and Connecticut have all accepted both 100 percent auctions and support for the voluntary market under RGGI. As with in-region generators covered by RGGI, no allowances would be assigned or given away to renewable energy facilities.



Figure 2 EPA Green Power Partners buy more than 10 billion kilowatt-hours of green power annually.

- **Retiring allowances will not appreciably affect allowance prices.** While retirements to account for voluntary market reduce the supply of allowances, the renewable energy also reduces demand. Because of that effect and the small scale of the reductions relative to RGGI state carbon “budgets”, allowance retirements would likely have very limited effect on allowance availability and prices. Current levels of voluntary purchases within the RGGI region would correspond to well under one percent of the RGGI cap in 2015. Other factors such as natural gas prices, emissions control technology developments, energy demand, and even auction design would likely have much greater effects on allowance-price changes.
- **Retiring allowances will not cause states to lose revenue.** Because of the limited reduction of available allowances based on the voluntary market, overall state auction revenue would likely change very little.

Legislative and administrative rule-making for implementing RGGI in each state must adopt the Model Rule’s optional clause related to voluntary renewable energy purchases to allow voluntary actions to continue to play a significant role in advancing renewable energy for contributing to local economic development and for addressing climate change.