



Model Contract Could Aid Push For Renewables In Climate Programs

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A new model agreement covering the purchase of renewable energy certificates (RECs) could help clean energy advocates lobby for an enhanced role for renewable energy in any future nationwide climate program, say sources who worked on the plan.

Companies now trade RECs in order to comply with state mandates on the purchase of renewable energy, while organizations also purchase RECs voluntarily to offset their carbon dioxide emissions impact. But critics have questioned whether REC purchases lead to reductions in greenhouse gas emissions, according to sources who spoke with sister publication *Inside EPA*.

The [model agreement](#) is aimed at increasing transparency in the renewable energy market, in part to make claims of voluntary reductions more credible, sources say. And proponents hope that a more robust trading market could help them argue for nationwide climate programs that include ways to encourage renewable generation.

Groups including the Environmental Markets Association, the American Bar Association Committee on Renewable Energy and the American Council on Renewable Energy this month finalized a pre-publication draft of their "Master Renewable Energy Certificate Purchase and Sale Agreement."

Nationwide Trading

The groups say they developed the model contract in order to encourage nationwide trading, one source familiar with it says, because many states have sharply different rules for how to govern renewable portfolio standards, which mandate that a percentage of electricity purchases come from renewable sources. Companies trade RECs in order to comply with state renewable portfolio standards.

For example, some states allow certain efforts -- such as waste-to-energy projects -- to qualify under an RPS that are not allowed in other states. The model contract includes a provision for the seller to specify the origin of the renewable generation, the source says.

"The contract is intended as infrastructure, or a paved road, to help buyers and sellers transact; foster market mechanisms to promote renewable resource development; and, perhaps most importantly, stave off potential balkanization of U.S. REC markets," the model agreement says.

The model also asks companies to specify any environmental attributes that are associated with a REC, including a reduction in CO2 emissions. This added transparency could allow sellers to trade away the environmental aspects of the REC while retaining the RPS compliance attributes, if doing so is allowed in their state, sources say.

An environmental market attorney familiar with the model expects it could help reduce confusion over whether a renewable energy purchase represents a CO2 reduction. Critics have asked whether renewable generation would have occurred anyway in the absence of a REC purchase, which would undermine claims for a greenhouse gas impact.

Disclosures Required

However, the source notes the model contract requires disclosure of the verification provider for an environmental attribute, as well as a description of the verification methodology. This will allow traders to assess whether the greenhouse gas claims are credible before purchasing the REC, the source says.

The hope is that the model contract will promote a viable market in trading RECs that could be incorporated into a future climate change policy, the source says, adding that it could “encourage Congress to recognize the role of renewables in a future carbon market.”

One possibility is to include renewable energy as “offsets” under a future cap-and-trade system, allowing renewable providers to turn in a REC in exchange for an offset credit for CO2 emission reductions. Offsets are projects that receive credit for reducing emissions when they do not fall under an emissions cap-and-trade program.

The source argues it makes sense to provide offset credit for renewables because as zero-emission sources, they would not receive any allowances under a cap-and-trade system. But others may argue that renewables already receive an incentive simply because a cap on CO2 emissions encourages low-emission sources. A climate program would also have to include a mechanism to avoid “double-counting,” which could occur if CO2-emitting facilities are allowed to increase pollution after a renewable facility obtains an offset credit.

A future cap-and-trade program could also include a “set-aside” for renewable energy by reserving some of the emissions credits for renewable sources. Some states already use these set-asides to comply with EPA programs focused on reducing sulfur dioxide and nitrogen oxide emissions from power plants.

The first source adds that under the model agreement, “we have the flexibility that would enable the REC to be used for pretty much any cap-and-trade system.” But the general hope is that it will encourage a more vibrant market for trading RECs and help raise the profile of renewable energy.

“The renewable resources have the reputation of being the most expensive, and to the extent that RECs can facilitate the development of renewable resources in the cheapest place,” the model contract is helpful, the source says.