



# **Set-Asides: the Link Between Renewable Energy and the Emissions Markets**

Clean Air – Cool Planet

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## Central message of this presentation:

- Many forms of renewable energy (e.g. wind) do not produce emissions, but this alone doesn't mean they get emission credits.
- Most emission markets are created by cap-and-trade programs, which have proven very effective at reducing overall emissions.
- “Set-aside” programs can allocate a portion of emission allowances for renewable energy producers, thereby enabling them to participate in the emission markets.

## What is a REC?

- A Renewable Energy Credit (REC) represents the environmental, social, and other benefits associated with one megawatt hour (MWh) of electricity from a renewable generation source.
- The list of benefits varies from resource to resource.

# What is a Cap-and-Trade Program?

- A cap-and-trade program limits overall emissions of a specific pollutant (the “cap”) for a defined population of sources.
- Sources of the pollutant (“affected sources”) are told how much of the pollutant they will be able to emit now and in the future. The amount usually declines over time.
- If an affected source doesn’t use all of its allowances, it can sell the excess to other affected sources that have exceeded their individual cap (the “trade”).

## What is a “set aside”?

- A set-aside program takes a portion of emission allowances (e.g., 3% of the state total) and sets them aside for renewable energy producers.
- Renewable energy producers can apply for the set-aside allowances.
- The number of set-aside allowances the renewable generator can receive is determined by a formula, and based on the amount of energy they deliver to the grid (in other words, how much fossil generation did they displace?)
- For example, the set-aside might award the renewable generator 1.5 lbs of NO<sub>x</sub> per MWh energy delivered).

## Then what?

- The renewable generator can then either retire the allowances or sell them into the OTC market.
- If they sell the allowances, this creates an additional income stream.
- If they retire the allowances, this enables the seller of the REC to claim that title to the REC conveys title to quantifiable emission reductions.

## Common questions:

- Don't all RECs include emission reductions?
- What about buying RECs as part of a commitment to reduce greenhouse gases...is this valid?
- Would a cap-and-trade program for GHG impact the REC markets?
- If under a set-aside program, some renewable generators retire their allowances, and others sell them, won't we be left with too many different kinds of RECs?

- In our view, renewable energy producers selling RECs to “voluntary” buyers should apply for set-aside allowances (if available), and retire the allowances.
- This will help ensure the integrity of the voluntary market, where many of the buyers are unsophisticated, and may mistakenly believe that buying RECs automatically conveys emission reductions.

- The rules pertaining to set-asides in the “compliance” REC markets, however, should be determined by the states.
- This is consistent with the view that Renewable Portfolio Standards create a market-based subsidy for renewable generators; and the set-aside creates another.
- As long as there is no misrepresentation about what is or isn’t conveyed with the REC, there is nothing inherently wrong with allowing renewable generators to sell allowances obtained via a set-aside.

Many regions of the country are using or developing REC and emission tracking systems.

These systems will make it relatively easy to differentiate between RECs for which emission allowances have been retired, and those for which they haven't.

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