MEMO

To: International REC Standard Foundation board
From: International REC Standard Foundation secretariat
Date: February 18, 2020
Subject: Board document on the status of the annulment code change

1. **Background to this document**
   The secretariat has conducted a number of interviews regarding the annulment code change in-line with the board minutes from May 23, 2019 which stated the secretariat should conduct a number of 1-on-1 interviews with a few active market players. While not a formal public consultation, these interviews are a method of consulting with users of the I-REC Standard.

2. **Introduction**
   The International REC Standard Foundation board has aimed to develop and update the I-REC Standard governance documents based upon best practices around the world and in cooperation with stakeholder input. In the current code, the attributes that are contained within an I-REC are forever connected with the I-REC until the certificate is redeemed on behalf of a beneficiary. Given that I-RECs do not expire, some market participants have requested for a voluntary removal, or annulment, which would give market participants an additional tool to remove I-RECs from the market without going through the process of redemption. The International REC Standard Foundation board is considering this request and has decided to have the secretariat carry out short interviews with market players about this proposed change to the Code.

3. **What is the issue**
   The code currently only permits I-RECs to leave the market by redemption or withdrawal by the issuer (for error correction) in contrast to the European GO where, by law, GOs must expire causing its underlying attributes to flow back to the residual mix. All attributes connected to the I-REC, including possible offset rights, stay forever within the I-REC as long as the I-REC is in active existence. The only possibility for participants to let the I-REC exit the market is through redemption and this would cause the associated attributes to be claimed hindering the use of these attributes for other accounting standards including most notably, offset markets. This has resulted in the desire for some market players to enable the use of attributes in I-RECs to be used for other accounting frameworks such as avoided emissions statements, or offsets, if they have not been redeemed by market participants.

4. **Proposed code change**
   It has been proposed to create a new irreversible market exit for I-RECs by allowing a voluntary removal (an annulment) of certificates. Initiating an annulment process for an I-REC will not erase the certificate from the books, instead it will be recognized that an I-REC has existed in relation to a MWh, but the rights and obligations conveyed by that I-REC would be formally released without a beneficiary able to claim the associated attributes. These I-RECs would be placed in an annulment account and become unusable for claiming the associated attributes of that I-REC. Instead the last owner (the market participant whom requested the annulment) will have the rights over the attributes and the ability to
request these in a different accounting standard. In case the avoided emission rights were bundled with the I-REC, the respective MWh could be used for the purposes of requesting an offset.

5. Results to the interviews

5.1 Is there a problem in the market?
All interviewees considered the issue not to be an existing problem for themselves. Two interviewees could understand the issue for other market players.

5.2 Is an annulment a workable solution?
All interviewees considered the proposed code change as a clear solution that 1) makes sense 2) would solve the described problem (if it were to exist) and 3) would be workable. The major positive features of this potential change would be additional flexibility for registrants/participants because unsold I-RECs could be sold in a different accounting standard and additional financial gain by selling old I-RECs.

explicitly mentioned that it would not support the annulment process if it were to be installed to enable turning I-RECs into avoided emissions claims for use in offsets. If the problem of "old" I-RECs were to be solved, one interviewee mentioned would favoring an expiry of I-RECs over an annulment as is mandated under European law for the GO market.

5.3 What aspects must be considered before implementing an annulment?
Several interviewees mentioned that if the annulment were to be implemented, it must be avoided that market players use this as an alternative route to redemption. Also, it must be guaranteed that the underlying attributes cannot be sold or redeemed after annulment to avoid double claims. Having a general time window was generally supported albeit no specific time periods were mentioned. One interviewee mentioned that the 30-month period, as suggested in the official code change proposal, was a fair period. At the time of the interviews, no interviewee could think of potential strategical uses of an annulment that could harm the market.

5.4 Would you use the mechanism?
Would you use it if it had an associated cost?
Not a single interviewee would use the mechanism regularly even if it were offered for free. One interviewee would just use it once to clear old I-RECs on their accounts and compared this more to archiving RECs than removing them from the market. They would not do this if there was a fee associated with an annulment. At the same time, all interviewees believed a fee would be necessary to prevent giving incentives to market players to try using an annulment as an alternative for redemption. No specific prices were mentioned except for one interviewee who thought it could be somewhere around 4ct/I-REC (6ct redemption – 2ct issuance).

One interviewee explicitly warned that any price difference between redemption and annulment will be abused in some way, as, in their opinion, end-users are often so dethatched from the rules that market players could do this without their knowledge. As such an annulment would need to be the same fee as a redemption to avoid this issue.

5.5 Do you have specific concerns if an annulment were to be implemented?
As one interviewee put it, having the flexibility of "detaching" the attributes from I-RECs to another accounting standard could potentially lead to market players buying I-RECs ahead of time. Other than that, the interviewees could not think of unfair market as a result of implementing an annulment
process. In addition to having actual threats, the public opinion on whether an annulment process could distort the market was considered important too. It was highlighted by all interviewees that a very clear and transparent list of annulled I-RECs would be needed to ensure that those I-RECs could not be sold anymore to other market players. One interviewee worried whether I-REC would be capable of checking that this does not occur. It was mentioned that the annulment process looks okay on paper but that it could lead to problems in practice.

5.6 Final remarks interviewees

The most important thing is that no two claims can be made based on one MWh and an annulment procedure should not give the impression that this is possible. During the interviews, all interviewees mentioned the discussion on I-REC vs avoided emissions claims. This issue is much higher on their agenda than the annulment procedure.

One interviewee advised to speak with the carbon market (gold standard, Verra/VCS) before introducing an annulment possibility to ensure that the attributes transferred from an EAC market to a carbon market would go smoothly. Also, all interviewees highly appreciated being involved in potential Code change discussions.

6. Considerations of the secretariat

In accordance with the requirements of the Foundation Board information has been obtained in the form of interviews with various market participants. In addition to this feedback, the secretariat reached out to I-REC Services who indicated that providing an alternative exit to Redemption could not be delivered at any cost lower than the current Redemption process. As a system change would be required, it may even cost more in order to recover development costs for what is likely to be a rarely used feature. Unless this change were mandated by the Foundation Board, it is unlikely that I-REC Services would support the development of the code change.

The board is advised to decide to, either:

1. Implement the annulment proposal,
2. Reject the annulment proposal, or,
3. Provide an alternative mechanism for coming to conclusions on the proposal