MEMO

To: International REC Standard Foundation board
From: International REC Standard Foundation secretariat
Date: April 2 2020
Subject: Report on avoided emission rights retainment in I-REC issuance request

1. Background to this document
The I-REC Standard current Code requires issuers accredited by the International REC Standard Foundation to ask for disclosure by the Registrant of whether they will retain potential avoided emission (offset) rights separately from the issued I-REC certificate or if the issued REC will contain all possible avoided emission rights. This declaration is carried on the REC and seen by all owners and beneficiaries of the certificate. This declaration is always visible on redemption statements for end-users and auditors as well.

Due to increasing requests by market actors the International REC Standard Foundation has chosen to revisit the allowance to retain avoided emission rights separately from the REC. In order to evaluate the effect of such a change the Board of the foundation has requested the secretariat conduct interviews with market actors, stakeholders, knowledgeable third-parties. These one-on-one discussions were aimed at understanding the position of these actors and to get feedback on a possible code change regarding this issue.

2. What is the issue
Multiple stakeholders have raised their concerns regarding I-RECs being a certificate that consists of energy attributes while leaving the option for registrants to separately retain avoided emission rights (the basis of carbon offsets) for possible use or delivery to end-users.

3. Proposed code change
It is being considered if a code change should be drafted which would remove the option for registrants to retain the right to any potential avoided emissions rights from the same MWh outside of the I-REC itself. By requesting issuance for an I-REC, the registrant will automatically include any avoided emission rights in the I-REC and as such forego the option to request offset issuance for the same MWh.

4. Held interviews
The International REC Standard Foundation secretariat has conducted 13 interviews with various I-REC market facilitators and I-REC market players. All geographical locations in which the International REC Standard Foundation is active have been represented by the interviewees.

5. Results
5.1 Support
From the total 13 interviews, 10 respondents (N-America, S-America, Europe, Asia) were very supportive of the change, 1 responded was indifferent (Europe) and 2 respondents were in some ways critical of the change (Asia & S-America). Albeit some of the supportive respondents mentioned
that the current rules are clear, they claimed that having this aspect clarified in the regulations of the I-REC Standard would be hugely beneficial from a communications perspective and the right thing to do. The reason for the indifference of the one respondent is the lack of tools to verify compliance to the new rules as well as the company’s policy to only trade I-RECs that include the offset right, as a result the change would have no effect on their business. This policy on only using RECs that contained avoided emission rights was a common policy implemented by many of the interviewed market players. The 2 respondents not supporting the change appreciated the current transparency and didn’t see a reason to change this as currently market players can already choose to purchase I-RECs that include the offset rights.

5.2 Evaluation of current rules – risks for market players and the I-REC Standard
All but two of the respondents stated that they have not run into serious problems with the current rules. Almost all respondents have clearly stated in their contracts that they don’t allow the use of offset certificates separately from the MWh that received I-REC certification. Multiple market players told us that they spend significant portion of time explaining the current rules as the relation between I-RECs and offsets as this is very often not understood by clients and the terminology used (a double negative) in the I-REC registry adds to this confusion especially for non-native speakers. One market player stated that some registrants tick the box for retainment in one month and not for the other month possibly due to a lack of understanding. This leads to confusion and potentially to large problems at the point of redemption when this information is discovered by the marketplace/end-user.

I-REC issuers have not faced serious problems with the current rules but often receive questions from confused stakeholders regarding this issue. The issuer stated that the two biggest players in the country see the current rules as allowing potential double counting while the issuer in believes that the current rules are superior to the proposed changes due to the transparency of the current rules. All other issuers supported the change for ease of market player understanding.

Seven of the eight market players contacted saw this current situation as a potential reputational risk for the I-REC Standard. Multiple market players responded that the current rules make sense to them, but the rules could give the idea to the outside world that the International REC Standard Foundation is allowing double counting. One market player believes the I-REC Standard cannot be blamed since the information is clear and transparent.

5.3 Code Change - Potential market risks and timing issue
Only one market player could see negative financial consequences as a result of this code change. The seven other market players did not expect any negative consequences partly since they already do not use certificates or issue RECs separately from the potential avoided emissions.

Regarding broader market implications, one issuer mentioned that registrants might request fewer certificates as result of this Code change. Other issuers did not see any negative results from this Code change. Market players were also not worried about negative effects on the market as a whole. Some of the mentioned potential consequences included 1) registrants being unhappy due to the loss of flexibility of choosing for I-RECs and offsets 2) unknown effect on I-REC supply and prices.

Another topic discussed is the “timing issue” which is the description of the fact that the lifecycle of an I-REC is fully completed before offsets are generally requested for issuance. This makes it impossible for REC markets to verify on a large scale whether device owners honor their agreement
related to a specific MWh. This timing issue, it should be noted, is already applicable in the current situation for a vast majority of I-RECs. That said, all market players acknowledged the problem with the timing issue but almost all respondents highlighted the benefits of having it very clear for registrants what is expected from them. Market players supporting the code change stated that the extent to which legal requirement can be honored is secondary to the improved clarity, creditability and transparency the Code change would bring. Concerning the verification process, numerous market players believe REC markets should increasingly coordinate this issue with carbon standards. Some went as far to say that carbon standards should carry full responsibility for avoiding double usage of the same MWh. Many market players said they already check the I-REC system before requesting any offset. Issuers also agree that it would be easier for offset buyers to verify the information, given that the life cycle of an I-REC is before that of an offset. However, some issuers and market players doubted whether carbon standards would bother with this. Specified that the lack of tools for verification was one of their arguments to support the current rules, but acknowledged this is already the case in the current situation. Despite some market players and issuers doubting on how much effort carbon standards would put into this problem, the majority of interviewed market players and issuers find that changing the rules would be the right thing to do, regardless of potential lack of control of the work of offset standards.

5.4 Transition phase and other comments
If the code were to be changed, all respondents prefer the implementation to be happening with a market notice rather than a direct Code change following the board’s decision. Several market players responded positively towards sometime on or after May 15th 2020 as implementation date if the Code change were to be accepted. It is however recommended that the service provider, I-REC Services BV inform us on the availability to plan this work and when implementation would be possible. Other comments:

- Two market players mentioned that some sort of flexibility for registrants, potentially by an annulment, would be welcomed. The proposed annulment was rejected in the previous board meeting, but the role of an expiry could potentially be the connection between I-RECs and offset requests.
- One market player suggested to forbid the request of offset requests for the same MWh unless national legislation says otherwise to avoid a potential conflict between the Code and national legislation.

6. Considerations of the secretariat
Based upon the responses from the interviews, it is the view of the secretariat that acceptance of the Code change would be well accepted across the market. A majority of the respondents are in favor of accepting the Code change as this would give clarity to all market players and their clients and would no longer be justified in believing that the I-REC Standard facilitates double counting. In addition, a Code change would result in very limited negative effects on the market and very limited effects on the financial situation of market players, according to the interviewees. The implementation is recommended for May 15 to allow a market notice of at least a month.