

Renewable Energy Credits & Carbon Offsets Liability Insurance



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Chemical substances - CO₂, CH₄, N₂O, and SF₆ - have a lot to answer for as greenhouse gases that permeate the air contribute to global warming. Although there is still no grand plan in place to reduce global emissions, some important steps in the right direction have been made. The European Emissions Trading Scheme is up and running and working well. In fact, the United States is looking to launch a similar foundation by the end of 2008. The transfer of efficient "Green" technologies to emerging countries is booming.

The insurance industry is being pushed to step-up and look at developing insurance products that will support and encourage further investment in renewable energy projects. An example of this is a specially tailored cover called Carbon Offsets Liability.

William Gallagher Associates, a leading provider of insurance brokerage, risk management and employee benefits services to firms with complex risks, within industries that include high technology, life sciences, financial risks, healthcare services, energy, and environmental services. WGA has offices in Boston, MA; New York, NY; Hartford, CT; Princeton, NJ; Columbia, MD; Atlanta, GA; and Paris, France.

What are renewable energy credits (RECs)?

For every kilowatt hour of electricity a renewable generator generates, it also generates a one-kilowatt hour renewable energy credit. The generator can sell both commodities together as "renewable electricity" or sell the electricity as "generic" electricity to one buyer and the RECs to other buyers. ***Legally, it's all about who owns the RECs.***

Here's a simple way to think about it. Let's say your utility offered you the opportunity to pay a little more each month for wind power, and you did. From that point on, the electricity feeding your meter would be exactly the same as it was before you started buying wind power. That's because all electricity is the same, and you can't tell particular electrons to go to a particular house on the grid. So what do you get when you buy wind power from your utility? You get electricity from the mix of all sources feeding the grid, and "credit" for having had the electricity you use replaced with wind power. That "credit" is the core of renewable energy credits, or RECs. When you buy wind power from your utility, you're really just buying ordinary electricity and RECs in the same transaction from the same supplier. In fact, your utility may or may not buy wind power on your behalf - they may simply buy wind RECs for you. Either way it's the same. Because all electricity is the same, ownership of RECs and an equal amount of ANY electricity is legally deemed to be ownership of renewable electricity. As an alternative, you can continue buying the electricity you're going to get anyway from your utility, and use that "little more each month" to buy RECs from any of several REC suppliers.

What are Carbon Offsets?

Offset - *n.* 1. Something that counterbalances; a compensating equivalent. Carbon offsets are a valuable, short-term tool to help us transform to a low or no-carbon economy in which carbon offsets are no longer needed. Carbon offsets are a mechanism to accommodate the fact that for now, there are practical limits to how much each of us can reduce our own energy use. To make up for the CO₂ emissions we can't avoid, we can instead help someone or something else reduce *other* CO₂ emissions. Basically, carbon offsetting involves helping someone to do something that they wouldn't otherwise have done, that results in less CO₂ emissions than would have happened had you not helped them to do it. Offsets can be created by renewable energy projects, energy efficiency, and land use and agriculture-based projects, like methane abatement. By buying the offsets, you help them get financed and built, and their emissions reductions compensate for the CO₂ pollution you create by driving, flying, heating your home or using electricity. Offsetting isn't an excuse to pollute. It's a way to take responsibility for pollution we can't avoid. Please reduce your energy use as much as you can, and then offset the climate impacts of the energy use you can't yet avoid.

Are Some Carbon Off-Sets better than others?

Arguably, a ton of CO₂ reduced is a ton of CO₂ reduced, period. We think there are other considerations. The first is whether that ton was going to be reduced anyway, or was the project that reduces the emissions made possible by the opportunity to receive money for its offsets? To generate "real" offsets, the project must be beyond business as usual. A second question is what do you want your purchase to accomplish? Many offsets, even though they are generated by projects that are additional to business as usual, are generated by projects that exist today. Purchasing these offsets rewards the project for having gone beyond business as usual, and helps build market demand for offset projects.

Why are renewable energy credits (RECs) sold separately from the generated power?

Renewable energy projects are often located in regions where there are not enough people nearby who are willing to pay the premium price that the project needs - the price that reflects the environmental value of its power. In addition, transmitting its power a longer distance to markets where people are willing to pay that premium adds even more cost (and in fact, it wouldn't even get there - if you transmit power from one grid to another, the power that actually moves is the power that happens to be closest to the "bridge" at the time). Splitting the project's output into two separate commodities - the power itself, and the environmental attributes of that power (the RECs) - enables the project to sell its power locally at market rates as "regular" or "generic" power, and recover its premium cost by selling the RECs to buyers in other markets or regions who are willing to pay the premium to support renewable energy.

Are RECs and Carbon Offsets certified?

Not yet. The renewable energy business community is in serious discussions with third party certification organizations regarding their development of protocols for the certification of forward purchased and forward credited offsets. They have received the support of many renewable energy companies, non-profits, experts and activists in their certification effort. Fortunately, there is considerable recognition among the certification organizations that there is a class of valuable projects that will simply be ignored without the forward purchasing and crediting of their offsets, namely those that truly need long-term offsets revenues but don't have investors who can take the risk that the required revenues will be realized in a market that buys on a short term basis.

Carbon Off-Sets Insurance

WGA Renewable Energy and Clean Technology Practice is partnering with a major international energy insurance company to develop in the United States and Canada an insurance product to help renewable energy projects overcome these obstacles. Our purpose is the development of new products that support the carbon market - for example, against the failure of a project to generate tradable carbon reductions. Effectively, we will provide insurance coverage to support the viability of value for long-term offsets particular to a renewable energy project allowing the investor's the acceptance of risk braced by insurance remuneration for financial loss. This insurance coverage will focus on providing protection of carbon credits valuation rather than insurance on the project physical substance itself or its primary functions. Additionally, WGA-Energy is establishing customization, "bundling" and/or targeted marketing of existing insurance for developers of renewable energy (e.g. wind, biomass, solar), and other technologies and projects that generate carbon credits within the emissions trading systems.

WGA will continue to provide more information as it becomes available. In meantime, contact a member of WGA's team should you have further questions.

