

GHG Project Case Study

Executing a Large Corporate Purchase of RECs: Johnson & Johnson's Experience

In 2003 Johnson & Johnson completed one of the largest purchases of renewable energy certificates (RECs) by a U.S. corporation. Twelve business units within the company combined to purchase biomass RECs over three years. The RECs are provided by a national REC marketer, which contracts with renewable generators to act as their agent for bringing the RECs to the market. The total purchase was equivalent to more than 162,000 megawatt-hours during a three-year period.

Purchasing RECs allowed Johnson & Johnson to overcome a number of challenges that the company faced while exploring different options for expanding their existing clean energy purchases.

If Johnson & Johnson opted for a traditional green power purchase involving delivered electricity, then the different business units might have had to contract with many different local retail electricity suppliers, and several significant obstacles would have arisen. Some facilities would have had to wait for their electricity contracts to come up for renewal before switching to green power sources, or they would have had to pay a fee for breaking or renegotiating their existing contracts.

Business units acting independently in different states and regions would not have been able to benefit from the economy of scale provided by a large aggregate purchase. When buying green power, companies are often restricted by a price premium. The unbundled aspect of RECs, however, breaks down geographic constraints on renewable generation and

thus provides access to less expensive resources.

Johnson & Johnson faced several complications in the RECs purchasing process due to the company's decentralized operational structure. With over 200 operating companies in approximately 57 countries, projects are initiated and funded at the company level, not from a central corporate office. For Johnson & Johnson to complete a large RECs purchase, the corporate energy team could not select individual business units and projects, but had to coordinate a program through which the business units could act in concert. This posed a challenge for Johnson & Johnson because of the complexity of completing many different RECs contracts and the potential for terms and conditions to vary.

To overcome this obstacle, the company worked with WRI to craft a master agreement, consisting of 12 separate subcontracts for each business unit participating in the RECs purchase. The master agreement allowed Johnson & Johnson to work with one REC provider which offered the company a three- to six-month window in which the price quotes were fixed. The master agreement and the firm REC pricing allowed the corporate energy team to approach each of its affiliates with actual cost figures. The responses by the affiliates were positive, as evidenced by the significant amount of RECs that were bought.

This large RECs purchase also provided Johnson & Johnson an efficient and cost-effective means of addressing the company's climate change commitment.

Under Johnson & Johnson's CLIMATE FRIENDLY Energy Policy, the company committed to reduce absolute GHG emissions by 7 percent below a 1990 base year by 2010.

As a result of the RECs purchase, Johnson & Johnson offset over 68,000 metric tonnes of CO₂ emissions, or roughly 6 percent of the company's total annual emissions in 2003.