

National RPS would change the face of REC markets

By [Peter Marrin](#), SNL Energy

Implementing a national renewable portfolio standard in the U.S. would add a whole new level of activity in the marketplace for renewable energy credits, effectively creating two completely different markets trading side by side.

So far, the top candidate for a viable national RPS comes from Sen. Jeff Bingaman, D-N.M., whose S 1462, the American Clean Energy Leadership Act of 2009, passed the Senate Energy and Natural Resources Committee last year. That legislation, which could serve as a base for a more comprehensive energy bill this summer, includes a renewable energy standard of 15% by 2021.

However, some say the 15% target sets the bar too low. Sen. Bernard Sanders, I-Vt., last week [pushed for a higher RPS](#) in a letter to Senate Majority Leader Harry Reid, D-Nev., who is gathering proposals for the more comprehensive bill.

Noting that the bill allows a portion of the renewable energy requirement to be met by energy efficiency, Sanders said the 15% standard is "far too weak and has in fact already been surpassed by a number of states across the country."

In a June 17 letter, Sanders urged Reid to include a renewable electricity standard of 25% by 2025 in the final Senate bill.

"When it comes to an RPS, the devil is very much in the details. It's true that many states have achieved 15% renewables, but the Bingaman bill only counts eligible renewables that were built after January 1, 2006. That's a fairly restricted pool of supply — more restricted than the set of renewables that went into achieving the existing 15% in many states," Nicole Fabri, president of Clear Energy Brokerage told SNL June 24.

"If they were to move that date up yet further, supply would be yet more restricted and prices would be more robust. Let's just hope that further negotiations don't allow that date to slide back," she said. "The way the law is written has direct impact on the amount of supply, and the robustness of demand in the market. And because price is a function of supply and demand, the way the law is written truly affects price."

Under the Bingaman bill, she said, the existing state REC markets would remain virtually unaffected and would operate side by side with a newly created federal REC market, two completely different markets,

working on their own fundamentals. It has been dubbed a "dual REC system" with the intention that the federal REC market will not affect or interact with the existing state REC markets at all. The state markets have been, to a greater or lesser degree, working just fine on their own.

A national RPS would allow all eligible facilities to generate a second REC, a "fed-REC" that would be tradable separate from the state REC and the power. Many renewable facilities in the country would be generating two kinds of RECs, a state-REC and a fed-REC.

Power companies that already have a state RPS obligation will continue to be obliged under that state mandate. However they will now have an additional obligation under the national RPS to purchase fed-RECs. Power companies in states that do not have RPSs will also have to comply with this new national mandate.

Including EECs could dampen REC prices

Including energy efficiency credits, or EECs, in a national RPS could have a dampening effect on REC prices.

Under the Bingaman bill, load-serving entities would be allowed to meet up to 25% of their RPS compliance with energy efficiency credits.

"So if your gig is energy efficiency, this is a good thing because it creates demand for a very sensible thing: reducing consumption," Fabri recently [said](#) at the Mid-Continent Energy Marketers Association annual conference in Niagara Falls, Ontario, on May 20. "If your gig is renewable energy, it may have a dampening effect on the demand for, and therefore the price of, RECs."

Fabri told SNL that including these credits could suppress REC prices "unless the demand for RECs is sufficiently robust." One way of boosting supply is by establishing a 25% national RPS.

"It's a balancing act," Fabri said. "Lawmakers need to make sure that the supply and demand curves (which they influence directly in how they write the law) for REC and for EECs are such that prices are robust enough to actually get new projects built — but not too high as to scare anyone away from signing the bill."

Banking credits could create hoarding

Another feature of the Bingaman bill is a three-year banking mechanism that allows RECs generated but not retired in a given year to roll over into the next two years and still be good for compliance, which Fabri deems "unfortunate."

"It tends to create a hoarding situation that discourages the orderly, incremental increase in purchases, which mirror the needs of the supply side of the market," she told the conference crowd May 20.

"Project developers need orderly, predictable demand for their RECs and [federal] RECs in order to develop projects in a cost-effective and continuous fashion," she said.

Including nukes would require smart provisions

Nuclear generation would not qualify for RECs under Bingaman's proposal. But [another proposal](#), introduced June 9 by Sen. Richard Lugar, R-Ind., included a "diverse energy" standard of 15% of an electric utility's power supply beginning in 2015, rising to 50% by 2050. The bill includes a list of "diverse" energy sources, including advanced coal generation; coal mine methane; end-user efficiency savings; "qualified nuclear energy"; and more common renewable energy sources such as wind, solar and geothermal.

According to Fabri, the inclusion of these sources of generation in a national RPS would need "smart provisions" in the legislation. In the case of nuclear power, while the Jan. 1, 2006, date would eliminate all existing nuclear generation, even then obligations would need to change to help the market adjust to the sudden influx of 1,000 MW or more of new "renewable" energy. "Lawmakers need to understand how the detail they write into their law has a material impact on how that market transacts, how liquid it is, how efficient it is, and ultimately, whether it meets its objectives. Since the devil is in the details, let's get those details right so that the law succeeds."