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# Senate bill seen sparking more liquid renewable energy market in California

By [Amanda Luhavalja](#)

With California Gov. Jerry Brown expected to sign S.B. X1-2 into law any day now, most analysts expect that a more liquid renewable energy market is on the horizon in the Golden State.

The California [Assembly](#) on March 29 passed Senate-approved legislation authored by state Sen. Joe Simitian to require private and public utilities to obtain 33% of their electricity from renewable energy sources by 2020.

"Our West Desk views this legislation as a unique opportunity to provide the necessary regulatory certainty to free up liquidity across commodity classes in the California renewable energy market," Karbone Inc. said in a March 8 research note to clients.

S.B. X1-2, also referred to as S.B. 2X, has now passed both houses of the state Legislature and sits before Brown, awaiting his review. Brown has indicated that he will sign the bill.

"S.B. 2X is good news on a few fronts. Firstly, the renewable energy markets in the [Western Electricity Coordinating Council] have been held hostage for the last five years due to indecision and inaction on the part of policymakers. The effect of having a clear legislative direction in California cannot be overstated," said John Friskel, renewable energy broker with Clear Energy Brokerage & Consulting LLC.

If signed into law by Brown, [S.B. X1-2](#) would raise the state's renewable portfolio standard from 20% by 2010 and would apply to all electricity retailers in the state — investor-owned utilities, municipal utilities and independent sellers. The 20% standard applies only to IOUs and independent sellers.

"Given the complex and shifting nature of the current RPS regime ... the compliance portfolios of California load serving entities have been in flux," Evolution Markets said in a March 30 [report](#). "In the event the bill is signed by the governor, buyers will likely have to re-evaluate their existing contracts within the context of the new regime. As such, the immediate effect on the market is uncertain."

Under the bill, renewable requirements would be as follows: 20% by 2013, 25% by 2016 and 33% by 2020. Additionally, there is no requirement that procurement be from generation in California. The bill includes an article that requires generating resources that are outside California but are able to supply electricity to California end-use customers, to be treated identically to generating resources in the state.

"If S.B. 2X is signed into law as expected, the [tradable renewable energy credits] market will expand rapidly and present increased opportunities to trade REC-only contracts between California RPS compliance entities and out-of-state generators," Friskel said.

However, in place of strict in-state delivery requirements, the bill would establish a renewable procurement "loading order" that mandates minimum and maximum quantities of certain electricity products that can be used in future contracts to meet the RPS requirements.

TRECs are capped at 25% of the utility's total renewable requirement up to 2013, with the figure declining to 15% between 2014 and 2016 and then to 10% every year thereafter.

"The step-down of the TREC usage will reduce REC trading over the lifetime of the RPS, but the reduction will be partly offset by the increase in RPS demand. Moreover, the [Washington] compliance market picks up dramatically in 2016, which should counteract reduction in demand from [California] for out of state sellers. From an out-of-state generators' perspective, S.B. 2X simply gives them more options. For [California] utilities, however, the ensuing downward price pressure on [California] TRECs will ease the cost of compliance," according to Friskel.

The bill would grandfather in all contracts consummated before June 1, 2010, by investor-owned and public utilities and other energy service providers. But from that date forward, all contracts would be required to meet a loading order that would set quantities in three product categories, or "buckets": renewable resources directly connected to a California balancing authority or provided in real time without substitution from another energy source; energy not connected or delivered in real time but still delivering electricity to a state balancing authority by dynamic transfer agreement or a firm, shaped and scheduled product; and unbundled RECs.

"Expect increased liquidity in each of the three classes of renewable products outlined in the bill. For the TREC market, this is particularly true in the near term versus the long term, as the TREC cap declines over time," Friskel said.

While many utilities have been using firm and shaped power to "mimic TREC transactions, S.B. 2X simplifies the contracting and broadens the REC definition to allow for more market participants. California's protectionist veil has given way to a more market-based approach," according to Friskel.

"But for generators, this new liquidity comes with pricing pressure from increased supply; there would be 6,250 MW of [California Energy Commission] certified generation out of state and an additional 11,500 MW of out-of-state generation that is CEC pre-certified and newly eligible for the California compliance market. Given this CEC capacity and continued limitations of REC trading, it is likely that California REC pricing will continue to erode," Friskel added.

California-eligible TREC prices have fallen from about \$15 to \$25 before the bill was passed to a level between \$8 and \$10, with Friskel predicting that prices will continue to drop below the latter level.

"For generators of in-state certified RECs or able to deliver dynamically scheduled power, Clear Energy expects the premium for bucket No. 1 renewables to hold strong. This is particularly true in the out years of a long-term contract as compliance flexibility decreases. There will always be a premium associated with RECs and associated energy delivered into California. The elegant construction of SB 2X puts significant pressure on the IOUs to satisfy their 33% obligation through long-term bundled renewable contracts," Friskel added.

*Article amended at 10:45 a.m. ET on April, 8, 2011, to reflect the current renewable portfolio standard in California is 20% by 2010, not 2020.*