

Energy Current: New REC contract allows trading across markets

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By Jennifer Zajac

A new standard contract for renewable energy certificates has been created that will enable RECs to trade across mandatory and voluntary programs.

The 50-page document is officially called the "Renewable Energy Certificate Purchase and Sale Agreement."

Due to the variety of REC definitions established by state renewable portfolio standards and a lack of federal guidelines, confusion and heated debates have ensued throughout the country regarding REC trading. The Environmental Markets Association (EMA), the Renewable Energy Resources Committee and Special Committee on Energy and Environmental Finance of the American Bar Association Section of Environment, Energy and Resources, and the American Council on Renewable Energy (ACORE) collaborated to pull together a uniform contract. The effort took more than two years and approximately 80 participants, including brokerages, utilities, renewable developers, regulators and numerous attorneys, according to Jeremy Weinstein, the working group co-chair for the contract.

Weinstein told SNL Energy that one of the biggest challenges that faced the creation of the contract was establishing the definition of an REC in terms of what attributes are associated with it. The contract, which the attorney describes as "long, but very simple," essentially sidesteps this issue by allowing sellers and buyers to check off boxes that define what type of REC is being exchanged and what benefits are associated with it. On page 35 of the 50-page document, users are provided a list of product definitions, such as a standard REC, "which means a REC that includes all Environmental Attributes arising as a result of the generation of electricity associated with the REC, whether or not such Environmental

Attributes have been Verified or Certified and whether or not creditable under any existing Applicable Program."

"It's all driven by disclosure. Here's a REC, it has a carbon [benefit] in it, but if you want to strip out the carbon, here's the box you check to strip out the carbon," said Weinstein. "We were able to get everyone on board with this contract because we solved the problem of competing ideologies by offering disclosure: Just say what you're doing."

Roger Feldman, an attorney with Andrews Kurth LLP in Washington, D.C., who also served as a co-chair for the contract committee, told SNL that he expects more REC transactions to occur as a result of the contract. "I think it provides a more transparent framework of what is required to move RECs and unbundled attributes of RECs between different jurisdictions attributes. ... It potentially gives traders a basis for facilitating deals that are interstate in character. The value of the contract will be better established as people get more accustomed to using it in a few standardized ways to affect the buying and selling [of] RECs between jurisdictions. It will become more reasonable to then expect that barriers between jurisdictions will gradually erode," he said. "In short, the Master Agreement is a broad enough framework that as this process occurs, people will look at this contract and say, 'Well, if we use it this way, we begin to do a lot of deals.'"

The form is not intended as mandatory paperwork for those interested in exchanging RECs, according to Weinstein. "It's a tool. What this form gives you is the ability to trade RECs across mandatory programs and between mandatory and voluntary programs," he said. "The goal of the contract is to stave off balkanization and to allow market mechanisms to get highest and best resource allocation. ... It offers market mecha-

nisms to help solve current and future theological debates about RECs trading."

Weinstein also noted that the REC markets are serving as an entrance into carbon markets. Individuals and companies can use renewable resources to improve the environment by minimizing their own "carbon footprint." Through this agreement, people can acquire the renewable attributes of green energy no matter where they are located in the national energy grid without incurring transmission costs. "We're heading into a carbon-constrained world. It's going to be an issue in this election and it's going to be a part of energy independence," he said. "RECs are the matinee; the real show is going to be the carbon markets. The strength of this contract is that it provides an entry into those carbon markets, however those markets develop."

Weinstein said it is accurate to say that people have been intimidated by the complexities associated with REC trading and believes that the contract will make RECs more accessible not only to businesses but to individuals seeking to invest in green power as well.

"This is an important step in creating a national system for REC trading, which will be essential to monetizing the environmental benefits of renewable energy and building those values into the long-term financing of the projects," said Michael Eckhart, chairman of ACORE, in a press release.

The next step in the process will involve having the market "attack the contract, tell us everything that's wrong with it and make it better," said Weinstein. "This is release 1.0, and we look forward to monitoring legal and market developments to keep the contract current."

The document is now available on both the Environmental Markets Association and American Council on Renewable Energy Web sites. *i*