

GOING GREEN

ELECTRICITY



Renewable energy credits measure compliance with standards

The supply of electric energy from renewable resources has grown dramatically over recent years as a result of environmental concerns, Renewable Portfolio Standards, financial incentives and public interest.



RENEWABLE ENERGY

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The growth of the renewable market has facilitated development of instruments that let market participants take effective action to offset the impacts of their energy use and to gain the public relations benefits associated with doing so.

Renewable Portfolio Standards, or RPS, are state policies that establish goals for energy from renewable sources and are stated in terms of either megawatts of capacity or percentage of electric sales.

Renewable Energy Credits, or REC, are the mechanism used in many jurisdictions to determine compliance with RPS. Each REC represents the renewable energy attribute of one MWh of electric energy. Retirement of an appropriate volume of RECs establishes that the RPS criteria have been met. RPS have resulted in a viable REC market in the U.S. At present, many U.S. jurisdictions have RPS. In fact, more than 25 states and the District of Columbia have adopted RPS for electricity supply.

The definitions of renewable sources vary among jurisdictions; what is accepted

as a renewable source in one state may not be in another. Also, the percentage requirement or MW targets of renewable energy scale up over time and differ from one jurisdiction to another.

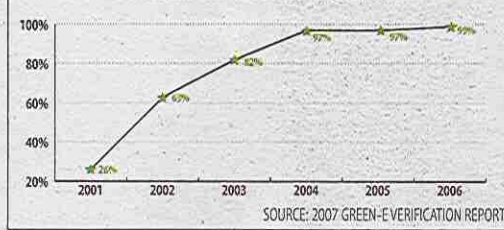
In Texas, the standards established by Senate Bill 20 in 2005 are:

- 5,880 MW of power from renewable sources by 2015;
- 500 MW of this to come from sources other than wind.

In addition to governmental mandates, growth of renewable energy supplies is driven by the voluntary market. Many business entities across various industries, institutions (universities, schools and hospitals) and governmental bodies and agencies throughout the country are willing to pay the premium associated with the development of renewable generation.

There are many factors encouraging businesses to think green. Many expect the public relations benefits associated with being green will be substantial. They also believe their constituencies will find that their participation and leadership in these activities contribute to positive perceptions. Those interested in being green will find a variety of ways to take a position in renewable energy without entering

PERCENT OF GREEN-E CERTIFIED RENEWABLE ENERGY SOURCED FROM NEW FACILITIES



into major or complex transactions.

In order to facilitate access to renewable energy supplies, the market has developed means for verification and certification of

production, purchase and trading of renewable energy. This makes it possible for renewable energy to be delivered effectively anywhere in the nation and for it to be available for end-users who would not otherwise find it feasible to participate.

Retail energy suppliers are providing green options for customers that include:

- Incorporation of energy from renewable generation in the physical transaction;
- Offering green energy credits in connection with or separate from the sale of energy.

In markets where renewable energy is readily available, a physical transaction may be viable. However, this approach limits the number of potential suppliers and lacks the flexibility that is associated with RECs. Using RECs unbundled from physical supply as an offset for an organization's environmental footprint has advantages:

- It is not necessary that the time frame for the purchase of RECs be related to a physical power transaction;
- RECs can be purchased at a time appropriate to the customer;

• RECs can be acquired for a period of time suitable to the customer;

• RECs can be obtained from various regions and resource types;

• Customers may purchase RECs from several different areas benefiting the geographic distribution of their operations;

• Customers may wish to purchase specific types of renewables.

The prices of RECs vary from one state to another.

RECs are generally certified by organizations such as Green-e (an affiliate of the Center for Resource Solutions). The Green-e logo identifies certified renewable energy and is used by businesses to communicate the purchase or production of energy from renewable sources. Transactions in Green-e certified renewable energy have grown dramatically over the last several years. While the largest demand has been in the wholesale sector, commercial entities have begun to take a significant position in renewable energy through Green-e certified RECs.

The environmental benefits of going green are impressive. Adopting a position for renewable energy can be accomplished flexibly and economically through the purchase of RECs. RECs is one of many ways to address the carbon footprint of an organization. But while the market for RECs is robust, participants should be aware of the dynamics of supply and demand.

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