California Public Utilities Commission
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CPUC APPROVES TRADABLE RENEWABLE ENERGY CREDITS FOR USE IN RENEWABLE ENERGY PROGRAM

SAN FRANCISCO, March 11, 2010 - The California Public Utilities Commission (CPUC) today authorized the use of tradable renewable energy credits (TRECs) for use in the California Renewables Portfolio standard (RPS) program. The CPUC's RPS program, one of the most ambitious renewable energy standards in the country, requires investor-owned utilities, energy service providers, and community choice aggregators operating in California to obtain 20 percent of their retail sales from renewable energy sources by 2010.

RECs are a certificate of proof that one unit of renewable energy has been generated. RECs are also the accounting tool used to prove that electricity sellers have complied with the RPS program.

In today's decision, the CPUC established the structure and rules for a TREC market. The CPUC determined that the use of TRECs for RPS compliance will provide more options and flexibility for RPS-obligated electricity sellers to comply with RPS mandates in both the near and longer term. Over time, it will also provide additional resources and incentives for the development of RPS-eligible generation.

Previously, utilities were required to procure exclusively "bundled" renewable contracts, for both energy and RECs together. The framework implemented today allows them also to buy RECs separate from the associated energy. Allowing these two products to be sold as separate commodities, each commanding a price in the market that more accurately reflects its value, should increase the efficiency of the RPS program. Today's decision improves the ability of California's electricity sellers to meet the state's renewable energy goals, while reducing some of the risk associated with procuring renewable energy. In the longer term, it will also provide additional flexibility and incentives for the development of RPS-eligible generation by supplying useful revenue options for generation developers. The ability to sell RECs associated with distributed generation will provide incentives for greater rooftop solar and other distributed generation.

“The essential elements of this framework are intended to support this market well into the future,” said CPUC President Michael R. Peevey. “Although the tradable REC market may be modest in the next two or three years, the market rules put in place in this decision will both allow this new market to develop and provide robust rules as the tradable REC market matures.”

The rules approved in today’s decision create a market in which the use of tradable RECs for RPS compliance is initially limited to not more than 25 percent of a given investor-owned utility’s annual procurement obligation. However, this limitation sunsets at the end of 2011. This cap is intended to allow the CPUC and the market to better understand the implications of REC trading before opening the market to unfettered use of unbundled RECs. In order to use RECs, participants must meet the requirements set forth by the CPUC for REC trading, as well the requirements of the Western Renewable Generation Information System (WREGIS), the system through which all California RPS-eligible RECs must be tracked, as well as the eligibility rules of the California Energy Commission.

To promote market liquidity while preserving the value of TRECs for RPS procurement planning, TRECs may be traded for up to three years from their date of creation before they must be committed to use for RPS compliance. However, consistent with the existing flexible compliance rules, once retired in WREGIS for RPS compliance, the compliance value of RECs can be banked indefinitely. Today’s decision also allows tradable RECs from existing RPS contracts to be unbundled and sold under certain conditions.

Because tradable REC transactions, by definition, do not require the procuring utility to also purchase the associated energy, they do not clearly lend themselves to the form of reasonableness review that has been used to evaluate bundled transactions. Therefore, in order to protect consumers from potentially excessive payments for tradable RECs in the early stages of the REC market, the framework includes an interim price cap of $50 on RECs used for RPS compliance by investor-owned utilities. Like the usage cap, the price cap will sunset at the end of 2011 unless action to retain or modify it is taken by the CPUC. Today's decision also clarifies that certain transactions with RPS-eligible renewable generation which do not directly serve California load will be treated as REC-only transactions for RPS compliance purposes.

The proposal voted in is available at http://docs.cpuc.ca.gov/PUBLISHED/AGENDA_DECISION/114750.htm.

For more information on the CPUC, please visit www.cpuc.ca.gov.

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