Pacific Gas & Electric Company

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Methodology for Inferring the cost of RECs

- The **Implied REC Value** of a transaction containing both REC and energy components may be calculated as the difference between the **Cost of the Renewable Contract** and the value of a comparable **Market-based Brown Energy** product.

- **Cost of the Renewable Contract ("CRC")** = market value busbar energy + cost firm and shaping
- **Market-based Brown Energy ("MBE")** = market value of Firm Energy + Capacity value
  - Firm Energy value is computed using forward market prices
  - Capacity value is based on:
    - the net economic carrying cost of a new combustion turbine and
    - the contribution to PG&E's Resource Adequacy requirements
- **Implied REC Value ("IRV") = CRC - MBE**

- **Transaction example:** Pacific NW wind energy with firming and shaping delivered to COB
  - **CRC** = $60 (busbar energy) + $40 (firming and shaping) = $100
  - **MBE** = $75 (Firm Energy @ COB) + $15 (Capacity Value) = $90
  - **IRV** = $100 - $90 = $10