

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Develop Additional Methods to Implement the California Renewables Portfolio Standard Program.

Rulemaking 06-02-012  
(Filed February 16, 2006)

**PRE-WORKSHOP COMMENTS OF AGLET CONSUMER ALLIANCE  
ON RENEWABLE ENERGY CREDITS**

Pursuant to the July 19 and August 3, 2007 rulings of Administrative Law Judge (ALJ) Anne Simon, Aglet Consumer Alliance (Aglet) submits these pre-workshop comments on renewable energy credits (RECs). Pre-workshop comments are due Friday, August 17, 2007. Aglet will submit this pleading on the due date, using the Commission's electronic filing system.

**1. Previous Filings**

In her July 19 ruling (Ruling), ALJ Simon requested that parties "include in their pre-workshop comments or attachments a list with the title, date filed, and proceeding number of their prior REC trading filings." (Ruling, p. 3, footnote 3.) Aglet provides the requested information in Table 1 below.

**Table 1: Aglet Pleadings on Renewable Energy Credits**

<b>Title</b>	<b>Date Filed</b>	<b>Proceeding</b>
Prehearing Conference Statement of Aglet Consumer Alliance	December 12, 2005	R.04-04-026
Comments of Aglet Consumer Alliance on Renewable Energy Certificates	May 31, 2006	R.06-02-012

Title	Date Filed	Proceeding
Reply Comments of Aglet Consumer Alliance on Renewable Energy Certificates	June 13, 2006	R.06-02-012
Reply Comments of Aglet Consumer Alliance on Proposed Decision of ALJ Simon	September 20, 2006	R.06-02-012
Prehearing Conference Statement of Aglet Consumer Alliance	October 27, 2006	R.06-02-012

## 2. Overview

Aglet has a number of concerns about the concept of tradable RECs that are unbundled from energy. Aglet hopes that these concerns will be addressed during the upcoming workshops:

1. How will REC trading impact the Commission's reliability goals?
2. Will REC trading interfere with the goal of procurement of additional renewable power? That is, will some entities buy renewable credits as a substitute for procuring renewable power?
3. What platforms can be used to trade RECs (*i.e.*, exchanges, requests for offers, web-based trading, bilateral negotiations)?
4. How will the Commission ensure that the interests of bundled ratepayers are protected if RECs are traded?

## 3. Reliability

Load serving entities (LSEs) can use renewables contracts to meet parts of their resource adequacy requirements. If RECs displace future renewables generation, then the LSEs will have to sign contracts with non-renewable facilities. The marginal cost of non-renewable capacity contracts will increase due to an increase in demand for capacity from non-renewable plants.

#### **4. RECs and Renewable Generation**

Aglet does not believe that the trading of RECs will have a significant positive impact on the development of new renewable resources in California. If RECs are purchased by the investor-owned utilities (IOUs) and the moneys paid by IOUs are recovered in rates, the trading of RECs will constitute an additional subsidy of existing renewable resources by ratepayers. RECs are not analogous to long-term renewables contracts because ratepayers receive neither an energy benefit nor an economic benefit from the trading of RECs. California already subsidizes the development of some renewable resources through supplementary energy payments, the California Solar Initiative and the Emerging Renewables Program.

Before the Commission establishes an additional subsidy, it should determine: (a) whether or not the subsidy is legal; and (b) whether or not the subsidy is justified by the economic condition of renewable developers. The subsidy may be justified if existing renewable plants are facing imminent economic failure. Currently, there is no information in the record of this proceeding to support that proposition.

#### **5. Ratepayer Costs**

If unbundled RECs are tradable and are used to determine compliance, then ratepayer costs will increase, RECs may be exported to other states, and IOUs will be unable to meet their renewables portfolio standard (RPS) goals. Ratepayer costs will increase if IOUs buy RECs and are allowed to recover the costs of the RECs in rates. The IOUs will be unable to meet their RPS goals if they purchase energy but are unable to purchase RECs at reasonable prices because the RECs will have already been sold to out-of-state entities.

If an IOU purchases RECs, the cost of those RECs will be paid by IOU ratepayers. The costs of RECs in other states are high and are increasing as more

speculators become involved in the REC market. James Scarrow<sup>1</sup> has provided the following data on the costs of RECs in different states.

State	2006 REC Price (per mWh)
Connecticut (Class I)	\$7.75
Maryland (Class I)	\$2
Massachusetts	\$53.25
New Jersey (Class I)	\$8
Texas	\$10
New Jersey	\$49
Texas	\$12

Source: Evolution Markets LLC (prices on April 19, 2006)

Scarrow comments:

“The most dramatic price swings have occurred in the Connecticut REC market. Connecticut belongs to the New England Power Pool (NEPOOL), along with Massachusetts, Maine, New Hampshire, Rhode Island and Vermont. Of these six states, four — Connecticut, Maine, Massachusetts and Rhode Island — have RPS programs that allow utilities to satisfy their RPS requirements by purchasing RECs from generators anywhere within NEPOOL, including generators located in New Hampshire and Vermont, which do not have RPS programs. In 2003, the Connecticut legislature increased the state’s requirement for the use of renewable energy. Connecticut REC prices promptly spiked from \$1 to \$40 [per megawatt-hour, mWh]. ... The price of Connecticut RECs today is about \$7/mWh.”

Scarrow also notes that speculation in REC markets may increase in the future. He reports:

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<sup>1</sup> Source: James Scarrow, “REC Market Update”, May 31, 2006, Chadbourne & Parke LLP, <http://www.mondaq.com/friend.asp?ef=22250>.

“According to Andrew Kolchins, director of environmental markets at Evolution Markets LLC, while a limited number of long-term REC contracts have been entered to date, hedge funds and other potential investors have been showing increased interest in taking speculative REC positions.”

## 6. Generator Risk

If the Commission allows unbundled RECs for compliance purposes, the plant owner has two choices: (1) it can sign a forward contract then sell the RECs associated with that plant; or (2) it can sell the RECs then sell the energy output from the plant in the spot market. In an RPS-obligated regime, it will be difficult for a plant owner to successfully execute a forward contract without selling the RECs related to that contract. Thus, the generator’s only real choice is to sell the RECs then sell the energy on the spot market. The generator’s risk increases when its choices are limited to spot market transactions. It will have to forego participation in the forward market and subject itself to the more volatile spot market. Thus, the overall risk to the generator increases.

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Dated August 17, 2007 at Cool, California.

/s/

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**CERTIFICATE OF SERVICE**

I certify that I have by electronic mail this day served a true copy of the original attached "Pre-Workshop Comments of Aglet Consumer Alliance on Renewable Energy Credits" on all parties of record in Rulemaking (R.) 06-02-012, R.06-03-004, R.06-04-009 and R.06-05-027, or their attorneys of record. I have served paper copies of the pleading on Assigned Commissioner Michael Peevey, Administrative Law Judge Anne Simon, and six persons who failed to notify the Commission of their e-mail addresses: David Coyle, Anza Electric Coop, 58470 Highway 371, Anza, CA 92539; Tara Knox, Avista Corporation, PO Box 3727, Spokane, WA 99220; Jane Luckhardt, Downey Brand, 555 Capitol Mall, Sacramento, CA 95814; Jeanne McKinney, Thelen Reid, 101 - 2<sup>nd</sup> Street, San Francisco, CA 94105; Terence Parker, United Solar Ovonix, 3800 Lapeer Road, Auburn Hills, MI 48326; and Andy Wuellner, Mountain Utilities, PO Box 1, Kirkwood, CA 95646.

Dated August 17, 2007 at Cool, California.

/s/

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James Weil