

Environmental Attributes Accounting and Trading System (REACTS)

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Agenda

With respect to green supply and demand issues...

- Intersecting Market Initiatives
- Stakeholder Frustrations in Market
- NYSERDA Interpretation
- NYSERDA Reaction
- Status and Next Steps

Green Market Development

■ Green Power Marketing

- competitive suppliers operating in NYS
- very limited customer switching happening
- green tags (certificates) now becoming available anywhere in U.S.

■ Renewable Portfolio Standards

- currently in place in many states; (e.g., MA, CT, NJ) and recently announced for NYS
- Texas program is most developed

Market Education and Compliance

- Environmental Disclosure
 - Emissions disclosure policies and environmental performance standards create incentives and requirements for LSEs to report fuel source and/or emissions
 - Various tracking systems are employed to manage disclosure
 - Contract path, Hybrid-Contract path and attribute accounting depending on market area

Public Benefit Funds

- NYSERDA Energy Smart (NYS PSC)
 - Financial support of new wind supply (large scale)
 - 41.5 MW in operation
 - 315 MW in development pipeline
 - Financial support of green retail marketing
 - 5 marketers expected to be active during 2003
 - Sales targets of over 200 MW of wind over 5 years
- Public funds attempting the same elsewhere in MA, CT, NJ and PA)

Stakeholder Frustrations

- Mix of contract path, hybrid contract path and attribute tracking (unbundled/certificate) systems.
- “Congested” market space of NY, ON, NE and PJM further complicated by this mix of rules.
- Delivery of energy with attributes, as implied by detailed tracking systems, remains a fiction.
- Contract/hybrid contract path systems require that green retailing be tied to commodity sales (dependent on customer switching).

Stakeholder Frustrations

- NY allow unit-specific imports/exports in the presence of a compatible tracking system, but no such system currently exists.
- New England regulators do not recognize current NY disclosure tracking system as compatible.
- Other systems(ON and PJM) are exploring developing regulations for a certificates-based system; TX and NE-ISO are using such a system.

Stakeholder Frustrations

- Renewable sources must locate where “fuel” resides.
- Disadvantages intermittent resources (i.e., wind)
geographic limitations, predictability of wind blowing,
scheduling delivery on transmission system
- Limits import/export of renewable energy.
- Reduces liquidity in the market.
- Renewable source development is stymied.

NYSERDA Interpretation

Market needs a means to:

- Reduce costs of sourcing and marketing green value.
- Foster robust trading (liquidity) of attributes (green premium).
- Intensify competition for clean power sources.
- Develop forward markets for attributes.
- Mitigate seams(cross-border trading barriers).
- Facilitate project financing.

NYSERDA Reaction

Launch program to explore develop an accounting and trading system for generation attributes that will:

- Add value to the green marketing enterprise.
- Support reporting, compliance, and verification.
- Facilitate efficient and transparent transactions.
- Account for regional market convergence.
- Accommodate varied/changing policies.

NYSERDA Program Basics

- Two contractors involved in exploratory phase of work :
 - Automated Power Exchange ; Center for Resource Solutions
- High-level overview of system components based on:
 - stakeholder interviews
 - in-depth market analysis
 - Contractor opinion as subject matter experts
- Includes discussion of:
 - policy and regulatory framework
 - system justification
 - system requirements
 - regulatory and legislative issues

NYSERDA Program Status

- Final recommendations on deployment due to NYSERDA early 2003.
- NYSERDA not in position to unilaterally move forward on REACTS (registry) deployment.
- Action needs to result from stakeholder and market participant action with regulators.

Recap on REACTS Benefits

- Enhanced market liquidity through free flow of attributes.
- Increased renewable generation and expanded markets for generators through elimination of economic and market barriers and enhanced cross-border trading.
- Reduced transaction and product costs through flexible supply procurement strategies.
- Increased reporting efficiency through automated reporting.
- Reduced administrative costs through elimination of manual steps and need for distribution company to act as middleman.
- Allows regulators to monitor program performance.
- The registry system does not preempt a particular policy approach.

Next Steps...

- NYSERDA to consider the recommendations of contractors...
- NYSERDA to share message with stakeholders...this meeting is a start...
- Stakeholders, including NYS PSC, to consider this message in context of current market conditions, including recently announced RPS...
- Stakeholders to consider options for deployment...
 - Market rule changes, regulatory petitions, etc...