

Restructuring Today

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Investors, green power developers see hot market in New England

Pat Stanton expects to see an answer soon on the issue of whether green power developers need long-term contracts to get financing.

Hint: the answer will come from New York State.

Stanton is director of renewable energy markets for Conservation Services Group, a company that helps renewable energy producers get and sell renewable energy certificates for their output.

Her pedigree in renewable energy is impeccable.

As deputy commissioner at the Massachusetts Division of Energy Resources she helped develop the state's renewable portfolio standards (RPS) and negotiated for regulators when the New England Generation Information System (GIS) was developed.

That system is used to issue certificates and handles the accounting for every mwh produced in New England — documenting everything from resource type to whether the plant hires union labor.

“Even your shoe size is in there,” Stanton joked.

A system like the GIS is needed because every state has developed its own standard for what constitutes power qualifying for its RPS.

States put RPSs in place to meet a variety of public purposes, Stanton told RT.

They all aim to encourage renewable power development but some put value on local economic development, diversity of generation, reliance on indigenous sources and building some immunity to volatile fossil fuel prices, she explained.

Each state builds its RPS to favor indigenous resources — mainly biomass in much of the Northeast since few tracts of land capable of supporting wind farms are available.

You don't find much geothermal in Massachusetts, she noted.

The GIS's easy-to-use but sophisticated accounting system can handle all those variations, she noted, praising the system for creating a well-functioning and liquid market in RECs.

Trade in the RECs is a good example of “harnessing the marketplace to achieve policy goals,” Stanton noted.

Thanks to the RPSs, New England is the hot market where renewables developers want to build.

She's seeing investors emerge who want to finance new projects — not surprising when Massachusetts RECs sold at a \$40/mwh premium last year with too few available to meet demand.

Developers are rushing to get projects up and running this year to sell into the 2005 REC market and take advantage of the federal Production Tax Credit before it expires again.

“A price signal went out,” Stanton noted, adding that the solution to high prices is high prices.

“The market is behaving in a predictable manner,” she added, with “private sector folks interested in taking risk in the middle.”

That's better, she said, than waiting for utilities who by nature are slow to react to market signals, to take the risk and pass it along to their customers.

Even with the building boom it's not certain supply will be adequate this year either, she added.

CSG figured out one way to feed more RECs into the hungry New England market.

Last month it negotiated the first import of renewable energy from New York to New England for its customer Innovative Energy.

The process was complicated, Stanton explained, involving multiple conference calls with representatives from the ISO New England, New York ISO, GIS and herself working their way through seams issues and creating a new type of power purchase agreement.

Innovative Energy, owner and operator of 20 mw of landfill methane recovery units in New York, is expanding its capacity to 42 mw since it can sell now to the lucrative New England market.

It will find markets closer to home soon as the details of new RPSs in New York, Pennsylvania, New Jersey and Maryland are worked out.

New York is taking a radically different approach to its RPS by giving the

state's Energy R&D Authority (NYSERDA) the job of buying RECs for the all customers.

The intent is to offer green generators longer-term contracts thereby driving down the prices consumers end up paying through system benefit charges meant to pay for the RECs.

New York regulators may have less confidence in the market, she added. Renewable power generators have been saying they need longer-term contracts to attract financing, Stanton said, but the idea of the central buying pool presents a few problems. What happens, she asked, if NYSERDA runs through its entire REC budget before it gets all the power it needs?

With NYSERDA competing with the \$40/mwh Massachusetts market, that could actually happen.

New Jersey is likely to set the price for solar RECs in the Mid-Atlantic, she noted, since power sellers who miss their solar energy RPS targets have to pay a \$300/mwh penalty.