Third Midwest Tradable Renewable Credits Workshop
October 26, 2004
Madison, WI

Summary of Small Group Discussions

System Functionality

Simplicity vs. Enhanced Functionality

- Start simply and expand system functionality later.
- Develop an RFP, funding permitting, that incorporates more functionality up front without requiring system participants to utilize the extra functionality right away.

Policy Neutral vs. Policy Determinant

- Tracking system should distinguish between renewable generation that is scientifically demonstrated as beneficial from renewable energy that may not be.
- System should remain policy-neutral, with policy decisions for individual jurisdictions left for regulatory and legislative processes.

Geography and Import-Export Issues

- Ensure that generation located outside of current M-RETS boundaries, but not yet within another tracking system, can import into or be registered with M-RETS (as distinct from exports and imports between tracking systems).
- Focus most on M-RETS compatibility with PJM over WREGIS due to market potential for Midwest generators.

Participation and Verification/Certification

- Establish level playing field for small/community-based generators.
- Develop criteria for neighboring jurisdictions to join M-RETS.
- Provide for automatic and/or efficient systems for verification of generation.

Transparency and Public Access

- Give the public full access to the system for aggregated data.
- Transparent markets work best—disclose price and volume information of transactions, without necessarily disclosing transacting parties.
- This level of transparency (i.e. price and volume disclosure) runs counter to utility interests/culture, and puts M-RETS in a market-making role.

Aggregated vs. Disaggregated Certificates

- Stick with whole/aggregated REC certificates for the following reasons: disaggregation creates opportunities to game system; system participants may retire whole RECS and then disaggregate, if they wish (through retirement subaccounts); and aggregated RECs will be compatible with other systems.

Data Issues

- System data should be compatible with other data reported to regulators.
- Piggyback on existing filing, reporting and data collection systems.
- Collect data in XML format.

Power Purchase Agreements and Credits

- Accommodate owners of renewable energy and not just generators by addressing contractual/legal issue of credit ownership in PPAs and how the tracking system handles them.

Wisconsin-Related Considerations

- Ensure and plan for integration of retailers' existing banked credits from Wisconsin system into future M-RETS accounting.
- Keep Wisconsin system with modifications and have other jurisdictions join.

Energy Storage

- Consider how to handle compressed air storage, pump storage and any use of storage that relies on renewable energy, which is used as an energy reservoir for later power generation (e.g. wind turbine/power compressing air that, upon expansion, powers a turbine, as well as generating power from the heating and cooling caused by compression and expansion). Note that, for reasons of variability, fossil energy may be used for power generation when stored renewable energy is unavailable.

Conservation and Efficiency

- Give further attention to efficiency and combined heat and power options.
- Look specifically at PJM demand response system where entities can bid for curtailment of load.
- Focus on significant capital investments, not diffuse consumer-oriented conservation programs that are difficult to measure and evaluate.
- Incorporation of conservation/efficiency will greatly expand M-RETS scope.

Tracking Non-Renewable Generation

- Provide for ability to track combined heat and power generation derived from heat produced from existing fossil operations.
- Real benefit in tracking clean, non-renewable energy as a way to enhance political acceptance of renewables policy, especially in western jurisdictions in region.
- Allow non-renewables to be tracked so long as generators pay additional costs.
- Take care not to sacrifice political/public perception benefits of renewable energy that supports M-RETS effort.
- Need to change M-RETS name, if non-renewable generation tracking is allowed.

Governance

Institutional Options

- Wisconsin option – PSC/Clean Power Markets
- MARC
- MISO
- MAPP
- Council of Great Lakes Governors
- Proposal: RFP's for system design, system host

Issues

- Location (should be central within region)
- MARC is a trade association of utility commissioners in the region; does not run programs like M-RETS
- MISO – not all utilities are members; hands full with Day 2 launch; has been set up for market making functions like M-RETS
- MAPP – focused on electric reliability in the region; future is uncertain; does have technical capabilities and necessary relationships with utilities

Elements of Possible RFP for Institutional Host

- Administrative capability – subcontracts for day-to-day operations?
- How insulated from political agendas?
- Accountability for performance – how to assure?
- System reporting – who has access?
- "Portability" of RFP

Governance vs. Administration

- Create governance (decision-making) structure first; LLC analogy
- Participants on governance board might include reps from each state PUC; participants might be appointed by each state/province
- Draw up governance documents (charter and bylaws) and hold first meeting
- Hire staff to develop RFPs for system design and operation/institutional host
- Board would select contractors from responses to RFP
- Governance model needs to be refined and presented to state commissions for feedback/approval
- Use quarterly reports ordered in MN to relay info to other jurisdictions

Legislative Authority

- Legislative authority secure in MN, WI
- Authority needed in ND, SD
- Iowa status is unclear

Group 2 Refinements

- Could utilities or public interest groups serve on governance board?

- For-profit entity might have greater incentive to move more quickly from tracking only to trading
- Could governance be a function of Organization of MISO States (OMS)?

Group 3 Refinements

- May be jurisdictional issues if one-state entity is operating an international (with Manitoba) tracking system
- Governance board should include generators, renewable advocates, REC providers, utilities (IOU's, coops, and munis)
- Board will requires services of qualified technical support and lawyers!

Financing

General Approach

- Why set fees before costs are known?
- Costs Discussions
    - Start-up vs. operational costs
    - Variable vs. fixed
    - Tracking system design impacts
    - Leverage in place tracking systems – perhaps through RFP
- Model who bears costs to keep fee structure fair (roughly calculate impact of different fee structures on different users)
- Need to maintain consistency between costs of tracking systems - so a zero sum game between systems doesn't develop (or support a federal system)
- Keep fees focused on tracking system only
- Having staff, utilities, renewable developers, consumer advocates, etc. get together and recommend a consensus fee structure to regulators/authorities is more powerful than any one entity presenting that same proposal alone.

Specific Funding/Fee Issues

- Need to match fees and costs (fairness issue – so diverse users have fair fees)
    - Fixed fees to cover fixed costs
    - Fee component for startup costs, others for operational costs
- Options for states to pay (taxes vs. rates)
- Generator fee variable based on generator size?
- Fee appropriate for generators selling all of their credits (100% PPA to utility, for example)? Tracking system doesn't benefit these generators
- Why volumetric on "retired and reserved" only (wanting to keep trading activity neutral was discussed but why not assess fee on active account as well)?

Late Entrants and Future Enhancements

- Separate funding for startup costs to ensure new users (say a year after the tracking system is established) pay a portion of the startup costs.
- How will late entry users bear a share of startup costs?
- Consider costs of future enhancements

Request for Proposals

- RFP needs to be well defined so responses are apples-to-apples
- Include cost safeguards in the RFP (for the duration of the tracking system contract)
- Use existing software developer experience/ also consider open source code

Other Issues

- What will be done with any left over fees – reduce next year's fees? Reduce fees next year for this year's users?
- Consider penalties and fines for misusing tracking system as a source of funds
- Note that startup costs in the table are understated (for example, WREGIS S/U costs could go up to $1M)