EnergyTrust of Oregon, Inc.

Board Decision
Amending Energy Trust Policy On Green Tags

March 28, 2007

Purpose

Approve modifications to the Energy Trust policy on green tags.

Background

- Green tags emerged in the late 1990s as a means of buying and selling the 'environmental savings' associated with electricity from renewable energy projects. The assumption was that renewable energy has environmental benefits that people would value independently of the energy itself.
- One green tag represents the environmental value of one megawatt-hour (MWh) of renewable electricity. Green tags can be used to comply with state mandates or they may be sold (independent of the underlying electricity) to consumers who value renewable energy for its perceived environmental benefits.
- As originally conceived, green tags could be a source of revenue in determining above-market costs, which had higher costs than could be covered by the market price for electricity.
- Under a policy adopted by the board in 2002 and reaffirmed in 2004, Energy Trust takes title to green tags in proportion to its payment of the project's above-market costs, and does not count green tag values in calculating above-market cost.
- The rationale for this policy:
  - Energy Trust should take possession of some level of green tags as a hedge for ratepayers for future environmental regulation, securing tags in advance of need.
  - Deeming green tags to be equivalent to a project's above-market cost was convenient in a relatively small, volatile, short-term market for green tags. Our funding had a level of certainty the green tag market could not offer.
  - Because we were offering value, the ratepayer should receive value in return.
  - The policy was a compromise among stakeholders, some of whom thought Energy Trust had no business owning green tags, and others who thought green tags should be the measure of Energy Trust's success.
- As the green tag market has grown strengthened, there is a growing mismatch between the Energy Trust policy – which deems green tags to be worth a project's above-market costs – and green tag market values, which are influenced by demand, supply, regulation, legislative definitions and standards established by certifying organizations.
- Energy Trust above-market incentives are sometimes below anticipated market values, and Energy Trust lost some attractive projects in 2006. As states continue to adopt renewable portfolio standards, we expect this to occur more and more, pushing Energy Trust toward higher-risk, lower-value projects.

Proposal

- The proposal outlined below is meant to support three principles. Energy Trust should: (1) help build renewable energy markets; (2) maximize environmental value on behalf of ratepayers; and (3) ensure that it pays no more than the project's above-market cost.
- The proposal:
  - Energy Trust will retain an independent, third-party consultant to ascertain market values and forward price curves for relevant types of green tags, and update them periodically. Energy Trust will publicly announce these "referent" prices, unless this creates a competitive problem.
  - If Energy Trust's above-market incentive (including an average, acceptable rate of return), exceeds the referent green tag market value, Energy Trust will take title to all green tags.
  - If Energy Trust's above-market incentive is less than the referent value, Energy Trust will negotiate for enough tags to fairly recognize that Energy Trust revenues are assured and so reduce the project's market risk. In no case will Energy Trust accept fewer tags than the Energy Trust incentive could buy on the green tag market at the referent price.
  - If the above steps would accord the project owner/developer a rate of return higher than the standard range for projects of the type being considered, Energy Trust will negotiate either a reduction in Energy Trust incentive or retain additional green tags.

Discussion

- Staff has reviewed this proposal with the RAC and the board Policy Committee and is discussing it further with OPUC staff. The general proposal was supported, and there was strong agreement that we need a more flexible policy.
- The last element in the proposal was added by staff in response to a RAC concern that a project could earn higher than reasonable returns, and we needed to tie the green tag policy back to the above market cost determination required by law.
- The above-market cost calculation for any project assumes a rate of return for the project owner or developer. In practice, staff has based the acceptable rate of return on industry averages or what is minimally needed to finance the project, whichever is lower.
- The concern is illustrated by the following hypothetical project:
  - All project costs, including an average rate of return, less revenues and credits, over 20 years: $1,000
  - Same as above but with a reasonably higher rate of return: $1,200
  - Forecast market price for a comparable amount of energy over 20 years: $800
  - Forecast market value of the project's green tags: $500
  - Result:
    - *Energy Trust might pay $200 incentive (above-market cost determined by difference between project cost at average returns and market price of energy)*
    - *Energy Trust gets 40% of the green tags ($200 worth)*
    - *Project owner/developer gets the remaining tags, forecast to be worth $300, earning more than a reasonably high rate of return.*
  - *Energy Trust does not fund the project or negotiates for a lower incentive for the same number of green tags or a higher share of the tags and the same incentive.*

Recommendation

Staff recommends that the board revise the Energy Trust green policy by adopting resolution #433, on an interim basis, to be revisited within a year or on passage of a renewable energy standard in Oregon.

RESOLUTION #433
AMENDING GREEN TAG POLICY

WHEREAS:

1. **Under current Energy Trust policies, green tag values are deemed to be equal to a project's above-market costs.**
2. **Energy Trust takes title to green tags in proportion to its payment of a project's above-market costs.**
3. **As the green tag market has strengthened, however, there is a growing disconnect between the Energy Trust policy and green tag market values.**

It is therefore RESOLVED:

The Energy Trust board amends its green tag policy as follows:

- **Energy Trust will retain an independent, third-party consultant to ascertain market values and forward price curves for relevant types of green tags, and update them periodically. Energy Trust will publicly announce these referent prices**
- **If Energy Trust's above-market incentive exceeds the referent green tag market value, Energy Trust will take title to all green tags.**
- **If Energy Trust's above-market incentive is less than the referent value, Energy Trust will negotiate for enough tags to fairly recognize that Energy Trust provides an assured revenue stream that reduces the project's market risk.**
- **In no case will Energy Trust accept fewer tags than the Energy Trust incentive could buy on the referent green tag market.**
- **Energy Trust will negotiate either a reduction in Energy Trust incentive or retain additional green tags if the above steps would accord the project owner/developer a higher-than-reasonable rate of return.**

Moved by: _____ Seconded by: _____

Vote: In favor: _____ Abstained: _____

Opposed: