



# Geothermal Energy Generation in Oil and Gas Settings: Renewable Energy Credits for the Gulf Coast States

Presented by Tim Smith

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# Overview of the Presentation

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- ‡ Who is Element Markets?
- ‡ What is a REC?
- ‡ What markets exist for RECs?
- ‡ A look at Louisiana, Mississippi, Alabama, Oklahoma, and Texas markets



# Who is Element Markets?

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- ‡ Started in 2004 as an emission and renewable energy credit asset management company
- ‡ Element Markets wants to take on the role of being an asset manager with strategic partners in select markets
- ‡ We guide our clients in their decision-making process making us a “part of the team” vs. an outsourced brokerage or consulting function.
- ‡ We provide in-depth market due diligence, analysis, and trading strategies to maximize our clients revenue potential
- ‡ Our commercial experience and market intelligence is unmatched
- ‡ We focus on developing client relationships with developers and utilities



# What is a REC and How Does It Work?

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- ‡ REC = Renewable Energy Credit
- ‡ A renewable generator produces 2 products when it creates electricity:
  - „ System energy
  - „ REC
- ‡ A REC is a marketing right that allows the owner to virtually overlay it on his system energy to create renewable electricity
- ‡ One REC is equivalent to one MWhr of energy
- ‡ RECs work on a broader time frame and geography compared to system energy



# A Few Notes About REC Markets

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- ‡ Markets are very illiquid
  - „ Wide Bid/Offer Spread
  - „ This is a compliance purchase only and is not a hedged commodity
  - „ Few, if any, people speculate in REC markets
  - „ Compared to electricity, REC prices are relatively low
  - „ 2-3 trades in a week for a market is considered active
  - „ Little to no speculation
- ‡ Buyers generally don't have the time or resources to give much thought to their purchase obligations
- ‡ Sellers often don't have the time or resources to try to extract value from their renewable assets
- ‡ Few brokered deals are done
- ‡ Price discovery is very difficult to achieve
- ‡ Contracts, especially for voluntary REC markets, can be cumbersome and risky



# Types of REC Markets

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## ‡ VOLUNTARY

- „ Demand driven by marketing
- „ Rules are not clearly defined
- „ Little regulation
- „ Almost no liquidity
- „ Purpose: To drive the development of new renewables
- „ Size: Over 5 million MWhrs in 2005
- „ Price: Less than \$1/REC

## ‡ MANDATORY (RPS)

- „ Driven by statute or regulation
- „ Rules are clearly defined
- „ Highly regulated
- „ Slightly better liquidity
- „ Purpose: To drive the development of new renewables
- „ Size: Over 20 million MWhrs in 2005
- „ Price: Average is over \$3/REC



# States with a RPS

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## *Renewable Portfolio Standards*

Goal



Element Markets LLC

# Voluntary Markets

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- ‡ Includes Alabama, Louisiana, Mississippi and Oklahoma
- ‡ Voluntary markets are buyer's markets
  - „ Can choose from a variety of resources
  - „ Can choose from anywhere in the country
  - „ Have flexibility in the age of the facility
- ‡ Prices are low
- ‡ Louisiana has the most advanced RPS discussions of these states





# General Observations on RPS Markets

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- ‡ No 2 RPS markets are alike
  - „ Geographic boundaries
  - „ Shelf life
  - „ Potential Resources
  - „ Classes or Tiers
  - „ Targets
  - „ Penalties
- ‡ Further changes are likely to occur
  - „ Connecticut
  - „ Texas
- ‡ Geothermal is universally recognized as a renewable generating resource



# RPS in Texas

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Tracking System	Unnamed, administered by ERCOT
No. of Classes	1
Unusual Resources	Solar Thermal
Geography	Anywhere in Texas
Credit Multipliers	No
Shelf Life	3 years
2006 Target	1.4%* (3.4 million MWhrs)
2011 Target	3.3%* (8.9 million MWhrs)
Current Pricing	\$7.75



# Method to Calculate of the State-wide RPS Requirement

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$$\ddagger \text{ RPS} = Q * \text{CCF} * 8760$$

„ Q = Assumed capacity for the year

‡ 2002-2003 = 400 MW

‡ 2004-2005 = 850 MW

‡ 2006-2007 = 1400 MW

‡ 2008-2009 = 2392 MW

‡ 2010-2011 = 3384 MW

‡ 2012-2013 = 4376 MW

‡ 2014-2015 = 5000 MW

„ CCF = Capacity conversion factor of wind

„ 8760 = Hours in a year



# Setting the CCF

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- ‡ The effective capacity factor of wind is at about 27%
  - „ Distribution congestion
  - „ Wholesale transmission congestion
- ‡ The CCF has been reduced to 27.6% from 35%
  - „ The change occurred in the second half of 2005
  - „ The adjustment will be made retroactive to 2004 requirements
- ‡ CCF is adjusted on a biannual basis to reflect actual capacity of REC-generating facilities since the inception of the program
- ‡ CCF for 2006-2007 will be 27.9% (set at the end of 2005)



# Translating RPS Requirement to Usage

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- ‡ In 2003, the total RPS requirement came to be about 1,226,400 MWhrs
- ‡ In 2004, the total RPS requirement came to be about 2,606,100 MWhrs
- ‡ RPS in 2003 amounted to slightly less than 0.6% of the load for a given competitive retail provider
- ‡ After adjustments due to the CCF, the total RPS requirement for 2005 will be around 1,600,000 MWhrs



# Historical Pricing for TX RECs

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# Closing

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## ‡ Contact Information

Tim Smith

VP of Renewable Energy Products

Element Markets LLC

1 Sugar Creek Center Blvd.

Suite 250

Sugar Land, TX 77478

Office: 281-207-7217

Fax: 281-207-7211

[tsmith@elementmarkets.com](mailto:tsmith@elementmarkets.com)

‡ Thank you for your time and attention!

‡ Any questions?

