

# Understanding Renewable Energy Credits & Certificates

Twenty-nine states plus the District of Columbia have enacted Renewable Energy Portfolio Standards (RPS) legislation to accelerate the adoption of renewable energy sources for the production of electricity. Maryland's program requires electricity suppliers to derive a defined percentage of their total electrical production from renewable sources. Companies that fail to meet the Standard must either purchase Renewable Energy Credits (RECs) from state-certified Renewable Energy Facilities (REFs) sufficient to meet the requirement or pay Compliance Fees to a State fund that will be used to encourage production of additional renewable electricity capacity.

Unlike many state RPS programs, Maryland requires that solar electrical production be a part of each electrical supplier's portfolio. In 2008, the first year with a specific solar requirement, suppliers must produce .005% of their electricity from solar. The percentage to be provided by solar sources increases steadily each year through 2020 when a full 2.5% of Maryland's electricity needs are to be met by solar production.

The Compliance Fee for companies that do not meet the standard or purchase RECs equal to the Standard is \$0.40 per kWh through 2014 (equivalent to \$400 per mWh or REC energy equivalent). The Compliance Fee declines on a per kWh basis beginning in 2015 while the amount of the solar production requirement increases. Thus, in 2015 and 2016 the Compliance Fee was \$0.35 per kWh, and is reduced to \$0.195 in 2017, \$0.175 in 2018 and by 2024 is reduced to \$0.05 per kWh, where it remains.

Any Solar REF in Maryland that wishes to create RECs based on its production must first offer the RECs to an electricity supplier subject to the RPS. Suppliers who purchase RECs directly from Maryland solar generators must do so under a contract that covers the expected production of the REF for a minimum of 15 years, although the price per REC may vary.

However, REFs smaller than 10 kW must be paid the full value of the 15-year contract in a single advance payment under any such agreement.

Electricity suppliers have been unwilling to purchase SRECs directly from PV system owners under these provisions thus far and have relied mostly on spot market sales and contracts with third parties to meet their solar RPS obligations.

While the value of Solar RECs produced by Maryland facilities is unclear at this time and the willingness of electricity suppliers to pre-pay small facilities does not appear to be likely, the opportunity for small producers to monetize part of their investment remains significant.

There is likely to be an advantage to producers who participate in the REC program earlier than others both because of the declining Compliance Fees contained in the legislation and the increased supply of available RECs from new facilities certain to come online in future months and years.

